PROPOSAL TO DEVELOP AND OPERATE A VIDEO LOTTERY FACILITY AT AQUEDUCT RACETRACK

HOLLYWOOD Casino®

AT AQUEDUCT

In response to:

New York Lottery Request for Proposals from Vendors seeking the award of a Video Lottery License to develop and operate a Video Lottery Facility at Aqueduct Racetrack

Issued May 11, 2010

TECHNICAL PROPOSAL

Submitted by:

NEW YORK GAMING VENTURES LLC.
c/o Penn National Gaming, Inc
825 Berkshire, Boulevard
Wyomissing, PA 19610

June 29, 2010

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Appendices

Attachment 1

Vendor Acknowledgement of Addendum

RFP: Development and Operation of a Video Lottery Facility at Aqueduct Racetrack

Amendment Number: See Below

Date Issued: June 28, 2010

By signing below, the bidder attests to receiving and responding to the amendment number indicated above.

Bidder Name: _____

Company: New York Gaming Ventures, LLC

RFP Amendments

NOTICE: This notice clarifies the requirements of the RFP and the MOU covering the payment of the upfront licensing fee. All participants in the competition for selection as the Developer and Operator of a Video Lottery Facility at Aqueduct Racetrack should be aware that in addition to the approvals of the Governor, the Temporary President of the Senate, and the Speaker of the Assembly, the MOU is also subject to approval as to form by the Attorney General and a fully executed copy of the MOU must be approved and filed in the Office of the State Comptroller pursuant to section 112 of the State Finance Law. The State does not intend to deliver the signed MOU to the selected Vendor until after all of those approvals have been obtained. Upon such delivery, the selected Vendor must pay the agreed upon upfront licensing fee within ten (10) business days.

Attachment 1

Vendor Acknowledgement of Addendum

RFP: Development and Operation of a Video Lottery Facility at Aqueduct Racetrack

Amendment Number: *See below

Date Issued: June 22, 2010

By signing below, the bidder attests to receiving and responding to the amendment number indicated above.

Bidder Name: _____

Company: New York Gaming Ventures, LLC

RFP Amendments

Questions & Answers – Round #1 – Issued May 25, 2010

Questions & Answers – Mandatory Bidder's Conference of June 8, 2010 — Issued June 11, 2010

Questions & Answers – Trade & Shared Space Tours – Issued June 15, 2010

Questions & Answers – Round #2 – Issued June 22, 2010

Entry Fee Payment and Attendance at Mandatory Bidders Conference Statement

Entry Fee Payment

The applicant submitted the required $1 million entry fee to the New York Lottery by wire transfer on June 1, 2010. Wire confirmation information is below.

REDACTED

*** END OF WIRE ***

Attendance at Mandatory Bidders Conference

The following persons representing New York Gaming Ventures, LLC attended the Mandatory Bidders Conference on June 8, 2010:

From Penn National Gaming, Inc.
Steve Snyder – Senior VP Corporate Development
Carl Sottosanti – VP Deputy General Counsel
Jim Baum – Senior VP Project Development
Walter Bogumil – VP Financial Analysis
Alex Stolyar – VP Corporate Development
Ed Hanson – Project Executive
John Finamore – Senior VP Regional Operations

From PS&S
Michael Cohen – Senior VP
Bob Blakeman - VP

From Turner Construction
Stephen LaSala – Project Manager

1.14 FREEDOM OF INFORMATION LAW – DESIGNATION OF PROPRIETARY INFORMATION

Except as noted below, all pages and Exhibits that the Respondent (New York Gaming Ventures, LLC.) considers confidential have been so marked. In addition we offer the following summary of confidential material and the reasons such material is deemed confidential.

Exhibit 4.2.1, Responsive to RFP Item 4.2 – *Financial Viability.*
Reason – This Exhibit includes the audited financial statements for Delvest Corp, a subsidiary of Penn National Gaming, Inc. Penn National only publicly reports consolidated financial statements and not the statements for individual subsidiaries. As a publicly traded company, Penn National cannot selectively disclose such non-public information through unconventional public conduits such as the New York Lottery.

Exhibit 4.3-3, Responsive to RFP Item 4.3 - *Quality Assurance and Property Inspection Guidelines.*
Reason – This program represents a proprietary business process developed by Penn National Gaming, Inc that we believe provides a competitive advantage to the company and, if made public, could be used by competitors to lessen this advantage.

Exhibit 4.6-1, Responsive to RFP item 4.6 – *Preliminary Marketing Plan* for Hollywood Casino at Aqueduct.
Reason – This represents confidential marketing plans that could be used by competitive venues to undermine future marketing.

1.19 *DISCLOSURE OF LITIGATION AND OTHER INFORMATION*

The Lottery requires that each Vendor submit a list and summary description of pending or threatened litigation, administrative or regulatory proceedings or similar matters that could materially affect the Vendor. As part of this disclosure requirement, Vendors must state whether they or any owners, officers, directors, or partners have ever been convicted of a felony or any other criminal offense involving gaming violations, fraud, larceny of any sort, theft, misappropriation or conversion of funds, or tax evasion. Failure to disclose such matters may result in rejection of the Proposal or suspension or revocation of a license. Such disclosures must be included in the Proposal.

This is a continuing disclosure requirement. Any such matter commencing after submission of a Proposal and, with respect to the successful Vendor after the approval of the MOU, must be disclosed in a timely manner in a written statement to the Lottery's Licensing unit pursuant to 21 NYCRR 2836-3.1, 3.3, and 3.11

Applicant has no existing litigation and no owner, officer, director or partner of Applicant has ever been convicted of a felony or any other criminal offense involving gaming violations, fraud, larceny of any sort, theft, misappropriation or conversion of funds, or tax evasion.

Applicant's ultimate parent, Penn National Gaming, Inc., and its subsidiaries are involved in existing civil litigation. For additional information related any such claims that could materially impact Penn or its subsidiaries, please see Item 3 (legal proceedings) of Penn National Gaming's 2009 Form 10-K filing attached hereto as **Exhibit 4.2-2.**

4.1 BUSINESS ORGANIZATION

A. State the full name and address of your organization and, if applicable, any branch office or other subordinate element that will perform or assist in the performance of the work hereunder. Indicate whether it operates as an individual, partnership, corporation, joint venture, or other specified form of business organization. Proposers must state whether they are qualified and/or registered to do business in the State of New York.

The Applicant is: New York Gaming Ventures, LLC
825 Berkshire Blvd
Wyomissing, PA 19610

New York Gaming Ventures, LLC is a newly created Delaware limited liability corporation, qualified to do business in the State of New York. It is a wholly owned subsidiary of Delvest Corp, which in turn is a wholly owned subsidiary of Penn National Gaming, Inc. Penn National Gaming, Inc. is a publicly traded corporation (NASDAQ: Penn)

New York Gaming Ventures, LLC was recently formed for purposes of pursuing the Video Lottery License to operate video lottery terminals at Aqueduct Raceway. As such, it does not yet have any employees and has not engaged in any appreciable business activity. Therefore, the staff of Penn National Gaming, Inc. is primarily responsible for the preparation and submittal of this proposal as well as any follow up activity.

B. Indicate the name, street address, email address, and telephone number of the individual from your organization that is authorized to enter into and bind the organization to the terms and conditions of your Proposal.

The following individuals are authorized to enter into and bind the organization to the terms and conditions of this Proposal:

John Finamore
President - New York Gaming Ventures, LLC
825 Berkshire Blvd
Wyomissing, PA 19610
610-373-2400
john.finamore@pngaming.com

William J. Clifford
VP - New York Gaming Ventures, LLC
825 Berkshire Blvd
Wyomissing, PA 19610
610-373-2400
bill.clifford@pngaming.com

Robert Ippolito
Secretary & Treasurer - New York Gaming Ventures, LLC
825 Berkshire Blvd
Wyomissing, PA 19610
610-373-2400
robert.ippolito@pngaming.com

4.2 FINANCIAL VIABILITY

In order to determine the Vendor's financial ability to construct and operate the Aqueduct Video Lottery Facility, the Lottery requires each Vendor to provide ***audited*** *financial statements for the last three (3) years (most recent and two prior fiscal years). If the Vendor is a subsidiary of another corporation, the financial statements of the Vendor, as well as the consolidated financial statement of the parent company, must be submitted. If the vendor is a newly formed entity or consortium, financial statements must be submitted for all members of the entity or consortium. If the Vendor is a parent corporation, parent-only financial statements, if available, and statements for the operating division that will perform these services must be submitted. These statements must be prepared in accordance with generally accepted accounting principles and must have been audited by a certified public accountant licensed to do business in the state in which the Vendor's principal place of business is located.*

The Applicant, New York Gaming Ventures, LLC is a newly formed entity and does not yet have any financial statements.

The applicant's immediate parent Delvest Corp, which is a holding company and financing vehicle for Penn National, was formed in late 2008. As such, no stand alone audited 2008 financial statements for Delvest were prepared although Delvest activity was reflected in the 2008 Consolidated Financial Statements of Penn National Gaming, Inc. Attached, as **Exhibit 4.2-1,** are the stand alone confidential 2009 audited financial statements for Delvest.

Three years of audited financial statements for the Applicant's ultimate parent, Penn National Gaming, Inc., are included in **Exhibit 4.2-2.**

As further discussed in **Section 4.7**, at the end of the first quarter of 2010, Penn National had the following financial resources available for new development or other uses:

- $642 million in cash and cash equivalents of which $517 million is currently excess to what is needed for existing operations
- $435 million in available borrowing capacity
- Annual 2010 free cash flow estimated to equal approximately $260 million.

Clearly, Penn National Gaming has the cash and available borrowing capacity to get the VLT facility at Aqueduct designed, built and opened.

4.3 *EXPERIENCE OF THE VENDOR'S ORGANIZATION*

General Requirements:

The Vendor must demonstrate in its Proposal that its organization is of sufficient size and has the qualifications required to perform the requested services as defined in this RFP. The Proposal must include the following information:

- *Thorough description of the organization, including employee capacity to undertake and successfully carry out the proposed services.*
- *Resumes of the managing partner(s) describing relevant education, knowledge, training, and experience. The State expects that the same managing partner(s) will have overall responsibility for all projects conducted pursuant to this RFP. Exceptions may be made only with the approval of the State.*
- *Description of how the organization's quality assurance program will be applied to this Proposal, including, but not limited to, the Vendor's experience with, and plans to use, effective methods to assure compliance with approved construction standards, customer service standards, and ongoing staff training standards.*

Experience:

The organization must describe its experience in operating a gaming facility with Video Lottery Terminals or slot machines. Also, the organization must describe the employees it would use to provide the services described in this RFP and the experience such employees have in performing such work.

References:

The Proposal must include references relevant to the work to be performed under the MOU, including at least three references for the Vendor's work in development and construction and at least three references for the Vendor's work in the operation of a gaming facility. References must include company name, contact person (name, title, telephone number, email address, and mailing address). Also include a general statement of the type of work performed for this reference. References will be used to substantiate the Technical Proposal.

Company Description and Experience

The Applicant, New York Gaming Ventures, LLC, is a newly formed entity but its ultimate parent, Penn National Gaming, Inc. (Penn National), has extensive gaming experience. Penn

National's corporate headquarters is in Wyomissing, Pennsylvania which is located approximately 145 miles east of the Aqueduct racetrack. Penn National has been in business since 1972 and has operated casinos since 1997 when it opened its first slot machines at Charles Town Races and Slots in West Virginia. Since that time, Penn National has expanded the size and scope of its operations so that it now operates nineteen gaming and/or racing facilities in fifteen different jurisdictions. Combined, these facilities represent:

- Over 26,000 gaming machines;
- Over 400 table games;
- Seven pari-mutual racetracks;
- Over 2,000 hotel rooms;
- Nearly 1 million square feet of gaming floor space.

From 2006 to the present, Penn National's in house development team has successfully managed over $1.6 billion in capital construction and renovation projects with this total expected to rise to over $2.4 billion by the end of 2012 (see **Exhibit 4.3-5**). See attached **Exhibit 4.3-1** for a chart listing all operating gaming and/or racing facilities owned or managed by Penn National Gaming, Inc. and information on the status of its new developments.

In 2009, combined annual EBITDA (earnings before interest, taxes, depreciation and amortization) generated by Penn National's casino and pari-mutuel operations was over $560 million with total gaming revenue exceeding $2.1 billion. Penn National Gaming, as one of the largest gaming companies in the world, clearly has the internal resources, experienced executives and technical staff necessary to finance, build and operate a first class Video Lottery facility at Aqueduct Raceway.

Resumes of Managing Partners

Penn National Gaming, could not have grown from one casino facility in 1997, to its current sixteen casino facilities currently, (with four more under development) without a skilled management team experienced in gaming operations, casino marketing, disciplined financial management and project development and construction. See attached **Exhibit 4.3-2** for the resumes describing the experience of Penn's executive management team who, between them all, have over 360 years experience in gaming and pari-mutuel racing operations, management and development. This team has a proven ability to complete large scale casino development projects on time and within budget and, once completed, to operate them efficiently and profitably.

Property Employees

At all of its properties, Penn strives to hire the most competent, dedicated and friendly employees that it can find while still reflecting the diversity of the communities in which it operates. Penn provides its employees with significant training opportunities and follows a promote-from-within philosophy. Penn National properties boast hundreds if not thousands of employees who started as front line hourly employees and, through their own hard work and the support and training of the Penn Organization, have been able to rise to not only supervisory jobs but, frequently, to senior managerial and department head positions.

If selected to be the operator of the Aqueduct facility, Penn National will hire as many people as possible from the local population. While much of the managerial employees will have to be persons with casino experience, history has shown that within a year or two, most of the supervisory and managerial positions that open up will be filled with local residents, many of whom will have gained their casino experience working as front line employees at Hollywood Casino at Aqueduct.

Quality Assurance Program

Penn National Gaming, Inc employs a multi-pronged approach to ensuring that its facilities are clean, in good repair and that they are operated with the goal of ensuring that the gaming experience of its customers is second to none. To meet these goals, the following programs have been put in place:

Customer Surveys - Penn National Gaming, Inc. constantly strives to increase the quality of the guest experience. To that end, each month a representative portion of our active customers at each property is selected to participate in a customer satisfaction survey. The survey, administered by a respected third party market research firm, measures customer satisfaction with key aspects of the customer's most recent visit to our facility. The feedback addresses areas such as overall guest satisfaction, satisfaction with customer service, food and beverage, cleanliness, parking, the overall gaming experience, satisfaction of their hotel stay (where applicable) and many other facets of the customer experience. In addition to responding to the direct questions of the survey, participants may also request direct dialogue with property management to address individual issues. Penn National Gaming uses the aggregated statistical data collected to better focus its operations and employees on improving the guest experience. Since this is an ongoing program, changes in satisfaction, both generally, and for specific aspects of the casino experience, are tracked over time. This trend analysis allows property management to reinforce positive trends and develop proactive strategies to reverse any negative trends in satisfaction before they get out of control. This focus on guest satisfaction is materially reinforced with our employees through monetary and other incentive programs that recognizes them and rewards them for maintaining high satisfaction scores at the property level. If selected

to be the Operator of the Aqueduct VLT facility, Penn National would extend these surveys to its Aqueduct customers.

Employee Engagement - Employee engagement has a critical link to customer satisfaction, customer loyalty and overall financial results and growth. To ensure that we build and maintain an engaged workforce, on an annual basis, we conduct an employee engagement survey which measures the overall engagement of our employee population. After we receive the results of this survey, we engage in an extensive action planning process by department to ensure that we continue to address the concerns of our employees. Action items are customized to meet the needs identified in this survey—which may include training, communication, staffing, etc. Individual departments are held accountable for the overall engagement survey result for their department as well as for the successful implementation of any action plans developed. If selected to be the Operator of the Aqueduct VLT facility, Penn National would extend the employment engagement survey and follow-up action plan program to cover its Aqueduct employees.

Property Inspections and Accountability – Penn National Gaming, Inc. has developed a comprehensive Quality Assurance and Property Inspection Program. To administer the plan, the company employs a full time Director of Quality Assurance whose primary function is to visit each of our properties at least twice a year to assess and report on:

- Property cleanliness;
- Food quality and safety
- Whether the facility, its furnishings and physical plant are in good repair and aesthetically pleasing;
- Any safety hazards identified;
- Is sufficient staff available to meet customer needs;
- Is staff wearing clean uniforms in good condition, with name tags and are they appropriately groomed;
- Is casino staff courteous, knowledgeable, helpful to guests and coworkers and responsive to guest needs;
- Is there signage concerning obtaining help for gambling problems and is staff knowledgeable about responsible gaming programs and procedures

The results of each inspection are documented on a 226 to 722 point (depending on property amenities) Property Inspection Report that notes any deficiencies and includes recommended solutions and a timetable in which to mitigate the deficiency. The completed inspection reports are distributed to the property's General Manager, Penn National Senior VP of Regional Operations and the Penn National President/Chief Operating Officer. The property's General Manager must respond with an action plan and timetable to address any deficiency identified. If selected to be the Operator of the Aqueduct VLT facility, Penn National would extend the *Quality Assurance and Property Inspection Program* to Aqueduct. A copy of the *Quality Assurance and Property Inspection Program* is attached as **Exhibit 4.3-3.**

The three programs described above illustrate the importance that Penn National Gaming places on ensuring that its casino and racing properties maintain their competitive edge as well as the pride that the company takes in those properties. Besides these system-wide corporate initiatives, many of our individual properties maintain additional programs, policies and training to further assess and enhance the guest experience at their properties. You can be assured that if Penn National is selected to develop and operate the VLT facility at Aqueduct, it will exert as much emphasis on maintaining guest satisfaction levels for its Aqueduct customers as it does at its existing properties.

Additional information on our quality assurance/customer satisfaction focus is contained in our draft marketing plan for Aqueduct described in **Exhibit 4.6.1.**

References

Attached as **Exhibit 4.3-4** are references letters from individuals and organizations that can attest to the ability of Penn National Gaming to develop and construct a first class gaming operation and to successfully operate that facility once opened to the public. References are included from the following:

- *Concord Atlantic Engineers* – Mechanical and Electrical Engineering
- *Cianbro* – General Contractor/Construction Manager
- *Continental Consulting Engineers* – Professional Engineering
- *EC Eiman Consulting* – Design & Construction Consulting
- *International Speedway Corporation* – Motorsports
- *Marnell Companies* – Architectural/Design Services, Casino Operations
- *Messer Construction Co.* – Regional Construction Management
- *Thaldon, Boyd Emery Architects* - Architectural Services
- *Trini-Con, Thel & Beck, LLC* – Diversity Consulting
- *Urban Design Group* – Architectural, Interior Design and Master Planning Services
- *W. E. O'Neil Construction Company* - General Contractor/Construction Manager
- *West Virginia Lottery* – Lottery Operator and Casino Regulator

4.4 LEADERSHIP/MANAGEMENT

Provide an organization chart and the names of all officers, directors, Board members, partners, principal management employees and any other person or entity to exert decision making control for the Video Lottery Agent.

Several charts and tables are attached

Exhibit 4.4-1 – Represents the ownership chart for New York Gaming Ventures LLC. The applicant's immediate parent, Delvest Corp, is primarily a holding company and financing vehicle for Penn National Gaming, Inc. Therefore, the Board of Directors and management of Penn National Gaming, Inc. have primary decision making control for this Video Lottery Proposal. If New York Gaming Ventures, LLC is selected to build and operate the Video Lottery facility at Aqueduct, the Board of Directors and management of Penn National Gaming, Inc. will have primary decision making authority over the facility until such time that a property management team can be formed. Once a property management team is formed, that team would have the primary responsibility for the day-to-day operations of the facility subject to the oversight by the Board of Directors and management of Penn National Gaming, Inc.

Exhibit 4.4-2 – Lists the executive officers and Directors of Penn National Gaming, Inc., Delvest Corp and New York Gaming Ventures, LLC.

Exhibit 4.4-3 - Represents the organization chart of the senior management team of Penn National Gaming, Inc.

4.5 CAPITAL PLAN

Vendors must provide a detailed capital plan with specific costs estimates, which must include the following components:

Provide comprehensive plans for construction of the Aqueduct Video Lottery Facility, including drawings, floor plans, and architectural and landscaping site changes. Such plans should be at least 30% complete and must, at a minimum, provide schematic representations and preliminary concept drawings with sufficient detail to enable the Lottery to evaluate and compare competing Proposals and, if necessary, to require Vendors to submit clarifications. Such plans must also be sufficient to demonstrate compliance with all applicable building codes. Such plans must be consistent with or comparable to the project description for a video lottery facility at Aqueduct that was reviewed pursuant to the State Environmental Quality Review Act wherein a Negative Declaration was issued by the Lottery on March 10, 2004. A copy of the March 10, 2004 Environmental Assessment Form containing the Negative Declaration is attached to this RFP as Exhibit D.

The plans must provide for a Video Lottery Facility within the existing interior space of the current Aqueduct racetrack Grandstand and Clubhouse specifically designated and dedicated to house 4,500 VLTs and must include interior space for immediately ancillary or complementary activities such as are commonly located in comparable facilities, food and beverage services, and retail uses.

The plans must also provide for (a) a newly constructed entry lobby of approximately 10,000 square feet; (b) a newly constructed porte cochere of approximately 20,000 square feet providing six lanes of traffic; (c) renovated premises of not less than 275,000 square feet within the Clubhouse and Grandstand including interconnections with the premises to be occupied by NYRA; (d) construction of a parking structure containing not less than 2,000 parking spaces; (e) construction of a covered walkway from the Aqueduct subway station to the Video Lottery Facility; and (d) such other anticipated improvements as were identified in the Environmental Assessment Form accompanying the 2004 Negative Declaration (including entrances to Aqueduct, parking lot repaving and restriping, lane widening, landscaping, tree planting, etc.).

Subject to Lottery approval and compliance with applicable building and safety codes, the plans must provide for a Video Lottery Facility that is constructed, completed and furnished in a manner comparable to or exceeding the architecture, construction quality and level of finishes in the existing video lottery facilities located at Empire City Casino at Yonkers Raceway in Yonkers, New York ("Empire City") and the 2007 expansion (northern section) of Saratoga Gaming and Raceway in Saratoga Springs, New York ("Saratoga").

Provide a construction timeline that describes each phase of construction, including any preliminary opening of the facility to the public. The construction timeline must specify the number of months required to complete the construction of the Video Lottery Facility (not limited to preliminary opening of the facility) following issuance of the necessary permits. The construction timeline must also specify the number of months required to complete the construction of the parking facility following issuance of necessary permit(s). The speed of construction of the Video Lottery Facility, the parking facility and the connector to the subway station will be considered during the evaluation process. Temporary structures or the use of a portion of the facility that will not be a part of the final gaming floor are strongly discouraged. Preliminary use of part of the final video lottery facility that will be included in the final configuration is acceptable.

Describe any capital improvements and renovations that are planned for the Video Lottery Facility following initial construction. The plan should describe annual expenditures and include long term projections.

Describe the quality of the "fit and finish" and aesthetic positioning of the facility.

Project Overview

This capital plan for Hollywood Casino at Aqueduct has been planned by a skilled in-house project development team partnering with experienced design, engineering and construction firms as more fully described in **Exhibit 4.10-1**.

The new **Hollywood Casino at Aqueduct** will include 4,500 VLT's and multiple amenities on multiple floors of the existing grandstand and clubhouse buildings on the 203 acre Aqueduct Raceway property sited in Queens. A 23,000 square foot atrium and porte cochere will provide new public access to this new facility and will be supported by a 2,000 car, five story parking garage.

Great Transportation Access and Ample Parking

The site consists of an existing perimeter roadway with primary access from Rockaway Boulevard and the Belt Parkway via Racetrack Road. These two access roadways and surface parking will be repaved, striped, relit with lighting standards to reduce glare to provide excellent night sky radiation, and the parking will be buffered from the surrounding Queen's neighborhood with both perimeter landscaping and treed surface lots.

The site will be reorganized to provide four parking areas. The West parking area will provide 1,380 spaces, the North lot will initiate 620 spaces and the Rockaway lot will set 1,800 spaces. The parking garage will be located on an east-west axis and will provide 2,000 covered spaces with immediate access from the porte cochere for valet parking and a direct access to the garage for self-parking. This will provide a total of 5,800 parking spaces for guests.

A major entrance road has been created to provide easy access to the porte cochere and the Hollywood at Aqueduct atrium entrance through an existing treed area in front of the existing grandstands. These trees are larger than fifty feet in height and will provide a magnificent backdrop to the new facility and will be designed as a community garden and park. The entry roadway provides access to a new six lane drop-off covered with a porte cochere adjacent to a new reflecting pond which will create a very strong image and entrance while allowing the water to engage the visitor and provide an enriching focal point with the sound of water from vertical fountains. Guests arriving via their cars and public transportation will be provided with covered entry into a lobby which will lead to a five story Hollywood at Aqueduct Atrium space with escalator and elevator service to the Second floor for access to the gaming floors. The garage has been orchestrated to provide three bays of parking per floor with the south face of the garage faced in a metal panel which (with appropriate Approvals) will set up a spectacular image of the famous Hollywood sign providing a rich hospitality focus and exciting background for the guests.

The surface parking areas have been organized to provide easy pedestrian access. Parking in the North Parking lot and the Rockaway Lot will be supported by a covered pedestrian walkway with a landscape buffer that initiates immediate access to the back of the atrium space to three new six story elevators for guests and employees. Bus parking and a drop off has been carefully placed along this access way. A new centralized electrical area will be located along the east face of the garage to provide electric services for the new facility to include incoming service, distribution and emergency generators for continuous operation.

Access to the facility will also be supported by a new elevated covered entranceway directly into the second floor from the existing "A" train MTA subway system. This elevated walkway will provide a themed casino experience from the exit of the train station to the entrance of the casino all on one level with no change in grade. It will provide weather protection for the guests and radiant heating for winter operations.

Spectacular Entranceway

The Hollywood at Aqueduct Atrium has been strategically located to provide an energized entrance to the new casino with 4,500 VLT's and amenity space equally located on both the second and third floors of the grandstand building. Access to the casino will be provided from all floors of the garage and porte cochere via escalators, stairs and elevators to the Second floor. This entry point will provide strong security and embrace the guest into this new Hollywood themed facility.

The Hollywood at Aqueduct Atrium will provide an exciting daylit sustainable entry filled with tall trees, stone faced mountains and water falls cascading down to the main floor and into a reflecting pond beyond. It will provide both an image and educational experience for the guest while supporting the Hollywood theme.

First Rate Employee Facilities

The casino will be supported with approximately 60,000 square feet of back of house facilities on the First floor. This will include office space, security, employee lockers and dining and data and IT centers. Access for employees parking in the Rockaway lots will be supported by covered walkways.

These new facilities will be supported from Loading Dock # 2 for currency and security and Loading Dock # 3 for food and beverage and storage. These areas will support soda and beer distribution systems centered on the First floor for easy distribution to the casino floors above.

The Right Casino Design and Amenities Guest's Will Love

The gaming levels have been organized on the top two floors of the Grandstand building. They are centered around a two story atrium space with openings in the third floor for new escalator, stair and elevator access. The center atrium will be daylit with a new clerestory structure located in the fourth floor roof structure. This atrium space will provide a connection between casino floors which will provide the guest with a strong hospitality image and understanding of the entire Hollywood experience of gaming, entertainment and amenities. The gaming floors are supported by amenity spaces to include a 300 seat Epic Buffet, a 165 seat Final Cut Steakhouse, a 200 seat Skybox Sports Bar and a 200 seat Food Court. The interior design of this themed facility is defined by the keyplans and images included in this proposal. The existing roof balconies on the west façade on both levels 2 and 3 have been designed to support the restaurants on these floor levels with green roofs for dining use with spectacular views of the gardens below and the New York skyline beyond. All of these gaming and amenity spaces are supported with both new and existing stairways and elevators serviced from the Ground Floor and secured motor passageway.

SKYBOX

final cut STEAKHOUSE

Hollywood

Speed to Market

New York Gaming Ventures, LLC has taken this design and orchestrated a phased approach to the completion of this casino which will provide speed to market by completing the proposed casino in three compact phases. The design and construction has been orchestrated to initiate an entrance to the third floor through the existing NYRA Clubhouse entrance. The existing escalators will be replaced for NYRA and guest access will be provided to the Third Floor where 1,000 VLT's and amenities will be provided for Phase 1 followed by an additional 1,100 VLT's on the Third floor for Phase 2 with the completion of the remaining 2,400 VLT's and amenity spaces on the Second floor for Phase 3. All three phases represent permanent casino facilities.

PROJECT DESCRIPTION

Detailed renderings and design documents are attached illustrated our proposal are attached as **Exhibit 4.5-1**. The specific Project Cost Estimate totaling approximately $325 Million and Chart of Building Statistics showing the square footage and other information of the various project elements are attached in **Exhibit 4.5-2**

New York Gaming Ventures, LLC plans to construct the Hollywood Casino at Aqueduct as follows:

New Construction

(a) **Entry Lobby Atrium** – Construction of a Glass and Steel Atrium structure of approximately 14,500 square feet (60 feet Wide by 240 feet Long and from 22 feet to 78 feet in Height) with a flowing serpentine roof structure connecting the Garage Structure and Porte Cochere and providing the principal vertical transportation from grade level to the various Garage Levels and the Second Floor entry into the Grandstand VLT facility, including six escalator banks and three elevators. This Atrium will be an interactive highly energized "transitional" area intended to create a sense of arrival and excitement in anticipation of entering the Hollywood VLT facility. This area will be themed with current Hollywood film billboard and poster displays, as well as a flowing water feature recognizing the heritage of "Aqueduct." The Atrium will be bright and cheerful capturing southern exposure sunlight.

(b) **Porte Cochere** – Construction of a Steel and metal skin Porte Cochere canopy structure of 8,600 Square Feet (100 feet Wide by 86 feet Long by 18 feet High), providing six vehicular lanes and a 6,000 Square Foot (100 feet Wide by 60 feet Long) reflection pond landscape feature with fountains.

(c) **Existing Structure - Grandstand**
Develop a Hollywood themed Video Lottery Facility in a manner comparable in architecture, construction quality and level of finishes with the Vendor parent's nineteen existing casino and live pari-mutuel properties, including nine Hollywood branded properties and four additional Hollywood properties currently under development in Columbus, Ohio, Kansas City, Kansas, Perryville, Maryland and Toledo, Ohio.

This Hollywood branded facility will utilize the Second and Third floors of the existing Grandstand structure to house the 4,500 VLT's, encompassing a gross gaming area of approximately 140,000 square feet, 300 seat Epic Buffet, 200 seat Hollywood on the Roof entertainment lounge, 200 seat Food Court, 165 seat Final Cut Steakhouse and Lounge, 200 seat Skybox Sports Bar, Rodeo Drive retail venue, plus three casino bars, public support areas and

general circulation. The facility would further utilize the Ground and First floor levels to support Back of House, Administration, Vendor IT, Surveillance, Warehousing, Facilities, Loading Dock / Deliveries, Employee Support Facilities, and New York Lottery VLT support areas. Total renovated area in the Grandstand existing interior space to be utilized to support the VLT operation is approximately 340,000 Square Feet on four levels (further detail is provided in **Exhibit 4.5-2**).

Existing Structure - Clubhouse

The Vendor would replace the six existing NYRA escalators with new, fully warranted and serviceable escalators currently serving the simulcasting and live racing patrons in the Clubhouse structure and utilize this entrance to serve the preliminary opening of the Third floor VLT operation. VLT patrons would utilize the Clubhouse entrance, take vertical transportation to the Third Floor in the Clubhouse, then cross over into the Grandstand structure to the preliminary VLT space on the Third floor.

(d) **Parking Structure** – Construction of a precast concrete parking structure with a total of six levels and five stories. The structure will be approximately 183 feet Wide by 633 feet Long and 60 feet High. The structure footprint will cover approximately 115,800 Square Feet with 2,000 total parking spaces and room for internal circulation and internal ramping. The garage structure will be oriented perpendicular to the North end of the Grandstand structure and connected via the Atrium structure. The ground level East of the structure will house the Emergency Generator sets and switchgear, to minimize noise transmission in the Grandstand structure and any fuel / exhaust fumes.

(e) **Covered Walkway** – Construction of an elevated concrete and steel covered walkway from the Aqueduct MTA subway station to the Grandstand and Clubhouse structures which will be fully level from the station to the Aqueduct structures.

(f) **Other Improvements** – Construction of improvements to the entry and signalization, as required to facilitate access, at the, Racetrack Road, Pitkin Avenue and Rockaway Boulevard entrances onto the property, tree planting commencing from the subway station on the West frontage of the property along the property line all the way to Rockaway Boulevard, parking lot repaving, striping and circulation and landscaping improvements to maximize the existing trees and shrubs within the property.

CONSTRUCTION TIMELINE

Upon issuance of the necessary permits to begin construction, the Hollywood Casino at Aqueduct would have a preliminary opening of 1,000 VLT positions of approximately 50,000 square feet on the Third floor of the Grandstand within Eight (8) months, an additional 1,100 VLT positions of approximately 48,000 square feet, the Final Cut Steakhouse and Lounge, Skybox Sports Bar, Downtown casino bar within Ten (10) months utilizing refurbished surface parking in West and North parking lots, and the balance of the 2,400 VLT positions, food and

beverage operations, Atrium, Porte Cochere and Parking Structure within Thirteen (13) months of issuance of necessary permits. This timeline is further defined in the Construction Timeline Schedule attached as **Exhibit 4.5-3**.

FUTURE CAPITAL IMPROVEMENTS

While the new casino facility will be located in the existing building shell, the interior and physical plant will be almost entirely new construction. This will ensure that the facility will have an effective age to remain in good working order for years to come. As further described in Section 4.3 of this proposal, Penn National expends a lot of effort in keeping its facilities safe, clean, up-to-date and in good working order. Anticipated future capital expenditures will be made as needed to ensure that Aqueduct Casino facility continues to meet Penn's exacting standards. See **Exhibit 4.5-4** for an estimate of anticipated future capital investment.

SEQRA REQUIREMENTS

With reference to the project evaluation requirements of the State Environmental Quality Review Act (SEQRA), New York Gaming Ventures, LLC understands that the SEQRA review of the Aqueduct VLT Facility must be a comprehensive, freestanding assessment of the potential for environmental impact of the project currently proposed. New York Gaming Ventures, LLC further understands that the SEQRA documentation for the project must demonstrate conclusively that a "hard look" at potential impacts has been taken. Finally, while New York Gaming Ventures, LLC understands that the 2004 Negative Declaration may provide relevant data concerning potential impacts for the project, SEQRA requires that said data be updated for existing no-build conditions, as well as reflect the particular impacts and analysis of the New York Gaming Ventures, LLC proposal.

Approach to SEQRA Review

New York Gaming Ventures, LLC's approach to the SEQRA review will be to provide the Applicant (New York Lottery or its Agent) with whatever environmental assessment input might be required to support a finding that the proposed Hollywood at Aqueduct VLT facility will not result in any potential significant adverse environmental impacts (i.e. will receive a "Negative Declaration") after Lead Agency review of a SEQRA Full Environmental Assessment Form (FEAF), as supplemented with additional information and detailed analyses of selected potential impacts. All information provided to the Applicant will be compatible with the three-part FEAF format in accordance with a coordinated review under SEQRA and its implementing regulations.

Input to SEQRA Documentation

Input to FEAF Part 1 to be provided to the Applicant, as requested, will consist of concise descriptions of existing conditions at Aqueduct Racetrack and the surrounding study area, quantitative information about the site improvements and uses proposed by New York Gaming

Ventures, LLC, and identification of the anticipated demands on natural and community resources associated with implementation of the VLT Facility, including, but not limited to, land use and community character, socio-economic costs and benefits, community facilities, aesthetic impacts, traffic and transportation, infrastructure and utilities, construction impacts, noise, potential contamination and greenhouse gas emissions.

For each of the resource types and potential effects listed above and in FEAF Part 2, New York Gaming Ventures, LLC will provide, as requested by the Lead Agency or Applicant, supporting information and analyses to demonstrate that the VLT Facility has been designed to avoid all significant adverse environmental impacts.

Based on the urban, densely-populated, and highly-trafficked nature of Queens and a review of environmental documents prepared for proposed improvements at Aqueduct Racetrack in recent years, New York Gaming Ventures, LLC believes that SEQRA documentation for the VLT Facility capable of withstanding scrutiny must include at least the following detailed impact evaluations. To supplement the FEAF, New York Gaming Ventures, LLC is willing to provide the following evaluations to the Applicant:

- Traffic impact analyses for existing, build and no build vehicular traffic levels of service at selected intersections within the street network for the project study area using quantitative modeling, as well as qualitative analysis of potential mass transit and pedestrian/bicycle circulation impacts, and relevant accident data;

- Quantitative air quality analyses consisting of mobile-source carbon monoxide emissions modeling for intersections/parking garage locations that would experience increases in traffic volume that exceed regulatory thresholds; and

- Stormwater management analysis of site runoff based on currently-applicable New York State regulatory standards.

New York Gaming Ventures, LLC proposes to provide the Applicant with SEQRA documentation and analyses that will allow the Lead Agency to conclude in Part 3 of the FEAF that no significant adverse impacts will result from construction and operation of the Aqueduct VLT Facility, and to issue a defensible SEQRA Negative Declaration.

4.6 MARKETING PLAN

Each Vendor must provide a detailed marketing plan, which must include the components listed below.

- *Planned spending on marketing, by components, such as advertising, promotion, free play, entertainment, etc., in dollars and as a percentage of net win.*
- *The "Brand" under which you intend to conduct business and the "market positioning" you envision.*
- *Amenities that will be offered at the Video Lottery Facility.*
- *Describe how anticipated capital spending will promote or encourage increased attendance at the Video Lottery Facility and generate more revenue for the State.*

Attached, as **Exhibit 4.6-1,** is a preliminary Marketing Plan for our proposed Hollywood Casino at Aqueduct. This lays out a comprehensive marketing plan including pre-opening, grand opening and ongoing operations. The highlights are summarized below.

The year one marketing budget envisions:

- A $1.3 million pre-opening spend to generate awareness, build excitement and to stoke anticipation.
- A $4 million grand opening budget, enough to make a big splash and to establish Hollywood Casino at Aqueduct as the preferred place to play in the New York City metropolitan area.
- An $8.7 million post opening marketing spend to maintain and build on the excitement and to develop player loyalty.

The property will use Penn National Gaming's popular Hollywood Casino brand. This brand combines the excitement and thrill of the casino experience with the glamour and fantasy of Hollywood.

The property will be designed and built to include:

- A 183,000 gross square foot gaming floor with wide aisles which will allow patrons to plenty of space to move around
- 4,500 Video Lottery terminals. Enough to offer such a wide variety of VLT denominations and themes so that no slot player will be denied the chance to play the games that they want.
- Up to 5,800 new or resurfaced parking spaces including a 2,000 car structured parking facility and direct access to the casino facility from the MTA Subway Line A through a covered walkway.
- A wide variety of dining amenities to suit almost anyone's taste to include:
    - A 165 seat Final Cut Steakhouse & Lounge

- A 300 seat Epic Buffet
- A 200 seat Skybox Sports Bar and Grill
- A 200 seat food court offering a wide variety of distinct cuisines.
- A 200 seat Hollywood On The Roof Entertainment Lounge

In addition to using the initial capital spend to provide the amenities and theming elements described above using quality material and workmanship, emphasis will be placed on other important project elements that are oftentimes overlooked by inexperienced casino operators. Some of these include:

- The maintenance of a comfortable indoor climate. A brand new heating and ventilation system will be installed to ensure a uniform and comfortable temperature throughout the building to ensure patron comfort everywhere in the facility.
- Logical floor layout and directional signage. Besides being built with an intuitive floor layout, the facility will include the installation of logical, coherent and easy to understand signage which is crucial for a facility as large as this one to maintaining a positive guest experience.
- Restaurants as destinations. The restaurants will be built and menus established not merely as a service to our gaming customers but as destinations in themselves. Not only do we expect to attract customers to play and then get a little something to eat while at the property. We also expect people to come to the casino for the restaurants and then perhaps gamble a little bit on the side.

Penn National Gaming, as a large and nationwide operator of regional casino facilities, has the internal marketing experience, resources and creativity to ensure success at Aqueduct. We believe that our regional marketing know how will allow Penn National to more effectively leverage the significant Aqueduct marketing budget to maximize revenue and to create the most property loyalty. We believe this is a major Penn National competitive advantage over the less experienced companies that have announced interest in the Aqueduct opportunity.

4.7 *FINANCING PLAN*

Each Vendor must provide a detailed financing plan that describes how the upfront licensing fee and all aspects of the Capital Plan and the Marketing Plan and all other operations will be financed. Vendors must identify the sources of all financing, including equity contributions. The financing plan shall be set forth in sufficient detail and with documented commitments from financing sources to demonstrate the Vendor's ability to complete the plans described in the Proposal. The financing plan will be evaluated as part of the Technical Proposal.

Penn National is able to completely finance this project from capital currently available to the company. This should provide the State of New York comfort in knowing the fate of the project is not dependant on the whims of the recently fickle capital markets.

Penn National Gaming intends to remit the upfront fee, pre-reimbursed construction expenses along with ongoing soft costs and pre-opening cost via cash on hand at the company and liquidity of its existing revolver. For reference confirmation the "Debt" portion of the Liquidity and Capital Resources section of the most recent public SEC filing (March 31st, 2010) of our 10-Q is included to demonstrate the availability and of our revolver totaling $640.6 million through July 3, 2012.

Debt

Senior Secured Credit Facility
Our senior secured credit facility historically consisted of three credit facilities comprised of a $750 million revolving credit facility with a maturity date of October 3, 2010, a $325 million Term Loan A Facility with a maturity date of October 3, 2011 and a $1.65 billion Term Loan B Facility with a maturity date of October 3, 2012. In September 2009, we amended our senior secured credit facility, in order to increase the borrowing capacity and to extend the term under the revolving credit facility portion of the senior secured credit facility. Under the new revolving credit facility, two tranches were created, one for those participants who agreed to extend and one for those that did not extend. Tranche A Revolving Loans consist of available borrowings of $359.4 million, which are due on the original maturity date of October 3, 2010, and Tranche B Revolving Loans consist of available borrowings of $640.6 million, which are due on July 3, 2012, for a total borrowing capacity of $1 billion.

As of March 31, 2010, $205.6 million was drawn under the revolving credit facility and $1,518.1 million was outstanding under the Term Loan B Facility, for a total of $1,723.7 million. During the year ended December 31, 2009, all of the outstanding borrowing under the Term Loan A Facility were repaid.

As is indicated by the first quarter of 2010 10-Q filing cited above, Penn National Gaming has undrawn revolver (Tranche A only) capacity extending until July 3, 2012 of $435.0 million [($640.6 tranche B revolver) less ($ 205.6 currently drawn from tranche B revolver)].

In addition to our undrawn Tranche B Revolver, Penn National Gaming had cash on hand as of March 31st, 2010 of $642.5 million with approximately $125.0 million needed for existing operations. This would leave excess cash of $517.5 million. When including the undrawn revolver capacity for the tranche B revolver expiring on July 3, 2012, PENN National Gaming has liquidity of over $952.5 million. Included is the balance sheet from our most recent SEC filing (March 31st, 2010) of our 10-Q to demonstrate the availability of cash on hand.

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

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 642,507	$ 713,118
Receivables, net of allowance for doubtful accounts of $3,594 and $3,548 at March 31, 2010 and December 31, 2009, respectively	37,846	46,672
Insurance receivable	13,654	33,494
Prepaid expenses and other current assets	105,586	121,545
Deferred income taxes	20,375	23,619
Total current assets	819,968	938,448
Property and equipment, net	1,909,192	1,837,504
Other assets		
Investment in and advances to unconsolidated affiliates	38,503	26,305
Goodwill	1,378,623	1,379,961
Other intangible assets	375,294	376,954
Deferred financing fees, net of accumulated amortization of $43,125 and $39,703 at March 31, 2010 and December 31, 2009, respectively	37,507	40,889
Other assets	96,661	112,555
Total other assets	1,926,588	1,936,664
Total assets	$ 4,655,748	$ 4,712,616
Liabilities		
Current liabilities		
Current maturities of long-term debt	$ 74,640	$ 86,071
Accounts payable	23,230	19,850
Accrued expenses	83,533	110,108
Accrued interest	47,080	61,786
Accrued salaries and wages	51,188	65,608
Gaming, pari-mutuel, property, and other taxes	39,734	38,943
Insurance financing	2,537	6,752
Other current liabilities	42,184	41,138
Total current liabilities	364,126	430,256
Long-term liabilities		
Long-term debt, net of current maturities	2,228,188	2,248,706
Deferred income taxes	132,141	127,107
Noncurrent tax liabilities	36,695	46,702
Other noncurrent liabilities	8,369	7,769
Total long-term liabilities	2,405,393	2,430,284
Shareholders' equity		
Penn National Gaming, Inc. and subsidiaries shareholders' equity:		
Preferred stock ($.01 par value, 1,000,000 shares authorized, 12,275 and 12,500 issued and outstanding at March 31, 2010 and December 31, 2009, repectively)	-	-
Common stock ($.01 par value, 200,000,000 shares authorized, 79,202,810 and 78,972,256 shares issued at March 31, 2010 and December 31, 2009, respectively)	787	786
Additional paid-in capital	1,476,153	1,480,476
Retained earnings	433,571	397,407
Accumulated other comprehensive loss	(23,708)	(26,028)
Total Penn National Gaming, Inc. and subsidiaries shareholders' equity	1,886,803	1,852,641
Noncontrolling interests	(574)	(565)
Total shareholders' equity	1,886,229	1,852,076
Total liabilities and shareholders' equity	$ 4,655,748	$ 4,712,616

See accompanying notes to the consolidated financial statements.

In summary, at the end of the first quarter of 2010, Penn National had the following financial resources available for new development or other uses:

- $642 million in cash and cash equivalents of which $517 million is currently excess to what is needed for existing operations
- $435 million in available borrowing capacity
- Annual 2010 free cash flow estimated to equal approximately $260 million.

Since the current economic swoon began in 2008, the casino landscape has been littered with gaming company bankruptcies, casino projects being cancelled (sometimes after being half built) or delayed which, in many cases, has forced state government to scramble to find often painful ways to replace or offset gaming tax revenue that was anticipated but never delivered.

In these difficult economic times, the ability to finance a project of this size is a most critical element to the State of New York when selecting the winning Aqueduct proposal, perhaps rivaled only by the developer's proven skill in building and successfully operating a large scale casino facility. The State of New York can be confident that if Penn National Gaming Inc., through its New York Gaming Ventures, LLC subsidiary, is selected to develop and operate the Aqueduct VLT facility, that it will get built, that it will open as promised and that it will quickly generate the planned on gaming tax revenue for the State of New York and the other stakeholders receiving casino tax revenue.

Clearly, Penn National Gaming has the cash, available borrowing capacity, and proven institutional ability to get the VLT facility at Aqueduct designed, built and opened.

4.8 MBE/WBE PLAN

As further specified in Section 2.9 of this RFP, each Vendor must provide a utilization plan that describes anticipated participation of Certified Minority and Women Owned Business Enterprises during (1) construction of the Video Lottery Facility at Aqueduct, and (2) operation of the facility following construction. Vendors must also describe past use of minority and women owned business enterprises and demonstrate a commitment to maximizing the opportunities for minority and women owned business enterprises.

Penn National Gaming is committed to a developing and promoting a diverse workforce and vendor base. Each Penn property puts a priority on hiring from the local population in a way that reflects the full diversity of that population. The company also expends significant effort to support minority and women owned business (MBE/WBE) as well as small business in the communities in which we operate. The company will expend a similar proactive effort at Aqueduct to ensure that it operates with a diverse workforce reflective of the local labor pool and that we maintain a fair utilization of MBE/WBE and disadvantaged business enterprises in the construction and operation of the Aqueduct facility.

Diversity Plan

Attached as **Exhibit 4.8-1** is our Preliminary Diversity Plan and Equal Employment Opportunity (EEO) Policy for Hollywood Casino at Aqueduct. This Plan includes the following statements pursuant to RFP requirement 2.9-A-4:

> New York Gaming Ventures, LLC agrees to comply, during the performance of its contract for the Development and Operation of a Video Lottery Facility at Aqueduct racetrack, with the requirements of Clause 12 of the *Standard Clauses for NYS Contracts* document incorporated herein by reference. Furthermore, New York Gaming Ventures, LLC also agrees to:
>
> 1. Submit, quarterly, a New York State Work Force Employment Utilization Report.
>
> 2. Include in every contract and subcontract in connection with this project the requirement that contractors and subcontractors shall undertake or continue existing programs of affirmative action and, when requested, provide to the Vendor information on the ethnic background, gender, and Federal Occupational Categories of the employees to be utilized on this project.

EEO History

Attached as **Appendix A-15** is a consolidated *Workforce Employment Staffing Plan* for Penn National Gaming, Inc.

MBE/WBE Commitment

Penn is confident that it can meet the New York Lottery's MBE/WBE participation goals by using its own contacts with various MBE/WBE contractors and by working closely with the New York State Department of Economic Development to develop new contacts. Penn will also rely on its own general contractors who are experienced in ensuring significant MBE/WBE participation in large public/private projects such as this. The goals we have set for non-proprietary goods and services are as follows:

- Construction
  - At least 25% twenty-five percent (25%) minority/women-owned business enterprise contractor and/or subcontractor participation for the construction of the Video Lottery Facility.
  - An overall goal of twenty-five percent (25%) minority and female workforce participation for the construction of the Video Lottery Facility. Attached to this RFP is a copy of the Minority and Women Owned Business Utilization Plan Form (Appendix E-2) which must be completed as directed below.

- Ongoing Operations
  - At least 25% twenty-five percent (25%) minority/women-owned business enterprise contractor and/or subcontractor participation for the ongoing construction of the Video Lottery Facility.

See attached **Appendix A-17** for the completed *Vendors/Contractor's Minority and Women-Owned Business Utilization Plan Form.*

History of Inclusion of MBE/WBE Business Enterprises

Penn National is proud of its record of inclusion of MBE/WBE vendors in the construction and operation of its facilities throughout the country. Our achievements were recognized in July 2009 when Penn National was awarded the National Black Chamber of Commerce's Corporate Partner of the Year. The following success stories further illustrate that Penn's WBE/WBE commitment to this issues has been successful:

- Penn National's ability to support minority and women owned businesses remains consistent with the regions in which our properties operate. In our recent $50 million renovation to the Empress Casino in Joliet, Illinois we surpassed state goals and achieved a 35% participation rate.

- Our Boomtown property in Biloxi Mississippi made over 23% of its non-capital purchases (approximately $1.8 million) with WBE businesses in 2009.

- Penn is in its final months of construction for its Hollywood Casino Perryville (located in Cecil County, Maryland) and has achieved an MBE/WBE contractor participation rate of 23% for its construction phase.

- As of May 19, 2010, Kansas Entertainment (the 50/50 joint venture partnership of Penn National and International Speedway Corporation) has achieved 31% MBE/WBE participation in its early development of Hollywood Casino at Kansas Speedway in Kansas City, Kansas.

- Hollywood Casino at Penn National Race Course (HCPN) in Grantville, Pennsylvania opened in February 2008. In that same year, MBE/WBE expenditures topped 11% as overall spend by HCPN, the highest of all seven casinos operating in the state. HCPN well outpaced the state's average of 4.1% in MBE/WBE expenditures. Over 21% of our construction expenditures in 2008 at this property were to MBE/WBE businesses, once again outpacing the state average of 19%. Between construction and non-construction costs, over $3.5 million of HCPN's business was with minority and women-owned businesses in 2008.

- In 2009, Hollywood Casino in Lawrenceburg, Indiana had an overall MBE/WBE participation in purchases of over 17%. Also in 2009, capital construction expenditures of $17 million were made with MBE/WBE businesses which represented 19% of all such purchases for the year.

Penn National Gaming, Inc is strongly committed to ensuring a fair level of participation for MBE/WBE vendors at all of its subsidiaries and will maintain this commitment for its proposed Aqueduct VLT Facility.

4.9 FINANCIAL PROPOSAL (UPFRONT LICENSING FEE)

The Vendor must specify the amount that the Vendor offers to pay to the State of New York as an upfront licensing fee. If the Vendor is awarded a video lottery license, the licensing fee is due within ten (10) business days after the MOU is signed and delivered to the Vendor by the Governor, the Temporary President of the Senate, and the Speaker of the Assembly and shall not be subject to any conditions.

Note: as required by Section 1.15 (E) of this RFP, the Financial Proposal must be submitted in a separately sealed envelope from the Technical Proposal.

Pursuant to RFP Section 1.15 E, the Financial Proposal (both paper copy and on CD) has been submitted in a separately sealed envelope labeled:

Sealed Proposal

Aqueduct

Financial Proposal

Submitted to: Gail P. Thorpe, Contracting Officer
New York State Division of the Lottery
Finance Office
One Broadway Center
Schenectady, NY 12305

On: June 29,2010

4.10 SUBCONTRACTORS

If applicable, list all subcontractors, including firm name and address, contact person, and a complete description of work to be subcontracted. Include descriptive information relative to the subcontractor's organization and capabilities. If the Vendor does not intend to utilize subcontractors, that should be indicated in the technical Proposal response.

Once, built and opened, the Applicant intends to operate all areas of the VLT facility using its own staff and does not, at this time, anticipate using any subcontractors for ongoing operational activity. The Applicant will, of course, engage contractors and subcontractors for the construction of the facility.

Since Applicant is just in the early stages of the development process for Aqueduct, we have only engaged a small number of vendors for the Aqueduct project. Those that we have engaged are described in **Exhibit 4.10-1**.

4.11 COMPLIANCE WITH REQUIREMENTS

Each proposer must state compliance with the requirements outlined in the RFP and submit completed forms as required.

Please see **Appendices 1 through 17**.

Insurance Related Matters - The Vendor does not currently have any operations in the State of New York and therefore has not obtained worker's compensation or related insurance coverage in the state of New York. If vendor is selected to be the developer and operator of the Aqueduct facility, all required and necessary insurance will be obtained.

Penn National Gaming, Inc. and all of its casino and racing facilities maintain full insurance coverage that are required and that are usual and customary.

4.12 ADDITIONAL INFORMATION AND COMMENTS

Include any other information that is believed to be pertinent but not specifically asked for elsewhere.

Penn National Gaming, Inc, through its wholly owned New York Gaming Ventures, LLC subsidiary, is the best choice to design, build and operate a first class VLT facility at Aqueduct. Penn National has one of the best balance sheets in the casino industry and has the necessary financial resources currently available to build and open the facility.

We are confident that once the permitting process is completed, that we could have 1,000 VLTs and 50,000 square feet of permanent gaming space open to the public in eight (8) months. An additional 1,100 VLT positions and approximately 48,000 square feet, along with the Final Cut Steakhouse, Skybox Sports Bar, Downtown casino bar open within Ten (10) months, and the balance of the 2,400 VLT positions, food and beverage operations, Atrium, Porte Cochere and Parking Structure within Thirteen (13) months of issuance of necessary permits.

Our experience in operating regional casino facilities, especially those integrated with live pari-mutuel operations, cannot be matched by any of the other potential bidders that have paid the entry fee. From 2006 to the present, Penn National's in house development team has successfully managed over $1.6 billion in capital construction and renovation projects with this total expected to rise to over $2.4 billion by the end of 2012. This should provide comfort to the State of New York that if Penn National is selected, the project will get built safely, with quality workmanship, compelling design and on time. New York can also be assured that Penn National's experience in operating 19 gaming and/or racing facilities in 15 different jurisdictions will ensure that revenue and guest satisfaction at the Aqueduct facility will be maximized to the benefit of the State of New York.

EXHIBIT 4.2-1
CONSOLIDATED FINANCIAL STATEMENTS

DELVEST CORPORATION

REDACTED 18 PAGES

4.2-2

2009

FORM -K

Form 10-K

PENN NATIONAL GAMING INC - PENN

Filed: February 26, 2010 (period: December 31, 2009)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

(Mark One)

☒

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

For the fiscal year ended December 31, 2009

OR

☐

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

For the transition period from to

Commission File Number 0-24206

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

As of June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was approximately $2.0 billion. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the NASDAQ Global Select Market on June 30, 2009. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and beneficial owners of more than ten percent of the Common Stock of the Company.

The number of shares of the registrant's Common Stock outstanding as of February 11, 2010 was 79,074,189.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2010 annual meeting of shareholders are incorporated by reference into Part III.

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IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- the availability and cost of financing;

- the impact of weather on our operations;

- the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups;

- the impact of terrorism and other international hostilities; and

- other factors as discussed in our filings with the United States Securities and Exchange Commission.

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

PART I

ITEM 1. BUSINESS

Overview

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

We believe that our portfolio of assets provides us with a diversified cash flow from operations. We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions and the development of gaming properties, particularly in attractive regional markets. Current capital projects are ongoing at several of our existing properties, including Empress Casino Hotel, Charles Town Entertainment Complex, Hollywood Casino at Penn National Race Course, and Hollywood Casino Perryville, as well as at our proposed facilities in Kansas and Ohio.

In this Annual Report on Form 10-K, the terms "we," "us," "our," the "Company" and "Penn National" refer to Penn National Gaming, Inc. and subsidiaries, unless the context indicates otherwise.

Merger Announcement and Termination

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

On July 3, 2008, we entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we agreed to receive a total of $1.475 billion, consisting of a nonrefundable $225 million cash termination fee and a $1.25 billion, zero coupon, preferred equity investment (the "Investment"). On October 30, 2008, we closed the sale of the Investment and issued 12,500 shares of Series B Redeemable Preferred Stock.

Properties

The following table summarizes certain features of our owned properties and our managed property as of December 31, 2009:

	Location	Type of Facility	Approx. Gaming Square Footage	Gaming Machines	Table Games(1)	Hotel Rooms
Owned Properties:						
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/ Thoroughbred racing	184,348	5,034	—	153
Hollywood Casino Lawrenceburg	Lawrenceburg, IN	Dockside gaming	150,000	3,225	88	295
Hollywood Casino at Penn National Race Course(2)	Grantville, PA	Land-based gaming/ Thoroughbred racing	94,300	2,366	—	—
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	53,000	1,172	23	—
Empress Casino Hotel	Joliet, IL	Dockside gaming	50,000	1,194	20	100
Argosy Casino Riverside	Riverside, MO	Dockside gaming	56,400	1,966	39	258
Hollywood Casino Baton Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,175	23	—
Argosy Casino Alton	Alton, IL	Dockside gaming	23,000	1,102	18	—
Hollywood Casino Tunica	Tunica, MS	Dockside gaming	54,000	1,275	28	494
Hollywood Casino Bay St. Louis	Bay St. Louis, MS	Land-based gaming	40,000	1,133	21	291
Argosy Casino Sioux City	Sioux City, IA	Dockside gaming	20,500	702	19	—
Boomtown Biloxi	Biloxi, MS	Dockside gaming	51,665	1,214	20	—
Hollywood Slots Hotel and Raceway	Bangor, ME	Land-based gaming/ Harness racing	30,000	1,000	—	152
Bullwhackers	Black Hawk, CO	Land-based gaming	12,785	591	7	—
Black Gold Casino at Zia Park	Hobbs, New Mexico	Land-based gaming/ Thoroughbred racing	18,460	750	—	—
Raceway Park	Toledo, OH	Harness racing	—	—	—	—
Freehold Raceway(3)	Monmouth, NJ	Harness racing	—	—	—	—
Sanford-Orlando Kennel Club	Longwood, FL	Greyhound racing	—	—	—	—
Managed Property:						
Casino Rama	Orillia, Ontario	Land-based gaming	93,000	2,472	104	289
Total			959,458	26,371	410	2,032

(1)

Excludes poker tables.

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

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

Owned Properties

Charles Town Entertainment Complex

The Charles Town Entertainment Complex is located within approximately a one-hour drive of the Baltimore, Maryland and Washington, D.C. markets, and is currently the only gaming property located conveniently west of these two cities. The Charles Town Entertainment Complex has 184,348 square feet of gaming space, with 5,034 gaming machines, and a 153-room hotel, which opened to the public on September 5, 2008. The complex also features live thoroughbred racing at a refurbished, $^{3}/_{4}$-mile all-weather, lighted thoroughbred racetrack with a 3,000-seat grandstand, parking for 6,048 vehicles and simulcast wagering and dining. In December 2009, we announced that we intend to install table games at Charles Town Entertainment Complex following voter approval of table games in the December 5, 2009 special election. Plans currently include the estimated addition of 85 table games and 27 poker tables, a high-end steakhouse/lounge, and a Hollywood on the Roof entertainment lounge. The table games, poker tables and the entertainment lounge are expected to be completed in the third quarter of 2010, and the high-end steakhouse/lounge is expected to be completed in the fourth quarter of 2010.

Hollywood Casino Lawrenceburg

The Hollywood Casino Lawrenceburg is located on the Ohio River in Lawrenceburg, Indiana, approximately 15 miles west of Cincinnati and is the closest casino to the Cincinnati metropolitan area, its principal target market. In late June 2009, we opened a new casino riverboat at Hollywood Casino Lawrenceburg, replacing the vessel at Argosy Casino Lawrenceburg. The new Hollywood-themed casino riverboat has 150,000 square feet of gaming space on two levels, 3,225 slot machines, 88 live table games, 41 poker tables, a restaurant and 4 bars. Hollywood Casino Lawrenceburg also includes a 295-room hotel. Meeting space for Hollywood Casino Lawrenceburg partially opened in December 2009 and will be completed in the first quarter of 2010, a new steakhouse/lounge is scheduled for completion in the second quarter of 2010, and a new mid-priced restaurant is scheduled for completion in the third quarter of 2010.

Hollywood Casino at Penn National Race Course

Hollywood Casino at Penn National Race Course is located in Grantville, Pennsylvania, which is 15 miles northeast of Harrisburg. Hollywood Casino at Penn National Race Course opened on February 12, 2008. The Hollywood Casino at Penn National Race Course is a 365,000 square foot facility, currently operating with 2,366 slot machines. The facility also includes a food court, entertainment bar and lounge, trackside dining room, a sports bar, a buffet and high-end steakhouse, a retail store, as well as a simulcast facility and viewing area for live racing. The facility has ample parking, including a five-story self parking garage, with capacity for approximately 2,200 cars and approximately 1,500 surface parking spaces for self and valet parking. The property includes a one-mile all-weather, lighted thoroughbred racetrack, and a $^{7}/_{8}$ -mile turf track. In January 2010, the Pennsylvania legislature passed legislation permitting table games for gaming licensees. We intend to install table games at Hollywood Casino at Penn National Race Course in two phases. Phase 1 includes the addition of an estimated 40 table games and 12 poker tables within the existing facility, and is expected to be completed in the fourth quarter of 2010. The property also includes approximately 400 acres that are available for future expansion or development.

Hollywood Casino Aurora

Hollywood Casino Aurora, part of the Chicagoland market, is located in Aurora, Illinois, the second largest city in Illinois, approximately 35 miles west of Chicago. The facility is easily accessible from major highways, can be reached by train from downtown Chicago, and is approximately 30 miles from both the O'Hare International and Midway airports. Hollywood Casino Aurora has a 53,000 square foot single-level dockside casino facility with 1,172 gaming machines, 23 gaming tables and 6 poker tables. The facility features two upscale lounges, a steakhouse, a buffet, a fast food outlet, and a private dining room for premium players. Hollywood Casino Aurora also has two parking garages with approximately 1,564 parking spaces and a gift shop.

Empress Casino Hotel

The Empress Casino Hotel, part of the Chicagoland market, is located on the Des Plaines River in Joliet, Illinois, approximately 40 miles southwest of Chicago. This barge-based casino provides 50,000 square feet of gaming space on two levels with 1,194 slot machines, 20 table games and 3 poker tables. The casino also features a buffet and deli. The complex also includes a 100-room hotel, surface parking areas with approximately 1,500 spaces and an 80-space recreational vehicle park.

On March 20, 2009, the property, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and we began construction of a new land-based pavilion. Construction on a new 1,100 space parking garage was completed in the first quarter of 2010. The permanent land-based

pavilion is expected to be completed by the fourth quarter of 2010 and upgrades to the gaming vessel and other areas are expected to be completed by the first quarter of 2011.

Argosy Casino Riverside

The Argosy Casino Riverside is located on the Missouri River approximately five miles from downtown Kansas City in Riverside, Missouri. The casino primarily attracts customers who reside in the northern and western regions of the Kansas City metropolitan area. This Las Vegas-style casino features approximately 56,400 square feet of gaming space with 1,966 slot machines, 39 table games and 8 poker tables.

This state-of-the-art Mediterranean-themed casino features an innovative "floating" casino floor that provides a seamless transition between the casino and land-based support areas, which include a Mediterranean-themed, nine-story, 258-room hotel and spa, an entertainment facility featuring 6 food and beverage areas, including a buffet, steakhouse, deli, coffee bar, VIP lounge and sports/entertainment lounge and 19,000 square feet of banquet/conference facilities. Argosy Casino Riverside currently has parking for approximately 3,000 vehicles, including a 1,250 space parking garage.

Hollywood Casino Baton Rouge

Hollywood Casino Baton Rouge is currently one of two dockside riverboat gaming facilities operating in Baton Rouge, Louisiana. The Hollywood Casino Baton Rouge property features a riverboat casino reminiscent of a nineteenth century Mississippi River paddlewheel steamboat. The riverboat features approximately 28,000 square feet of gaming space, 1,175 gaming machines and 23 table games.

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

In December 2007, we agreed to acquire 3.8 acres of adjacent land and to pay for half of the construction costs (subject to a ceiling of $3.8 million) for a railroad underpass with the seller of the land. The underpass will provide unimpeded access to the casino property and to property owned by the seller for future development. Construction on the underpass started in June 2009 and we anticipate that it will be completed by the fourth quarter of 2010.

Argosy Casino Alton

The Argosy Casino Alton is located on the Mississippi River in Alton, Illinois, approximately 20 miles northeast of downtown St. Louis. The target customers of the Argosy Casino Alton are drawn largely from the northern and eastern regions of the greater St. Louis metropolitan area, as well as portions of central and southern Illinois. The Argosy Casino Alton is a three-deck gaming facility featuring 23,000 square feet of gaming space with 1,102 slot machines and 18 table games. The Argosy Casino Alton includes an entertainment pavilion and features a 124-seat buffet, a restaurant and a 400-seat main showroom. The facility includes surface parking areas with 1,341 spaces.

Hollywood Casino Tunica

Hollywood Casino Tunica is located in Tunica, Mississippi. Tunica County is the closest resort gaming jurisdiction to, and is easily accessible from, the Memphis, Tennessee metropolitan area. The Tunica market has become a regional destination resort, attracting customers from surrounding markets such as Nashville, Tennessee, Atlanta, Georgia, St. Louis, Missouri, Little Rock, Arkansas, and Tulsa, Oklahoma. Hollywood Casino Tunica features 54,000 square feet of gaming space at a single-level casino with 1,275 slot machines, 28 table games and 6 poker tables.

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

Hollywood Casino Bay St. Louis

Hollywood Casino Bay St. Louis is located in Bay St. Louis, Mississippi. Hollywood Casino Bay St. Louis offers a 40,000 square foot casino, and features 1,133 slot machines, 21 table games, and 6 poker tables.

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

Argosy Casino Sioux City

The Argosy Casino Sioux City is located on the Missouri River in downtown Sioux City, Iowa. The riverboat features 20,500 square feet of gaming space with approximately 702 slot machines, 19 table games and 3 poker tables. The casino is complemented by adjacent barge facilities featuring dining facilities, meeting space, and 524 parking spaces.

Boomtown Biloxi

Boomtown Biloxi is located in Biloxi, Mississippi. Boomtown Biloxi offers 51,665 square feet of gaming space with 1,214 slot machines, 20 table games and 5 poker tables. It features a locally acclaimed buffet and the Grill (a 24-hour deli and bakery), and a new steakhouse and VIP lounge which opened in the fourth quarter of 2009. Boomtown Biloxi has 1,450 surface parking spaces.

Hollywood Slots Hotel and Raceway

Hollywood Slots Hotel and Raceway is situated near historic Bass Park in Bangor, Maine. Its amenities include 30,000 square feet of gaming space with 1,000 slot machines and a 152-room hotel, with 5,119 square feet of meeting and pre-function space, two eateries, Hollywood Epic Buffet and Take 2, a small entertainment stage, and four-story parking with 1,500 parking spaces.

Bangor Raceway is located at historic Bass Park which is adjacent to the property. In 2009, Bangor Raceway conducted harness racing from May through early November on its one-half mile track. With over 12,000 square feet of space, the Bangor Raceway grandstand can seat 3,500 patrons.

Bullwhackers

The Bullwhackers properties include the Bullwhackers Casino and the adjoining Bullpen Casino. Bullwhackers Casino offers a full service restaurant and cafe. The Bullwhackers properties, which are located in Black Hawk, Colorado, include 12,785 square feet of gaming space, 591 slot machines and 7 table games. The properties also include a 344-car surface parking area. We also own and operate a gas station/convenience store located approximately 7 miles east of Bullwhackers Casino on Highway 119.

Black Gold Casino at Zia Park

Black Gold Casino at Zia Park includes the Black Gold Casino and the adjoining Zia Park Racetrack. Black Gold Casino at Zia Park is located in Hobbs, New Mexico and includes 18,460 square feet of gaming space and 750 slot machines. The property operates three restaurants consisting of the Black Gold Buffet, the Black Gold Steakhouse, and the Homestretch Bar & Grill, which has live entertainment on the weekends. The property also includes a one-mile oval quarter/thoroughbred racetrack, which was utilized for 57 days in 2009, and a simulcast parlor, which is utilized year-round. Year-round banquet services are available in the Turf Club, which also offers food and beverage services during the live racing season.

Raceway Park

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

Freehold Raceway

Through our joint venture, we own 50% of Freehold Raceway, located in Freehold in Western Monmouth County, New Jersey. The property features a half-mile oval harness track and a 150,000 square foot grandstand. Freehold Raceway operates a leased OTW in Toms River, New Jersey, that is approximately 28,160 square feet.

Sanford-Orlando Kennel Club

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

Off-track Wagering Facilities

Our OTWs and racetracks provide areas for viewing import simulcast races of thoroughbred and harness horse racing, televised sporting events, placing pari-mutuel wagers and dining. We operate four of the eighteen OTWs currently in operation in Pennsylvania.

Account Wagering/Internet Wagering

In 1983, we pioneered Telebet®, the complete account wagering operation for Penn National Race Course. The platform offers account wagering on more than 80 United States ("U.S.") racetracks, and currently has more than 12,900 active account betting customers from the 13 U.S. states that permit account wagering as well as the U.S. Virgin Islands.

We have also developed strategic relationships to further our wagering activities. In August 1999, we entered into an agreement with eBet Limited, an Internet wagering operation in Australia, to license their eBetUSA.com technology in the U.S. Through eBetUSA.com, Inc., our wholly-owned subsidiary, we use the eBetUSA.com technology to permit on-line pari-mutuel horseracing wagering over the internet in selected jurisdictions with the approval of the Pennsylvania State Horse Racing Commission and applicable federal and state laws, rules and regulations, as permitted. We currently accept wagers from residents of 13 U.S. states and the U.S. Virgin Islands.

Managed Gaming Property

Casino Rama

Through CHC Casinos Canada Limited ("CHC Casinos"), our indirectly wholly-owned subsidiary, we manage Casino Rama, a full service gaming and entertainment facility, on behalf of the Ontario

Lottery and Gaming Corporation, an agency of the Province of Ontario. Casino Rama is located on the lands of the Rama First Nation, approximately 90 miles north of Toronto. The property has approximately 93,000 square feet of gaming space, 2,472 gaming machines, 104 table games and 12 poker tables. In addition, the property includes a 5,000-seat entertainment facility, a 289-room hotel and 3,170 parking spaces.

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

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

Noncontrolling Interests

In November 2009, we entered into an agreement with Lakes Entertainment, Inc. ("Lakes"), permitting Lakes to invest in up to a 10% equity interest in each of our proposed facilities in Columbus and Toledo, Ohio. During the year ended December 31, 2009, Lakes contributed $1.9 million to us towards the proposed facilities, and its portion of the net loss for the proposed facilities was $2.5 million. The noncontrolling interest is included in shareholders' equity within our consolidated balance sheet at December 31, 2009, stated separately from our shareholders' equity.

Trademarks

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

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

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

Competition

Gaming Operations

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

gaming operations. New, relocated or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us.

Charles Town, West Virginia. Our gaming machine operations at the Charles Town Entertainment Complex face competition in the neighboring states of Pennsylvania, Delaware and New Jersey. On December 5, 2009, the citizens of Jefferson County, West Virginia, voted to authorize the placement of table games at the Charles Town Entertainment Complex. The table games are expected to be operational in the third quarter of 2010. In Pennsylvania, there are slot operations at Philadelphia Park, Mohegan Sun at Pocono Downs, Chester Downs, The Meadows, Mount Airy Casino Resort, The Rivers, Presque Isle Downs, and Hollywood Casino at Penn National Race Course (which is also our property). These additions have had a negative impact on our business from Pennsylvania; however, we estimate that less than 7% of our slot revenue is derived from this region. In January 2010, the Pennsylvania legislature passed legislation permitting table games for gaming licensees. In November 2008, the citizens of Maryland approved a referendum to allow up to 15,000 slot machines at five locations throughout the state. These locations include a facility in each of Cecil, Allegany, Anne Arundel, Baltimore City and Worchester counties. Applications for each of the gaming zones were submitted in February 2009. The first facility scheduled to open in Maryland, Hollywood Casino Perryville, which is owned by us, is expected to open in late 2010. This will be the only Maryland facility which will be operational in 2010. Particularly as the Anne Arundel and Baltimore facilities open, Charles Town Entertainment Complex will face increased competition and its results will be negatively impacted. Any additional increase in the competition in the region could negatively impact the results of operations of Charles Town Entertainment Complex.

Lawrenceburg, Indiana. The Hollywood Casino Lawrenceburg is the closest casino to the Cincinnati metropolitan area, and faces competition from two other riverboat casinos in the Cincinnati market, plus two racetrack casinos in the greater Indianapolis area. The nearest competitor is located approximately 15 miles further south of Lawrenceburg in Rising Sun, Indiana. Another competitor is located 40 miles from Lawrenceburg in Switzerland County, Indiana. In 2007, the Indiana Legislature passed a law allowing up to 2,000 slot machines at each of two racetracks in Indianapolis, approximately 90 miles northwest of Lawrenceburg. Both of these racetracks re-opened with slots in June 2008. One of the two racinos opened their slot operations in a temporary facility and then opened a permanent structure in March 2009. These two Indianapolis racinos have adversely affected our gaming revenue, particularly from the Indianapolis feeder market. Casino gaming is not currently permitted under the laws of Kentucky, although legislation has been introduced to allow gaming at racetracks and casinos subject to referendum. Ohio voters passed a referendum in 2009 to allow four land-based casinos in four cities in the state of Ohio. One of them will be in downtown Cincinnati, which is a major feeder market for our Lawrenceburg property. The commencement of casino gaming in Ohio or Kentucky will have an adverse effect on the financial results of our Lawrenceburg casino.

Grantville, Pennsylvania. The Pennsylvania Race Horse Development and Gaming Act, which was signed in 2004, authorized up to 5,000 slot machines at each of seven harness/thoroughbred racetracks and five stand-alone slot facilities, as well as 500 slot machines at each of two authorized resort facilities. Currently, slot machines are authorized and operating at six of the seven existing racetrack facilities, as well as three stand-alone facilities. In January 2010, the Pennsylvania legislature passed legislation permitting table games for gaming licensees. The Pennsylvania Gaming Control Board is in the process of creating a regulatory framework with regard to table games and has estimated that it will be six to nine months before table games can become operational. The new legislation increases the number of category 3 licenses from two to three. A category 3 license allows the licensed facility to operate up to 500 slot machines; however, a category 3 licensed facility holding a table game operation certificate will be entitled to operate 600 slot machines and 50 table games. One category 3 license application has been granted, but no license has been issued, pending resolution of a challenge before the Supreme Court of Pennsylvania. There are also proposed sites in each of Gettysburg and the Reading area for a category 3 license. If any of these sites begin slot operations, it will have a negative impact on Hollywood Casino at Penn National Race Course.

Hollywood Casino at Penn National Race Course faces competition from these other Pennsylvania facilities, as well as casinos located in Delaware, New Jersey, and West Virginia. In addition, Hollywood Casino Perryville, which is owned by us, is expected to open in late 2010, and our property in West Virginia received approval in late 2009 to operate table games, both of which could negatively impact the operations of Hollywood Casino at Penn National Race Course.

In 2008, the Commonwealth of Pennsylvania passed legislation which authorized a partial ban on smoking in casino facilities, including a limit on the amount of casino floor space that could be designated as "smoking." Early in 2009, Hollywood Casino at Penn National Race Course was able to expand smoking sections to 50% of its casino floor. The legislation does not allow any further expansion of smoking areas.

Chicagoland. Aurora and Joliet are part of the Chicagoland market that includes properties in the Chicago suburbs in both Illinois and northern Indiana. Hollywood Casino Aurora and Empress Casino Hotel face competition from numerous other riverboat casinos in the Chicago-area market, dockside casinos that are located in Illinois and dockside casinos that are located in Indiana. Due to significantly higher gaming taxes imposed on Illinois riverboats, the Indiana riverboats have been able to spend greater amounts on marketing and other amenities, which has significantly increased their ability to compete with the Illinois riverboats. Any increase in gaming taxes or admission fees imposed on Illinois riverboats could have an adverse impact on the financial results of our Chicagoland casinos. Effective January 1, 2008, casinos in Illinois became smoke-free due to state legislation and smoking areas are required to be outside of the facility. The casinos in Indiana continue to have smoking permitted in all areas providing them with a significant competitive advantage. In addition, after a major remodel, Harrah's reopened the Horseshoe casino in northern Indiana in August 2008 which has impacted the revenues of the Illinois riverboats in 2009.

New competition in Illinois is currently limited by state legislation. The Illinois Riverboat Gambling Act and the regulations promulgated by the Illinois Gaming Board under the Riverboat Gambling Act authorize only 10 owner licenses for riverboat gaming operations in Illinois and permit a maximum of 1,200 gaming positions at any time for each of the 10 licensed sites. All authorized owners' licenses have now been granted, with the final license, which was dormant for several years, being issued in December 2008. The new gaming operation is expected to be opened in the second half of 2011 in Des Plaines, Illinois. We will face additional competition as the facility will be located in the suburban area northwest of Chicago. The legislature has considered, at various times, legislation that would expand gaming in the state of Illinois (for example, slots at tracks). Should the Illinois legislature enact such gaming-expansion legislation, the financial results of our Chicagoland casinos could be adversely affected.

In July 2009, the Governor of Illinois signed a bill providing for the legalization of video poker in bars. While there have not yet been any installations of video poker machines outside of the current 9 Illinois riverboats, it is anticipated they will arrive sometime in 2010.

Riverside, Missouri. The Argosy Casino Riverside currently faces competition from three other casinos in its market. In November 2008, legislation was enacted in Missouri that increased gaming taxes, while removing the loss limit in the state. The Kansas legislature has approved the expansion of casino gaming in its state, and in February 2010, Kansas Entertainment, LLC, a joint venture of affiliates of International Speedway Corporation and us, received the final approval under the Kansas Expanded Lottery Act, along with its gaming license from the Kansas Racing and Gaming Commission, to proceed with the development of a Hollywood-themed destination facility overlooking Turn 2 at Kansas Speedway, which is located approximately 17 miles from Argosy Casino Riverside. Kansas Entertainment, LLC will begin construction of the facility in the second half of 2010 with a planned opening in early 2012. The commencement of casino gaming in Kansas will have an adverse effect on the financial results of Argosy Casino Riverside.

Baton Rouge, Louisiana. Hollywood Casino Baton Rouge faces competition from land-based and riverboat casinos throughout Louisiana and on the Mississippi Gulf Coast, casinos on Native American lands and from non-casino gaming opportunities within Louisiana. The principal competitor to Hollywood Casino Baton Rouge is the Belle of Baton Rouge. We face competition from eleven casinos on the Mississippi Gulf Coast, which is approximately 120 miles east of Baton Rouge; many of these casinos are destination resorts that attract customers from the Baton Rouge area. Subsequent to Hurricane Katrina, Mississippi Gulf Coast casinos are allowed to operate as land-based facilities. Hollywood Casino Baton Rouge also faces competition from two major riverboat casinos, one land-based casino in the New Orleans area, which is approximately 75 miles from Baton Rouge, and three Native American casinos in Louisiana. The two closest Native American casinos are land-based facilities located approximately 45 miles southwest and approximately 65 miles northwest of Baton Rouge. We face competition from a racetrack located approximately 55 miles from Baton Rouge operating approximately 1,500 gaming machines. We also face competition from approximately 3,000 video poker machines located in truck stops, restaurants, bars and OTWs located in certain surrounding parishes. In addition, another gaming operator received approval from the Louisiana Gaming Control Board for a third riverboat casino in Baton Rouge that was subject to a local option referendum subsequently approved by East Baton Rouge Parish voters on February 9, 2008. If the project receives the remaining local approvals and entitlements, and the operator is successful in raising the capital required to construct the facility, the financial results of Hollywood Casino Baton Rouge will be adversely affected.

Alton, Illinois. The Argosy Casino Alton faces competition from five other riverboat casinos currently operating in the St. Louis, Missouri area, including one other Illinois licensee. In addition, a casino project in south St. Louis County is in development and scheduled to open in March 2010, which could adversely affect business. Casinos in Illinois are smoke-free due to state legislation while casinos in Missouri continue to have smoking permitted in all areas, providing them with a significant competitive advantage. Should the Illinois legislature enact gaming-expansion legislation or increase admission or gaming taxes, our Alton casino's financial results could be adversely affected.

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

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

Mississippi Gulf Coast. Prior to Hurricane Katrina, dockside gaming grew rapidly on the Mississippi Gulf Coast, increasing from no dockside casinos in March 1992 to twelve operating dockside casinos on December 31, 2004. Nine of these facilities were located in Biloxi, two were located in Gulfport and one was located in Bay St. Louis. As of December 31, 2009, eight of the casinos in Biloxi

re-opened, including our casino, one of the Gulfport casinos reopened and two Bay St. Louis properties opened in 2006. Prior to Hurricane Katrina, our Bay St. Louis property was the only casino in the Bay St. Louis market, whereas there are now two casinos in the Bay St. Louis market. In addition, in the Bay St. Louis market, there are various proposals for casinos in development, as well as expansions at existing properties, that may take place in the next few years, though none are anticipated to be completed in 2010.

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

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

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

Black Hawk, Colorado. The Black Hawk gaming market is characterized by intense competition. The primary competitive factors in the market are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, types and pricing of non-gaming amenities, name recognition and overall atmosphere. There are currently 18 gaming facilities in the Black Hawk market and 6 gaming facilities in nearby Central City.

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

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

There are two charity casinos and seven racetracks with gaming machine facilities that directly affect Casino Rama. The two charity casinos together have 106 gaming tables and 1,054 gaming machines. The number of gaming machines at the racetracks ranges from 240 to over 2,061 each. There are also two commercial casinos located in Niagara Falls, Ontario, 80 miles southwest of Toronto with a total of 173 gaming tables and 4,651 gaming machines.

Racing Operations

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

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

U.S. and Foreign Revenues

Our net revenues in the U.S. for 2009, 2008 and 2007 were approximately $2,354.5 million, $2,406.4 million and $2,419.5 million, respectively. Our revenues from operations in Canada for 2009, 2008 and 2007 were approximately $14.8 million, $16.7 million and $17.3 million, respectively.

Segments

In accordance with Financial Accounting Standards Board Accounting Standards Codification 280, "Segment Reporting," we view each property as an operating segment, and aggregate all of our properties into one reportable segment, as we believe that they are economically similar, offer similar types of products and services, cater to the same types of customers, and are similarly regulated.

Management

Name	Age	Position
Peter M. Carlino	63	Chief Executive Officer
Timothy J. Wilmott	51	President and Chief Operating Officer
William J. Clifford	52	Senior Vice President-Finance and Chief Financial Officer
Thomas P. Burke	53	Senior Vice President-Regional Operations
John V. Finamore	51	Senior Vice President-Regional Operations
Robert S. Ippolito	58	Vice President, Secretary and Treasurer
Jordan B. Savitch	44	Senior Vice President and General Counsel
Steven T. Snyder	49	Senior Vice President-Corporate Development

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

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

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

with Del Webb, Las Vegas, and Agent, Audit Division, of the Nevada Gaming Control Board, Las Vegas and Reno.

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

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

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

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

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

Governmental Regulations

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

Our businesses are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and

conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

Employees and Labor Relations

As of December 31, 2009, we had 14,772 full- and part-time employees.

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

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

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

Our agreement with the Maine Harness Horsemen Association at Bangor Raceway expires on December 31, 2011.

Our agreement with the Ohio Harness Horsemen Association expires on December 31, 2012.

Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires on December 31, 2011.

Throughout our Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately one thousand eight hundred of our employees. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE") Local 1 represents approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2011. At certain of our Argosy properties, the Seafarer International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO, the International Brotherhood of Electrical Workers, the Security Police and Fire Professionals of America, the American Maritime Officers Union, the International Brotherhood of Electronic Workers Local 176, and UNITE/HERE Local 10 represent certain of our employees. We have collective bargaining agreements with these unions that expire at various times between July 2010 and October 2015. None of these unions individually represent more than fifty of our employees.

Available Information

For more information about us, visit our website at www.pngaming.com. The contents of our website are not part of this Annual Report on Form 10-K. Our electronic filings with the U.S. Securities and Exchange Commission (including all annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available free of charge through our website as soon as reasonably practicable after we electronically file them with or furnish them to the U.S. Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

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

For the fiscal year ended December 31, 2009, approximately 37.0% of our net revenues were collectively derived from our Charles Town and Lawrenceburg operations. Our ability to meet our operating and debt service requirements is substantially dependent upon the continued success of these facilities. The operations at these facilities and any of our other facilities could be adversely affected by numerous factors, including:

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

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

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

- the occurrence of floods and other natural disasters.

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

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

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

We could face significant challenges in managing and integrating our expanded or combined operations and any other properties we may acquire. The integration of any other properties we may acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating properties that we may acquire also could interrupt the activities of those businesses, which could have a material adverse effect on our business, financial condition and results of operations. In addition, the development of new properties may involve construction, regulatory, legal and competitive risks as well as the risks attendant to partnership deals on these development opportunities.

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

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

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

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

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

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

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

We face significant competition from other gaming operations.

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

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

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

As our business is dependent on discretionary consumer spending, our business is adversely impacted by prolonged economic downturns, and is subject to volatility depending on the price of energy, unemployment rates, residential real estate values, and the availability of consumer credit.

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

Through CHC Casinos Canada Limited ("CHC Casinos"), our indirectly wholly-owned subsidiary, we manage Casino Rama, a full service gaming and entertainment facility, on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. Casino Rama is located on the lands of the Rama First Nation, approximately 90 miles north of Toronto. The property has

approximately 93,000 square feet of gaming space, 2,472 gaming machines, 104 table games and 12 poker tables. In addition, the property includes a 5,000-seat entertainment facility, a 289-room hotel and 3,170 parking spaces.

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

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

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

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

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

We face extensive regulation from gaming and other regulatory authorities.

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

We have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming and pari-mutuel

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

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

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

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

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

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

We depend on our key personnel.

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

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

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

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

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions, natural disasters and other casualties. Because many of our gaming operations are located on or adjacent to bodies of water, these facilities are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, forces of nature, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. For example, in late August 2005, we closed Hollywood Casino Bay St. Louis in Bay St. Louis, Mississippi, Boomtown Biloxi in Biloxi, Mississippi and Hollywood Casino Baton Rouge in Baton Rouge, Louisiana in anticipation of Hurricane Katrina. Hollywood Casino Baton Rouge subsequently reopened on August 30, 2005. However, due to the extensive damage sustained, operations at Boomtown Biloxi and Hollywood Casino Bay St. Louis did not resume until June 29, 2006 and August 31, 2006, respectively. In addition, several of our casinos are subject to risks generally associated with the movement of vessels on inland waterways, including risks of collision or casualty due to river turbulence and traffic. Many of our casinos operate in areas which are subject to periodic flooding that has caused us to experience decreased attendance and increased operating expenses. Any flood or other severe weather condition could lead to the loss of use of a casino facility for an extended period. In terms of casualty events, on March 20, 2009, our Empress Casino Hotel, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and we began construction of a new land-based pavilion.

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

On August 28, 2005, we closed Hollywood Casino Bay St. Louis in Bay St. Louis, Mississippi and Boomtown Biloxi casino in Biloxi, Mississippi in anticipation of Hurricane Katrina. Due to the extensive damage sustained, operations at Boomtown Biloxi and Hollywood Casino Bay St. Louis did not resume until June 29, 2006 and August 31, 2006, respectively. In terms of casualty events, on March 20, 2009, our Empress Casino Hotel, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and we began construction of a new land-based pavilion. We maintain significant property insurance, including business interruption coverage, for Hollywood Casino Bay St. Louis, Boomtown Biloxi and other properties. However, there can be no assurances that we will be fully or promptly compensated for losses at any of our facilities in the event of future hurricanes or casualty events.

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

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

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

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

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

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

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

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

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

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

Effective October 1, 2004, we signed an agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course that expires on September 30, 2011. At the Charles Town Entertainment Complex, we have an agreement with the Charles Town Horsemen with an initial term expiring on December 31, 2011, and an agreement with the breeders that expires on June 30, 2010. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2010. Our agreement with the Maine Harness Horsemen Association at Bangor Raceway expires on December 31, 2011. Our agreement with the Ohio Harness Horsemen Association expires on December 31, 2012. Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires on December 31, 2011.

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

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

Some of our employees are currently represented by labor unions. A lengthy strike or other work stoppages at any of our casino properties or construction projects could have an adverse effect on our

business and results of operations. Given our large number of employees, labor unions are making a concerted effort to recruit more employees in the gaming industry. In addition, organized labor may benefit from new legislation or legal interpretations by the current presidential administration. Particularly, in light of current support for changes to federal and state labor laws, we cannot provide any assurance that we will not experience additional and more successful union organization activity in the future.

Risks Related to Our Capital Structure

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

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

- increase our vulnerability to general adverse economic and industry conditions;

- require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds; and

- result in an event of default if we fail to satisfy our obligations under our debt or fail to comply with the financial and other restrictive covenants contained in our debt instruments, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

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

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

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

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

We intend to finance some of our current and future expansion and renovation projects primarily with cash flow from operations, borrowings under our current senior secured credit facility and equity or debt financings. Depending on the state of the credit markets, if we are unable to finance our current or future expansion projects, we could have to adopt one or more alternatives, such as reducing or delaying planned expansion, development and renovation projects as well as capital expenditures, selling assets, restructuring debt, obtaining additional equity financing or joint venture partners, or modifying our senior secured credit facility. Depending on credit market conditions, these sources of

funds may not be sufficient to finance our expansion, and other financing may not be available on acceptable terms, in a timely manner or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness. If we are unable to secure additional financing, we could be forced to limit or suspend expansion, acquisitions, development and renovation projects, which may adversely affect our business, financial condition and results of operations.

Our indebtedness imposes restrictive covenants on us.

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

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

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

The price of our Common Stock may fluctuate significantly.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following describes our principal real estate properties:

Charles Town Entertainment Complex. We own 315 acres on various parcels in Charles Town and Ranson, West Virginia of which 155 acres comprise the Charles Town Entertainment Complex. The Complex includes a 153-room hotel and a 3/4 mile all-weather, lighted thoroughbred racetrack, a training track, two parking garages, an employee parking lot, an enclosed grandstand/clubhouse and housing facilities for over 1,300 horses.

Hollywood Casino Lawrenceburg. In addition to the new Hollywood casino riverboat, we also own the Argosy VI riverboat casino, which is currently for sale. We own and lease 52 acres in Lawrenceburg, Indiana, a portion of which serves as the dockside embarkation for the gaming vessel, and includes an entertainment pavilion, a 295-room hotel, two parking garages and an adjacent surface lot. In addition, we own a 52-acre parcel on Route 50 which we use for remote parking.

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

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

Empress Casino Hotel. We own approximately 276 acres in Joliet, Illinois, which includes a barge-based casino and a 100-room hotel. Construction on a new 1,100 space parking garage was completed in the first quarter of 2010.

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

Hollywood Casino Baton Rouge. The Hollywood Casino Baton Rouge is a four-story riverboat casino, which we own. We own a 17.4-acre site on the east bank of the Mississippi River in the East Baton Rouge Downtown Development District. The property site serves as the dockside embarkation for the Hollywood Casino Baton Rouge and features a two-story building. We also own 5.5 acres of land that are used primarily for offices, warehousing, and parking. In December 2007, we agreed to acquire 3.8 acres of adjacent land and to pay for half of the construction costs (subject to a ceiling of $3.8 million) for a railroad underpass with the seller of the land. The underpass will provide unimpeded access to the casino property and to property owned by the seller for future development. Construction on the underpass started in June 2009 and we anticipate that it will be completed by the fourth quarter of 2010.

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

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

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

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

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

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

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

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

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

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

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

Hollywood Casino Perryville. We own approximately 36 acres of land in Perryville, Maryland, where we recently began construction of Hollywood Casino Perryville.

Hollywood Casino Columbus. As of February 2010, we own approximately 141 acres of land in Columbus, Ohio, at two separate sites. The location of the Columbus casino will be determined in a statewide election in May 2010.

Hollywood Casino Toledo. We own a 44-acre site in Toledo, Ohio, where we recently began construction of Hollywood Casino Toledo.

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

Off-track Wagering Facilities. We lease our four currently-operating off-track wagering facilities ("OTWs"). The following is a list of our four currently-operating OTWs and their locations:

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

Other. We lease 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of Peter M. Carlino, our Chairman and Chief Executive Officer. We believe the lease terms for the executive office and warehouse to be no less favorable than such lease terms that could have been obtained from unaffiliated third parties.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

recoupment rights. We established an appropriate reserve and bonded the judgment pending its appeal. Both the plaintiff and we have appealed the judgment to the First Circuit Court of Appeals in Louisiana. On August 31, 2009, the appellate court reversed the trial court's decision and dismissed the case against Argosy in its entirety. Capitol House has requested that the Louisiana Supreme Court take its appeal of the dismissal and that request is currently pending.

The Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin (collectively, the "Four Casinos"), and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the pendency of the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Empress Casino Hotel and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court's ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the Four Casinos filed a petition for certiorari, requesting the United States ("U.S.") Supreme Court to hear the case. Seven amicus curiae briefs supporting the plaintiffs' request were also filed. On June 8, 2009, the U.S. Supreme Court decided not to hear the case. On June 10, 2009, the Four Casinos filed a petition with the Court to open the judgment based on new evidence that came to light during the investigation of former Illinois Governor Rod Blagojevich that the 2006 law was procured by corruption. On August 17, 2009, the Court dismissed the Four Casinos' petition to reopen the case, and the Four Casinos have decided not to pursue an appeal of the dismissal.

On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the Four Casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the Four Casinos filed suit in the Court, asking it to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The defendants have filed a motion to dismiss, which was granted on August 17, 2009. The Four Casinos have appealed the dismissal and have filed a motion to keep the funds in the protest fund while the appeal is being litigated. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

On June 12, 2009, the Four Casinos filed a lawsuit in Illinois Federal Court naming former Illinois Governor Rod Blagojevich, his campaign fund, racetrack owner John Johnston, and his two racetracks as defendants alleging a civil conspiracy in violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §1962(c),(d) ("RICO"), based on an illegal scheme to secure the enactment of the 3% tax surcharge legislation in exchange for the payment of money by Johnston and entities controlled by him. The Four Casinos also seek to impose a constructive trust over all funds paid under the tax surcharge, and therefore all of the Illinois racetracks are named as parties to the lawsuit. The defendants in the RICO case filed motions to dismiss. On December 7, 2009, the district court denied the motion to dismiss the RICO count, but it granted the motion to dismiss the constructive trust count, stating that it did not have jurisdiction in this case to impose the constructive trust. The Four Casinos have appealed this dismissal to the Seventh Circuit Court of Appeals. The appellate court has ordered that any monies disbursed to the tracks be maintained until the appeal has been decided.

In August 2007, a complaint was filed on behalf of a putative class of our public shareholders, and derivatively on behalf of us, in the Court of Common Pleas of Berks County, Pennsylvania (the

"Complaint"). The Complaint names our Board of Directors as defendants and us as a nominal defendant. The Complaint alleges, among other things, that the Board of Directors breached their fiduciary duties by agreeing to the proposed transaction with Fortress Investment Group, LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge") for inadequate consideration, that certain members of the Board of Directors have conflicts with regard to the Merger, and that we and our Board of Directors have failed to disclose certain material information with regard to the Merger. The Complaint seeks, among other things, a court order determining that the action is properly maintained as a class action and a derivative action enjoining us and our Board of Directors from consummating the proposed Merger, and awarding the payment of attorneys' fees and expenses. We and the plaintiff had reached a tentative settlement, contingent upon consummation of the transaction with Fortress and Centerbridge, in which we agreed to pay certain attorneys' fees and to make certain disclosures regarding the events leading up to the transaction with Fortress and Centerbridge in the proxy statement sent to shareholders in November 2007. The case was terminated by the court for inactivity on September 7, 2009, and no payments were made.

On July 16, 2008, we were served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of our Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that our disclosure practices relative to the proposed transaction with Fortress and Centerbridge and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint was amended, among other things, to add three new named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. We filed a motion to dismiss the complaint in November 2008, and the court granted the motion and dismissed the complaint with prejudice. The plaintiffs filed a motion for reconsideration, which was denied on October 21, 2009. The plaintiffs have appealed the decision and the parties are in the process of filing appellate briefs.

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary of Penn created to pursue a development project in Cherokee County, Kansas) and us in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. The defendants have filed motions to dissolve and reduce the attachment. Those motions were denied and the defendants appealed those decisions to the appellate court. The Kansas appellate court declined to hear the appeal on jurisdictional grounds and the defendants have requested that the Kansas Supreme Court review that decision.

On September 23, 2008, KPG filed an action against HV Properties of Kansas, LLC ("HV") in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the "Contract") that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against us claiming we are liable to HV for KPG's alleged breach based on a Guaranty Agreement signed by us. Both cases were consolidated. We have filed a motion to dismiss HV's claims, which was denied on May 6, 2009. Discovery has concluded and dispositive motions are currently being briefed by both sides.

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

None.

PART II

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

Range of Market Price

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

	High	Low
2009		
First Quarter	$ 25.29	$ 16.44
Second Quarter	35.18	23.28
Third Quarter	33.81	26.14
Fourth Quarter	29.30	24.45
2008		
First Quarter	$ 59.79	$ 38.76
Second Quarter	47.08	31.82
Third Quarter	35.37	23.30
Fourth Quarter	26.79	11.82

The closing sale price per share of our Common Stock on the NASDAQ Global Select Market on February 11, 2010, was $23.29. As of February 11, 2010, there were approximately 634 holders of record of our Common Stock.

Dividend Policy

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

Stock Repurchase

The repurchase of up to $200 million of our Common Stock over the twenty-four month period ending July 2010 was authorized by our Board of Directors in July 2008. During the year ended December 31, 2009, we did not repurchase any shares of our Common Stock. During the year ended December 31, 2008, we repurchased 8,934,984 shares of our Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial and operating data for the years ended December 31, 2009, 2008, 2007 and 2006 is derived from our consolidated financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm. The following selected consolidated financial and operating data for the year ended December 31, 2005 are derived from our consolidated financial statements that had been audited by BDO Seidman, LLP, an independent registered public accounting firm. The selected consolidated financial and operating data should be read in conjunction with our consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

The following is a listing of our acquisitions and dispositions that occurred during the five-year period ended December 31, 2009:

- In January 2005, we transferred the operations of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). The sale was not considered final until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding until August 7, 2006.

- In July 2005, we divested the Hollywood Casino Shreveport property.

- In October 2005, we acquired Argosy Gaming Company and divested the Argosy Casino Baton Rouge property.

- In April 2007, we acquired Black Gold Casino at Zia Park.

- In October 2007, we acquired Sanford-Orlando Kennel Club.

	Year Ended December 31,				
	2009(1)	2008(2)	2007(3)	2006(4)	2005(5)
	(in thousands, except per share data)				
Income statement data:(6)					
Net revenues	$ 2,369,275	$ 2,423,053	$ 2,436,793	$ 2,244,547	$ 1,369,105
Total operating expenses	2,563,873	2,509,494	1,938,984	1,666,706	1,125,557
(Loss) income from continuing operations	(194,598)	(86,441)	497,809	577,841	243,548
Total other (expenses) income	(133,283)	38,856	(205,569)	(207,909)	(101,778)
(Loss) income from continuing operations before income taxes	(327,881)	(47,585)	292,240	369,932	141,770
Taxes on income	(60,468)	105,738	132,187	156,852	54,593
Net (loss) income from continuing operations	(267,413)	(153,323)	160,053	213,080	87,177
Income from discontinued operations	—	—	—	114,008	33,753
Net (loss) income including noncontrolling interests	(267,413)	(153,323)	160,053	327,088	120,930
Less: Net loss attributable to noncontrolling interests	(2,465)	—	—	—	—
Net (loss) income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	$ (264,948)	$ (153,323)	$ 160,053	$ 327,088	$ 120,930
Per share data:					
(Loss) earnings per share—Basic					
(Loss) income from continuing operations	$ (3.39)	$ (1.81)	$ 1.87	$ 2.53	$ 1.05
Discontinued operations, net of tax	—	—	—	1.35	0.41
Basic (loss) earnings per share	$ (3.39)	$ (1.81)	$ 1.87	$ 3.88	$ 1.46
(Loss) earnings per share—Diluted					
(Loss) income from continuing operations	$ (3.39)	$ (1.81)	$ 1.81	$ 2.46	$ 1.02
Discontinued operations, net of tax	—	—	—	1.32	0.39
Diluted (loss) earnings per share	$ (3.39)	$ (1.81)	$ 1.81	$ 3.78	$ 1.41
Weighted shares outstanding—Basic(7)	78,122	84,536	85,578	84,229	82,893
Weighted shares outstanding—Diluted(7)	78,122	84,536	88,384	86,634	85,857
Other data:					
Net cash provided by operating activities	$ 338,246	$ 420,463	$ 431,219	$ 281,809	$ 150,475
Net cash used in investing activities	(262,659)	(391,498)	(611,617)	(302,341)	(1,978,800)
Net cash (used in) provided by financing activities	(108,747)	542,941	186,255	56,427	1,873,221
Depreciation and amortization	194,436	173,545	147,915	123,951	72,531
Interest expense	134,984	169,827	198,059	196,328	89,344
Capital expenditures	289,551	344,894	361,155	408,883	121,135
Balance sheet data:					
Cash and cash equivalents(8)	$ 713,118	$ 746,278	$ 174,372	$ 168,515	$ 132,620
Total assets	4,712,616	5,189,676	4,967,032	4,514,082	4,190,404
Total debt(8)	2,334,777	2,430,180	2,974,922	2,829,448	2,786,229
Shareholders' equity	1,852,076	2,057,273	1,120,962	921,163	546,543

(1)

In conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg, we recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.9 million ($7.1 million, net of taxes) during the year ended December 31, 2009. In addition, as a result of the anticipated impact of gaming expansion in Ohio, we recorded a pre-tax impairment charge of $520.5 million ($368.8 million, net of taxes) during the year ended December 31, 2009, as we

determined that a portion of the value of our goodwill and indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

(2)
As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the then-current economic environment, we recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the year ended December 31, 2008, as we determined that a portion of the value of our goodwill, indefinite-life intangible assets and long-lived

assets was impaired. The December 31, 2008 impairment charge by property was as follows: Hollywood Casino Lawrenceburg, $214.1 million pre-tax ($189.3 million, net of taxes); Hollywood Casino Aurora, $43.7 million pre-tax and net of taxes; Empress Casino Hotel, $94.4 million pre-tax ($60.4 million, net of taxes); Argosy Casino Alton, $14.1 million pre-tax and net of taxes; Bullwhackers, $14.2 million pre-tax ($9.1 million, net of taxes); Hollywood Slots Hotel and Raceway, $82.7 million pre-tax ($64.0 million, net of taxes); and Corporate overhead, $18.1 million pre-tax ($12.0 million, net of taxes).*(3)*

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

(4)
During the year ended December 31, 2006, as a result of the increased asset values resulting from the reconstruction at Hollywood Casino Bay St. Louis, we determined that all of the goodwill associated with the original purchase of the property was impaired. Accordingly, we recorded a pre-tax charge of $34.5 million ($22.0 million, net of taxes).

(5)
Reflects the operations of Argosy properties since the October 1, 2005 acquisition effective date.

(6)
For purposes of comparability, certain prior year amounts have been reclassified to conform to the current year presentation.

(7)
Since we reported a loss from operations for the years ended December 31, 2009 and 2008, we were required to use basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding, when calculating diluted loss per share for the years ended December 31, 2009 and 2008.

(8)
Does not include discontinued operations.

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

Our Operations

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

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

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

We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions and the development of gaming properties, particularly in attractive regional markets. Current capital projects are ongoing at several of our existing properties, including Empress Casino Hotel, Charles Town Entertainment Complex, Hollywood Casino at Penn National Race Course, and Hollywood Casino Perryville, as well as at our proposed facilities in Kansas and Ohio.

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

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

Merger Announcement and Termination

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

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

On July 3, 2008, we entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we agreed to receive a total of $1.475 billion, consisting of a nonrefundable $225 million cash termination fee (the "Cash Termination Fee") and a $1.25 billion, zero coupon, preferred equity investment (the "Investment"). On October 30, 2008, we closed the sale of the Investment and issued 12,500 shares of Series B Redeemable Preferred Stock (the "Preferred Stock").

Executive Summary

Factors affecting our results for the year ended December 31, 2009, as compared to the year ended December 31, 2008, included the impairment losses recorded during the year ended December 31, 2009, the fire at Empress Casino Hotel, the loss on early extinguishment of debt, decreases in consumer spending on gaming activities caused by current economic conditions, competitive pressures at some of our properties, the continued impact of the opening of the casino at Hollywood Casino at Penn National Race Course and the permanent facility at Hollywood Slots Hotel and Raceway, decreased lobbying expenses, the merger termination settlement fees, net of related expenses, received in 2008, increased depreciation and amortization expense, decreased interest expense, a change in income taxes, and foreign currency translation losses.

Financial Highlights:

- Net revenues decreased by $53.8 million, or 2.2%, for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions, competitive pressures at some of our properties and the fire at Empress Casino Hotel. These decreases were partially offset by increases in net revenues due to the continued impact of the opening of the casino at Hollywood Casino at Penn National Race Course and the permanent facility at Hollywood Slots Hotel and Raceway.

- In conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg, we recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.9 million ($7.1 million, net of taxes) during the year ended December 31, 2009. In addition, as a result of the anticipated impact of gaming expansion in Ohio, we recorded a pre-tax impairment charge of $520.5 million ($368.8 million, net of taxes) during the year ended December 31, 2009, as we determined that a portion of the value of our goodwill and indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

- As a result of the Empress Casino Hotel fire, we recorded a $6.1 million pre-tax loss during the year ended December 31, 2009 for the insurance deductibles for property damage, business interruption and employee lost wages, as well as a write-off of construction fees related to the renovation that are not recoverable under our insurance policies.

- Loss from operations increased by $108.2 million, or 125.1%, for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily due to a decrease in net revenues, an increase in impairment losses, the fire at Empress Casino Hotel, and an increase in depreciation and amortization expense, all of which were partially offset by a decrease in gaming expense and general and administrative expense.

- As a result of the repayment of all outstanding borrowings under the Term Loan A Facility of the senior secured credit facility and the redemption of our $200 million 6 $^{7}/_{8}$ % senior subordinated notes, we recorded a $4.8 million pre-tax loss on early extinguishment of debt during the year ended December 31, 2009 for the write-off of deferred financing fees related to the Term Loan A Facility and the $200 million 6$^{7}/_{8}$ % senior subordinated notes.

- Net loss attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries changed by $111.6 million, or 72.8%, for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily due to the variances explained above, the merger termination settlement fees, net of related expenses, received in 2008, all of which were partially offset by a decrease in interest expense, a change in income taxes, and foreign currency translation losses.

Other Developments:

- In February 2010, Kansas Entertainment, LLC ("Kansas Entertainment") received the final approval under the Kansas Expanded Lottery Act, along with its gaming license from the Kansas Racing and Gaming Commission, to proceed with the development of a Hollywood-themed destination facility overlooking Turn 2 at Kansas Speedway. In December 2009, Kansas Entertainment was selected by the Kansas Lottery Gaming Facility Review Board to develop and operate a facility in the North East Gaming Zone in Wyandotte County, Kansas. Kansas Entertainment will begin construction of the facility in the second half of 2010 with a planned opening in early 2012. The $410 million facility, inclusive of licensing fees, is expected to feature a 100,000 square foot casino with capacity for 2,300 slot machines, 61 table games and 25 poker tables, a 1,500 parking structure, as well as a variety of dining and entertainment amenities. In September 2009, we entered into an agreement, subject to local and regulatory approvals and certain other closing conditions, with principals of The Cordish Company ("Cordish"), the managing member of Kansas Entertainment, wherein we agreed to acquire Cordish's 50% interest in Kansas Entertainment and to assume their role as managing member. As a result of the agreement with Cordish, we joined Kansas Speedway Development Corporation, a wholly-owned subsidiary of International Speedway Corporation (which owns the other 50% of Kansas Entertainment) in its application with the Kansas Lottery Commission to develop and operate a Hollywood-themed destination facility overlooking Turn 2 at Kansas Speedway in the North East Gaming Zone in Wyandotte County, Kansas. We and International Speedway Corporation will share equally the cost of developing and constructing the proposed facility, and intend to jointly seek third party financing for the project. If such third party financing cannot be obtained on satisfactory terms, we and International Speedway Corporation are prepared to finance the project. We estimate that our share of the project will be approximately $155 million. In accordance with the agreement, $25.0 million was placed in escrow until certain conditions in our agreement with Cordish are satisfied. In addition, in September 2009, as a result of our agreement with Cordish, we withdrew our license application with the Kansas Lottery Commission to be considered as a Lottery Gaming Facility Manager at another site in Wyandotte County.

- In February 2010, we completed the purchase of the 123-acre site of the former Delphi Automotive plant in Columbus's West Side as an alternate location for our planned development of Hollywood Casino Columbus. In January 2010, we purchased the approximately 18-acre location approved as part of the amendment to Ohio's Constitution in Columbus's Arena District. However, we agreed to consider alternate sites at the request of public officials and others in the Columbus community. In January 2010, the Ohio Legislature approved the language for a Constitutional amendment changing the designated casino location in Columbus to the Delphi site. The location of the Columbus casino will now be determined in a statewide election in May 2010. Due to the uncertainty of the outcome in the legislature and at the ballot, we are pursuing development at both Columbus sites simultaneously. Plans are currently being developed for a $400 million Hollywood-themed casino in Columbus, Ohio, inclusive of $50 million in licensing fees. Hollywood Casino Columbus is expected to feature a 180,000 square foot casino, up to 4,000 slot machines, 100 table games and 25 poker tables, a 4,000 parking space garage, as well as food and beverage outlets and an entertainment lounge. Hollywood Casino Columbus is estimated to be completed in the second half of 2012. In December 2009, we announced that we had completed the purchase of a 44-acre site in Toledo,

Ohio that was expressly authorized for casino gaming as part of the amendment to Ohio's Constitution. Plans are also currently being developed for a $300 million Hollywood-themed casino in Toledo, Ohio, inclusive of $50 million in licensing fees. Hollywood Casino Toledo is expected to feature a 125,000 square foot casino, up to 3,000 slot machines, 80 table games and 20 poker tables, a 2,500 parking space garage, as well as food and beverage outlets and an entertainment lounge. Hollywood Casino Toledo is estimated to be completed in the second half of 2012. In November 2009, the "Ohio Jobs and Growth Plan," a casino ballot proposal calling for an amendment to Ohio's Constitution to authorize casinos in the state's four largest cities, Cincinnati, Cleveland, Columbus and Toledo, was approved. Also, in November 2009, we entered into an agreement with Lakes Entertainment, Inc. ("Lakes"), permitting Lakes to invest in up to a 10% equity interest in each of our proposed facilities in Columbus and Toledo, Ohio.•

In January 2010, the Pennsylvania legislature passed legislation permitting table games for gaming licensees. We intend to install table games at Hollywood Casino at Penn National Race Course in two phases. Phase I includes the addition of an estimated 40 table games and 12 poker tables within the existing facility, and is expected to be completed in the fourth quarter of 2010.

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In December 2009, we announced that we intend to install table games at Charles Town Entertainment Complex following voter approval of table games in the December 5, 2009 special election. Plans currently include the estimated addition of 85 table games and 27 poker tables, a high-end steakhouse/lounge, and a Hollywood on the Roof entertainment lounge. The table games, poker tables and the entertainment lounge are expected to be completed in the third quarter of 2010, and the high-end steakhouse/lounge is expected to be completed in the fourth quarter of 2010.

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In October 2009, the Maryland Video Lottery Facility Location Commission selected us to develop and manage a video lottery terminal facility in Cecil County, Maryland. Following our selection, we exercised our option and completed the purchase of approximately 36 acres of land located in Perryville, Maryland, and commenced construction of a $97.5 million Hollywood-themed facility, inclusive of licensing fees of $9.0 million. The new facility will feature 75,000 square feet of gaming space, 1,500 video lottery terminals, food and beverage offerings, and parking for over 1,600 vehicles. The facility is expected to open to the public in late 2010.

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In September 2009, we amended our senior secured credit facility, in order to increase the borrowing capacity and to extend the term under the revolving credit facility portion of the senior secured credit facility. Under the new revolving credit facility, two tranches were created, one for those participants who agreed to extend and one for those that did not extend. Tranche A Revolving Loans consist of available borrowings of $359.4 million, which are due on the original maturity date of October 3, 2010, and Tranche B Revolving Loans consist of available borrowings of $640.6 million, which are due on July 3, 2012, for a total borrowing capacity of $1 billion. In addition, in September 2009, we repaid all of the remaining outstanding borrowings under the Term Loan A Facility of the senior secured credit facility, using drawings under the new revolving credit facility. We recorded a $2.4 million loss on early extinguishment of debt during the year ended December 31, 2009 for the write-off of deferred financing fees related to the Term Loan A Facility.

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In August 2009, we completed an offering of $325 million 8¾% senior subordinated notes that mature on August 15, 2019. Interest on the $325 million 8 3/4 % senior subordinated notes is payable on February 15 and August 15 of each year, beginning February 15, 2010. The $325 million 8 3/4 % senior subordinated notes are general unsecured obligations and are not guaranteed by our subsidiaries. The $325 million 8 3/4 % senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended. A portion of the proceeds from the offering were used to repay $40 million of borrowings under the Term Loan A Facility, $70 million of borrowings

under the Term Loan B Facility, and all outstanding borrowings under the revolving credit facility at the time. The remainder of the proceeds, plus available cash, was used to pay the validly-tendered principal amounts of our $200 million 6 7 / 8 % senior subordinated notes.•
In August 2009, we called for the redemption of our $200 million 6 7/8% senior subordinated notes. The redemption price was $1,000 per $1,000 principal amount, plus accrued and unpaid interest, which was paid in September 2009. Approximately $94.5 million aggregate principal amount of the 6 7 / 8 % senior subordinated notes were validly tendered and paid. In October 2009, we called for the redemption of all of the $105.5 million outstanding aggregate principal amount of our 6 7 / 8 % senior subordinated notes. The redemption price was $1,000 per $1,000 principal amount, plus accrued and unpaid interest. In December 2009, we repaid all of the $105.5 million outstanding aggregate principal amount of our 6 7 / 8 % senior subordinated notes. We recorded a $2.4 million loss on early extinguishment of debt during the year ended December 31, 2009 for the write-off of the deferred financing fees related to the $200 million 6 7 / 8 % senior subordinated notes. We funded the $94.5 million redemption from a portion of the proceeds from the offering of $325 million 8 3 / 4 % senior subordinated notes and available cash and funded the $105.5 million redemption using drawings under our revolving credit facility.

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In late June 2009, the new casino riverboat at Hollywood Casino Lawrenceburg officially opened, replacing the vessel at Argosy Casino Lawrenceburg. The new Hollywood-themed casino riverboat offers 3,225 slot machines, 88 live table games, 41 poker tables, and new food and beverage offerings, as well as expanded parking and infrastructure improvements, which will make the facility more accessible. In conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg, we recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.9 million ($7.1 million, net of taxes) during the year ended December 31, 2009. In addition, as a result of the anticipated impact of gaming expansion in Ohio, we recorded a pre-tax impairment charge of $520.5 million ($368.8 million, net of taxes) during the year ended December 31, 2009, as we determined that a portion of the value of our goodwill and indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

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On March 20, 2009, Empress Casino Hotel, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and we began construction of a new land-based pavilion. We carry a builders' risk insurance policy for the on-going renovations with a policy limit of $57 million, inclusive of $14 million for delay in completion and $43 million for property damage. The builders' risk insurance policy includes a $50,000 property damage deductible and a 30-day delay in completion deductible for the peril of fire. In addition, we carry comprehensive business interruption and property damage insurance for the operational components of the Empress Casino Hotel with an overall limit of $228 million. The operational insurance policy includes a $2.5 million property damage deductible and a 48-hour business interruption deductible for the peril of fire. During the year ended December 31, 2009, we recorded a $6.1 million pre-tax loss for the insurance deductibles for property damage, business interruption and employee lost wages, as well as a write-off of construction fees related to the renovation that are not recoverable under the Company's insurance policies. During the year ended December 31, 2009, we received $20.6 million in insurance proceeds related to the fire at Empress Casino Hotel.

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In March 2009, the Rights Agreement providing for the dividend distribution of one preferred stock purchase right for each outstanding share of our Common Stock that our Board of Directors authorized and declared on May 20, 1998 expired.

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In March 2009, we entered into the Third Amendment to the October 14, 2004 Purchase Agreement, that had been entered into with the Mohegan Tribal Gaming Authority ("MTGA") for the sale of The Downs Racing, Inc. and its subsidiaries (the "Purchase Agreement"). In August 2006, we had entered into the Second Amendment to the Purchase Agreement and Release of Claims, in which we agreed to pay the MTGA an aggregate of $30 million over five years, in exchange for the MTGA's agreement to release various claims it raised against us under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. The Third Amendment to the Purchase Agreement accelerated and reduced the remaining payments due by us under the Purchase Agreement. In exchange for the accelerated payment, which was paid to the MTGA in March 2009, all remaining obligations under the Purchase Agreement were deemed to be satisfied and, as a result, we recorded a $1.3 million gain during the year ended December 31, 2009, which is included in other income within the consolidated statements of operations.

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Current capital projects are ongoing at several of our existing properties, including Empress Casino Hotel, Charles Town Entertainment Complex, Hollywood Casino at Penn National Race Course, and Hollywood Casino Perryville, as well as at our proposed facilities in Kansas and Ohio. Additional information regarding our capital projects is discussed in detail in the section entitled "Liquidity and Capital Resources—Capital Expenditures" below.

Critical Accounting Policies

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

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

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

Long-lived assets

At December 31, 2009, we had a net property and equipment balance of $1,837.5 million within our consolidated balance sheet, representing 39.0% of total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are determined based on the nature of the assets as well as our current operating strategy. We review the carrying value of our property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated future cash flows expected to result from its use and eventual disposition. The factors considered by us in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the individual property level. In assessing the recoverability of the carrying value of property and equipment, we must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record an impairment loss for

these assets. Such an impairment loss would be recognized as a non-cash component of operating income.

Goodwill and other intangible assets

At December 31, 2009, we had $1,380.0 million in goodwill and $377.0 million in other intangible assets within our consolidated balance sheet, representing 29.3% and 8.0% of total assets, respectively, resulting from our acquisition of other businesses and payment for gaming licenses and racing permits. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation; and (ii) the ongoing evaluation for impairment.

In connection with our acquisitions, valuations are completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of our due diligence in connection with the acquisitions, projections for future operations, and data obtained from third-party valuation specialists as deemed appropriate. Goodwill is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the reporting units to their carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment test is performed to determine the implied value of goodwill for that reporting unit. If the implied value is less than the carrying amount for that reporting unit, an impairment loss is recognized for that reporting unit. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, "Intangibles-Goodwill and Other," we consider our gaming license, racing permit and trademark intangible assets as indefinite-life intangible assets that do not require amortization. Rather, these intangible assets are tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the gaming license, racing permit and trademark intangible assets exceed their fair value, an impairment loss is recognized. The evaluation of goodwill and indefinite-life intangible assets requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. We use a market approach model, which includes the use of EBITDA (earnings before interest, taxes, charges for stock compensation, depreciation and amortization, gain or loss on disposal of assets, and certain other income and expenses, and inclusive of loss from joint venture) multiples, as we believe that EBITDA is a widely-used measure of performance in the gaming industry and as we use EBITDA as the primary measurement of the operating performance of our properties (including the evaluation of operating personnel). In addition, we believe that an EBITDA multiple is the principal basis for the valuation of gaming companies. Changes in the estimated EBITDA multiple or forecasted operations can materially affect these estimates. Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because our goodwill and indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that have a definite-life, including the management service contract for Casino Rama, are amortized on a straight-line basis over their estimated useful lives or related service contract. We review the carrying value of our intangible assets that have a definite-life for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount of the intangible assets that have a definite-life exceed their fair value, an impairment loss is recognized.

Income taxes

At December 31, 2009, we had a net deferred tax liability balance of $103.5 million within our consolidated balance sheet. We account for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. ASC 740 also requires that deferred tax assets be reduced by a

valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The realizability of the 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.

ASC 740 also creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. At December 31, 2009, we had a liability for unrecognized tax benefits of $46.7 million, which is included in noncurrent tax liabilities within our consolidated balance sheet. We operate within multiple taxing jurisdictions and are subject to audit in each jurisdiction. These audits can involve complex issues that may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all periods.

Litigation, claims and assessments

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

Results of Operations

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

- The fact that most of our properties operate in mature competitive markets. As a result, we expect a majority of our future growth to come from prudent acquisitions of gaming properties, jurisdictional expansions (such as the property openings in Pennsylvania and Maine, as well as the anticipated openings in Maryland, Kansas and Ohio) and expansions/improvements of existing properties.

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

- The fact that a number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for instance, in Kansas, Ohio and Maryland) and potential competitive threats to business at our existing properties (such as the potential introduction of commercial casinos in Kansas, Maryland, Ohio, and Kentucky, an additional gaming license in Illinois, and the introduction of tavern licenses in several states). We also face uncertainty regarding anticipated gaming expansion by one of our competitors in Baton Rouge, Louisiana. Legalized gaming from Native American casinos can also have a significant competitive effect.

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

- The closing of Empress Casino Hotel from March 20, 2009 until June 25, 2009 due to a fire, and the timing of the recognition of insurance proceeds relating to the insurance claim.

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

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

The results of operations for the years ended December 31, 2009, 2008 and 2007 are summarized below:

Year Ended December 31,	2009	2008	2007
		(in thousands)	
Revenues:			
Gaming	$ 2,158,028	$ 2,206,500	$ 2,227,944
Management service fee	14,787	16,725	17,273
Food, beverage and other	339,235	334,206	320,520
Gross revenues	2,512,050	2,557,431	2,565,737
Less promotional allowances	(142,775)	(134,378)	(128,944)
Net revenues	2,369,275	2,423,053	2,436,793
Operating expenses:			
Gaming	1,161,510	1,181,870	1,180,437
Food, beverage and other	266,351	257,653	240,912
General and administrative	403,136	415,093	369,720
Impairment losses	532,377	481,333	—
Empress Casino Hotel fire	6,063	—	—
Depreciation and amortization	194,436	173,545	147,915
Total operating expenses	2,563,873	2,509,494	1,938,984
(Loss) income from operations	$ (194,598)	$ (86,441)	$ 497,809

The results of operations by property for the years ended December 31, 2009, 2008 and 2007 are summarized below:

Year Ended December 31,	Net Revenues			Income (loss) from Operations		
	2009	2008	2007	2009(4)	2008(5)	2007
	(in thousands)					
Charles Town Entertainment Complex	$ 455,350	$ 477,032	$ 500,800	$ 103,356	$ 114,726	$ 127,277
Hollywood Casino Lawrenceburg	422,015	432,082	478,719	(431,754)	(96,094)	142,690
Hollywood Casino at Penn National Race Course(1)	292,670	224,935	48,488	14,394	11,530	(9,451)
Hollywood Casino Aurora	184,776	198,693	251,877	49,607	13,009	73,914
Empress Casino Hotel	107,058	168,663	225,794	9,511	(63,922)	38,821
Argosy Casino Riverside	193,785	186,132	174,426	53,760	48,526	42,388
Hollywood Casino Baton Rouge	122,994	131,013	135,869	39,336	43,829	47,417
Argosy Casino Alton	78,230	84,040	119,166	12,980	(301)	29,709
Hollywood Casino Tunica	92,896	88,540	103,858	14,627	14,363	19,536
Hollywood Casino Bay St. Louis	95,060	101,997	96,622	5,506	6,025	4,850
Argosy Casino Sioux City	53,927	54,774	54,417	15,065	14,634	13,259
Boomtown Biloxi	73,881	75,701	86,159	7,870	9,753	12,979
Hollywood Slots Hotel and Raceway	67,176	55,780	46,689	(2,072)	(79,922)	9,523
Bullwhackers	19,658	22,128	28,882	(1,108)	(16,922)	1,149
Black Gold Casino at Zia Park(2)	81,743	90,255	58,572	22,063	27,755	16,702
Casino Rama management service contract	14,787	16,725	17,273	13,395	15,183	15,899
Raceway Park	6,963	7,549	7,814	(1,206)	(1,368)	(1,119)
Sanford-Orlando Kennel Club(3)	6,306	7,014	1,368	(641)	(725)	(3)
Earnings from Pennwood Racing, Inc.	—	—	—	—	—	—
Corporate overhead	—	—	—	(119,287)	(146,520)	(87,731)
Total	$ 2,369,275	$ 2,423,053	$ 2,436,793	$ (194,598)	$ (86,441)	$ 497,809

(1)

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

(2)
Reflects results since the April 16, 2007 acquisition effective date.

(3)
Reflects results since the October 17, 2007 acquisition effective date.

(4)
In conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg, we recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.9 million ($7.1 million, net of taxes) during the year ended December 31, 2009. In addition, as a result of the anticipated impact of gaming expansion in Ohio, we recorded a pre-tax impairment charge of $520.5 million ($368.8 million, net of taxes) during the year ended December 31, 2009, as we determined that a portion of the value of our goodwill and indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

(5)

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

Revenues

Revenues for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

Year ended December 31,	2009	2008	Variance	Percentage Variance
Gaming	$ 2,158,028	$ 2,206,500	$ (48,472)	(2.2)%
Management service fee	14,787	16,725	(1,938)	(11.6)%
Food, beverage and other	339,235	334,206	5,029	1.5%
Gross revenues	2,512,050	2,557,431	(45,381)	(1.8)%
Less promotional allowances	(142,775)	(134,378)	(8,397)	6.2%
Net revenues	$ 2,369,275	$ 2,423,053	$ (53,778)	(2.2)%

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

Gaming revenue

2009 Compared with 2008

Gaming revenue decreased by $48.5 million, or 2.2%, to $2,158.0 million in 2009, primarily due to decreases at several of our properties, which were partially offset by increases at Hollywood Casino at Penn National Race Course, Hollywood Slots Hotel and Raceway, and Argosy Casino Riverside.

Gaming revenue at Empress Casino Hotel decreased by $58.7 million in 2009, primarily due to the property being closed from March 20, 2009 until June 25, 2009 due to a fire and decreases in consumer spending on gaming activities caused by current economic conditions.

Gaming revenue at Charles Town Entertainment Complex decreased by $21.9 million in 2009, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions as well as competitive pressures.

Gaming revenue at Hollywood Casino Aurora decreased by $14.0 million in 2009, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions and new competitive pressures.

Gaming revenue at Hollywood Casino Lawrenceburg decreased by $11.4 million in 2009, primarily due to new competitive pressures, the reduced capacity of, and subsequent temporary closure of, the casino as part of the transition to the new casino riverboat, and decreases in consumer spending on

gaming activities caused by current economic conditions, all of which were partially offset by an increase due to the opening of the new casino riverboat in late June 2009.

Gaming revenue at Hollywood Casino Baton Rouge decreased by $8.1 million in 2009, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions.

Gaming revenue at Black Gold Casino at Zia Park decreased by $7.7 million in 2009, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions.

Gaming revenue at Argosy Casino Alton decreased by $5.5 million in 2009, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions as well as competitive pressures, including the repeal of the $500 loss limit in neighboring Missouri in November 2008.

Gaming revenue at Hollywood Casino Bay St. Louis decreased by $5.3 million in 2009, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions as well as competitive pressures.

Gaming revenue at Hollywood Casino at Penn National Race Course increased by $67.1 million in 2009, primarily due to the continued impact of the opening of the casino on February 12, 2008 and the continued growth from a new gaming market.

Gaming revenue at Hollywood Slots Hotel and Raceway increased by $8.6 million in 2009, primarily due to the continued impact of the opening of the permanent facility on July 1, 2008.

Gaming revenue at Argosy Casino Riverside increased by $8.1 million in 2009, primarily due to the repeal of the $500 loss limit in Missouri in November 2008 and continued successful marketing efforts.

2008 Compared with 2007

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

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

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

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

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

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

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

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

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

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

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

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

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

Food, beverage and other revenue

2009 Compared with 2008

Food, beverage and other revenue increased by $5.0 million, or 1.5%, to $339.2 million in 2009, primarily due to increases at several of our properties, which were partially offset by a decrease at Empress Casino Hotel.

Food, beverage and other revenue at Hollywood Slots Hotel and Raceway increased by $5.1 million in 2009, primarily due to increased promotional efforts and the continued impact of the opening of the permanent facility on July 1, 2008.

Food, beverage and other revenue at Hollywood Casino Tunica increased by $3.9 million in 2009, primarily due to new food and beverage promotions.

Food, beverage and other revenue at Charles Town Entertainment Complex increased by $3.1 million in 2009, primarily due to the opening of its hotel to the public in September 2008.

Food, beverage and other revenue at Boomtown Biloxi increased by $1.3 million in 2009, primarily due to expanded marketing efforts, including new food and beverage promotions.

Food, beverage and other revenue at Empress Casino Hotel decreased by $6.9 million in 2009, as the property was closed from March 20, 2009 until June 25, 2009 due to a fire.

2008 Compared with 2007

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

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

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

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

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

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

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

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

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

Promotional allowances

2009 Compared with 2008

Promotional allowances increased by $8.4 million, or 6.2%, to $142.8 million in 2009, primarily due to increases at several of our properties, which were partially offset by a decrease at Empress Casino Hotel.

Promotional allowances at Hollywood Casino Tunica increased by $4.3 million in 2009, primarily due to new food and beverage and hotel promotions.

Promotional allowances at Charles Town Entertainment Complex increased by $2.9 million in 2009, primarily due to increased marketing efforts and the opening of its hotel to the public in September 2008.

Promotional allowances at Hollywood Slots Hotel and Raceway increased by $2.2 million in 2009, primarily due to increased promotional efforts and the continued impact of the opening of the permanent facility on July 1, 2008.

Promotional allowances at Boomtown Biloxi increased by $1.7 million in 2009, primarily due to expanded marketing efforts.

Promotional allowances at Empress Casino Hotel decreased by $3.9 million in 2009, as the property was closed from March 20, 2009 until June 25, 2009 due to a fire.

2008 Compared with 2007

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

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

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

Operating Expenses

Operating expenses for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

Year ended December 31,	2009	2008	Variance	Percentage Variance
Gaming	$ 1,161,510	$ 1,181,870	$ (20,360)	(1.7)%
Food, beverage and other	266,351	257,653	8,698	3.4%
General and administrative	403,136	415,093	(11,957)	(2.9)%
Impairment losses	532,377	481,333	51,044	10.6%
Empress Casino Hotel fire	6,063	—	6,063	100.0%
Depreciation and amortization	194,436	173,545	20,891	12.0%
Total operating expenses	$ 2,563,873	$ 2,509,494	$ 54,379	2.2%

Year ended December 31,	2008	2007	Variance	Percentage Variance
Gaming	$ 1,181,870	$ 1,180,437	$ 1,433	0.1%
Food, beverage and other	257,653	240,912	16,741	6.9%
General and administrative	415,093	369,720	45,373	12.3%
Impairment losses	481,333	—	481,333	100.0%
Depreciation and amortization	173,545	147,915	25,630	17.3%
Total operating expenses	$ 2,509,494	$ 1,938,984	$ 570,510	29.4%

Gaming expense

2009 Compared with 2008

Gaming expense decreased by $20.4 million, or 1.7%, to $1,161.5 million in 2009, primarily due to decreases at several of our properties, which were partially offset by increases at Hollywood Casino at Penn National Race Course, Hollywood Slots Hotel and Raceway, and Argosy Casino Riverside.

Gaming expense at Empress Casino Hotel decreased by $36.1 million in 2009, primarily due to a decrease in gaming taxes resulting from lower gaming revenue, lower marketing expenses and the property being closed from March 20, 2009 until June 25, 2009 due to a fire, all of which were partially offset by an increase in incremental tax as a result of the expiration of the 3% tax surcharge from May 26, 2008 through December 14, 2008.

Gaming expense at Charles Town Entertainment Complex decreased by $11.8 million in 2009, primarily due to a decrease in gaming taxes resulting from lower gaming revenue.

Gaming expense at Hollywood Casino Aurora decreased by $7.0 million in 2009, primarily due to a decrease in gaming taxes resulting from lower gaming revenue, which was partially offset by an increase in incremental tax as a result of the expiration of the 3% tax surcharge from May 26, 2008 through December 14, 2008.

Gaming expense at Hollywood Casino Lawrenceburg decreased by $4.2 million in 2009, primarily due to a decrease in gaming taxes resulting from lower gaming revenue and lower payroll costs, both of which were partially offset by increased marketing expenses.

Gaming expense at Argosy Casino Alton decreased by $3.7 million in 2009, primarily due to a decrease in gaming taxes resulting from lower gaming revenue.

Gaming expense at Black Gold Casino at Zia Park decreased by $3.2 million in 2009, primarily due to a decrease in gaming taxes resulting from lower gaming revenue.

Gaming expense at Hollywood Casino Bay St. Louis decreased by $3.1 million in 2009, primarily due to a decrease in gaming taxes resulting from lower gaming revenue and reduced marketing expenses.

Gaming expense at Hollywood Casino at Penn National Race Course increased by $41.7 million in 2009, primarily due to an increase in gaming taxes resulting from higher gaming revenue and an increase in regulatory fees.

Gaming expense at Hollywood Slots Hotel and Raceway increased by $5.4 million in 2009, primarily due to the continued impact of the opening of the permanent facility on July 1, 2008.

Gaming expense at Argosy Casino Riverside increased by $3.7 million in 2009, primarily due to an increase in gaming taxes resulting from higher gaming revenue due to the repeal of the $500 loss limit in Missouri and an increase in the tax rate on adjusted gross receipts in November 2008.

2008 Compared with 2007

Gaming expense increased by $1.4 million, or 0.1%, to $1,181.9 million in 2008, primarily due to the opening of the casino at Hollywood Casino at Penn National Race Course, the acquisition of Black Gold Casino at Zia Park, and the opening of the permanent facility at Hollywood Slots Hotel and Raceway, all of which were partially offset by decreases at several of our properties.

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

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

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

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

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

Gaming expense at Hollywood Casino Lawrenceburg decreased by $19.5 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue, decrease in the fee paid to the City of Lawrenceburg resulting from lower adjusted gross receipts, and lower payroll costs, all of which were partially offset by an increase in marketing expense.

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

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

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

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

Food, beverage and other expense

2009 Compared to 2008

Food, beverage and other expense increased by $8.7 million, or 3.4%, to $266.4 million in 2009, primarily due to increases at several of our properties, which were partially offset by a decrease at Empress Casino Hotel.

Food, beverage and other expense at Hollywood Casino at Penn National Race Course increased by $4.9 million in 2009, primarily due to the opening of a buffet in October 2008, the opening of a specialty restaurant in December 2008, and the continued impact of the opening of the casino on February 12, 2008.

Food, beverage and other expense at Hollywood Casino Tunica increased by $2.9 million in 2009, primarily due to an increase in the volume of food and beverages resulting from higher food and beverage revenue.

Food, beverage and other expense at Argosy Casino Riverside increased by $1.6 million in 2009, primarily due to increased benefit costs.

Food, beverage and other expense at Boomtown Biloxi increased by $1.5 million in 2009, primarily due to an increase in the volume of food and beverages resulting from higher food and beverage revenue.

Food, beverage and other expense at Hollywood Slots Hotel and Raceway increased by $1.3 million in 2009, primarily due to the continued impact of the opening of the permanent facility on July 1, 2008.

Food, beverage and other expense at Empress Casino Hotel decreased by $3.6 million in 2009, as the property was closed from March 20, 2009 until June 25, 2009 due to a fire.

2008 Compared with 2007

Food, beverage and other expense increased by $16.7 million, or 6.9%, to $257.7 million in 2008, primarily due to the acquisition of Sanford-Orlando Kennel Club, the opening of the permanent facility at Hollywood Slots Hotel and Raceway, the opening of the casino at Hollywood Casino at Penn National Race Course, and the impact of the hotel at Argosy Casino Riverside, all of which were partially offset by a decrease at Hollywood Casino Tunica.

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

Food, beverage and other expense at Hollywood Slots Hotel and Raceway increased by $4.7 million in 2008, primarily due to the opening of the permanent facility on July 1, 2008.

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

Food, beverage and other expense at Argosy Casino Riverside increased by $1.5 million in 2008, primarily due to the impact of its hotel.

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

General and administrative expense

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

human resources, legal and internal audit. General and administrative expense also includes lobbying expenses.

2009 Compared with 2008

General and administrative expense decreased by $12.0 million, or 2.9%, to $403.1 million in 2009, primarily due to decreases in corporate overhead expense and at Empress Casino Hotel, both of which were partially offset by an increase at Hollywood Casino at Penn National Race Course.

Corporate overhead expense decreased by $9.6 million in 2009, primarily due to decreased lobbying expenses, which was partially offset by the expensing of equity-based compensation awards having increased by $1.5 million for the year ended December 31, 2009, primarily due to the timing of the 2008 stock option grant and the extension of the expiration date for previous stock option grants by up to three years in December 2008, increased payroll costs, and increased costs for legal, consulting and other fees related to the pursuit of potential opportunities.

General and administrative expense at Empress Casino Hotel decreased by $4.2 million in 2009, as the property was closed from March 20, 2009 until June 25, 2009 due to a fire.

General and administrative expense at Hollywood Casino at Penn National Race Course increased by $5.0 million in 2009, primarily due to increased payroll costs and an increase in real estate taxes due to the property reassessments that were effective in April 2009.

2008 Compared with 2007

General and administrative expense increased by $45.4 million, or 12.3%, to $415.1 million in 2008, primarily due to an increase in corporate overhead expense and the opening of the casino at Hollywood Casino at Penn National Race Course, both of which were partially offset by a decrease at Argosy Casino Alton.

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

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

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

Impairment losses

2009

In conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg, we recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.9 million ($7.1 million, net of taxes) during the year ended December 31, 2009. In addition, as a result of the anticipated impact of gaming expansion in Ohio, we recorded a pre-tax impairment charge of $520.5 million ($368.8 million, net of taxes) during the year ended December 31, 2009, as we determined that a portion of the value of our goodwill and indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

2008

As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the then-current economic environment, we recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the year ended December 31, 2008, as we

determined that a portion of the value of our goodwill, indefinite-life intangible assets and long-lived assets was impaired. The impairment charge by property was as follows: Hollywood Casino Lawrenceburg, $214.1 million pre-tax ($189.3 million, net of taxes); Hollywood Casino Aurora, $43.7 million pre-tax and net of taxes; Empress Casino Hotel, $94.4 million pre-tax ($60.4 million, net of taxes); Argosy Casino Alton, $14.1 million pre-tax and net of taxes; Bullwhackers, $14.2 million pre-tax ($9.1 million, net of taxes); Hollywood Slots Hotel and Raceway, $82.7 million pre-tax ($64.0 million, net of taxes); and Corporate overhead, $18.1 million pre-tax ($12.0 million, net of taxes).

Empress Casino Hotel fire

As a result of the Empress Casino Hotel fire, during the year ended December 31, 2009, we recorded a $6.1 million pre-tax loss for the insurance deductibles for property damage, business interruption and employee lost wages, as well as a write-off of construction fees related to the renovation that are not recoverable under our insurance policies.

Depreciation and amortization expense

2009 Compared to 2008

Depreciation and amortization expense increased by $20.9 million, or 12.0%, to $194.4 million in 2009, primarily due to increases at Hollywood Casino at Penn National Race Course, Hollywood Casino Lawrenceburg, and Hollywood Slots Hotel and Raceway, all of which were partially offset by decreases at Argosy Casino Riverside, Empress Casino Hotel, and corporate overhead.

Depreciation and amortization expense at Hollywood Casino at Penn National Race Course increased by $13.3 million in 2009, primarily due to incremental depreciation expense being recorded during the year ended December 31, 2009 and the continued impact of the opening of the casino on February 12, 2008.

Depreciation and amortization expense at Hollywood Casino Lawrenceburg increased by $9.9 million in 2009, primarily due to the opening of the new casino riverboat in late June 2009.

Depreciation and amortization expense at Hollywood Slots Hotel and Raceway increased by $5.9 million in 2009, primarily due to the continued impact of the opening of the permanent facility on July 1, 2008.

Depreciation and amortization expense at Argosy Casino Riverside decreased by $3.2 million in 2009, primarily due to a large volume of equipment related to the casino expansion completed in December 2003 now being fully depreciated.

Depreciation and amortization expense at Empress Casino Hotel decreased by $2.8 million in 2009, as the property was closed from March 20, 2009 until June 25, 2009 due to a fire.

Depreciation and amortization expense for corporate overhead decreased by $0.9 million in 2009, primarily due to certain intangible assets now being fully amortized.

2008 Compared with 2007

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

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

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

Other income (expenses)

Other income (expenses) for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

Year ended December 31,	2009	2008	Variance	Percentage Variance
Interest expense	$ (134,984)	$ (169,827)	$ 34,843	20.5%
Interest income	6,522	8,362	(1,840)	(22.0)%
Loss from joint venture	(1,121)	(1,526)	405	26.5%
Merger termination settlement fees, net of related expenses	—	195,426	(195,426)	(100.0)%
Loss on early extinguishment of debt	(4,793)	—	(4,793)	(100.0)%
Other	1,093	6,421	(5,328)	(83.0)%
Total other (expenses) income	$ (133,283)	$ 38,856	$ (172,139)	(443.0)%

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

Interest expense

Interest expense decreased by $34.8 million, or 20.5%, to $135.0 million in 2009, primarily due to lower outstanding balances and lower interest rates on our senior secured credit facility, which was partially offset by increased interest expense resulting from interest rate swaps due to the drop in variable rates, lower capitalized interest during the year ended December 31, 2009 and incremental interest expense due to the issuance of the $325 million 8 3/4 % senior subordinated notes in August 2009.

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

Interest income

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

Merger termination settlement fees, net of related expenses

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

Loss on early extinguishment of debt

We recorded a $4.8 million loss on early extinguishment of debt during the year ended December 31, 2009, as a result of the repayment of all outstanding borrowings under the Term Loan A

Facility of the senior secured credit facility and the redemption of our $200 million 6⁷/₈% senior subordinated notes. As a result of these payments, we recorded a loss on early extinguishment of debt of $4.8 million for the write-off of deferred financing fees related to the Term Loan A Facility and the $200 million 6⁷ / ₈ % senior subordinated notes.

Other

Other decreased by $5.3 million, or 83.0%, to $1.1 million in 2009, primarily due to foreign currency translation losses that were recorded during the year ended December 31, 2009, which was partially offset by the gain on the sale of the investment in corporate debt securities.

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

Taxes

The decrease in our effective tax rate (income taxes as a percentage of income from operations before taxes) to 18.4% for the year ended December 31, 2009, as compared to 222.2% for the year ended December 31, 2008, is primarily as a result of lower earnings, a change in the geographic mix of earnings and benefits related to favorable resolutions of certain tax settlements, all of which were partially offset by an increase in the rate due to the non-deductible portion of our goodwill impairment charges.

The increase in our effective tax rate to 222.2% for the year ended December 31, 2008, as compared to 45.2% for the year ended December 31, 2007, is primarily a result of the nondeductible portion of the impairment loss related to goodwill and nondeductible lobbying expenses.

Our effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and the level of our tax credits. Certain of these and other factors, including our history of pre-tax earnings, are taken into account in assessing our ability to realize our net deferred tax assets. We expect our effective tax rate to normalize for the year ending December 31, 2010.

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 $338.2 million, $420.5 million and $431.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. Net cash provided by operating activities for the year ended December 31, 2009 included non-cash reconciling items, such as depreciation, amortization, the charge for stock compensation, the loss relating to the early extinguishment of debt, the Empress Casino Hotel fire insurance loss, the gain on sale of investment in corporate debt securities, and impairment losses, of $623.0 million, partially offset by net loss including noncontrolling interests of $267.4 million and net changes in asset and liability accounts of $17.4 million.

Net cash used in investing activities totaled $262.7 million, $391.5 million and $611.6 million for the years ended December 31, 2009, 2008 and 2007, respectively. Net cash used in investing activities for the year ended December 31, 2009 included expenditures for property and equipment and license fees totaling $289.6 million and $9.0 million, respectively, investment in Kansas Entertainment of $12.9 million, increase in cash in escrow of $25.0 million, all of which were partially offset by proceeds from the sale of property and equipment, the sale of investment in corporate debt securities and insurance proceeds received as a result of the Empress Casino Hotel fire totaling $2.6 million, $50.6 million and $20.6 million, respectively.

Net cash (used in) provided by financing activities totaled ($108.8) million, $542.9 million and $186.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. Net cash used in financing activities for the year ended December 31, 2009 included principal payments on long-term debt and payments on insurance financing totaling $879.2 million and $16.8 million, respectively, and an increase in deferred financing fees of $22.9 million. All of these were partially offset by proceeds from the exercise of stock options totaling $5.4 million, the tax benefit from stock options exercised totaling $2.4 million, contributions from noncontrolling interests of $1.9 million, and proceeds from the issuance of long-term debt and insurance financing of $784.9 million and $15.5 million, respectively.

On July 3, 2008, we entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we agreed to receive a total of $1.475 billion, consisting of the Cash Termination Fee and the Investment. On October 30, 2008, we closed the sale of the Investment and issued 12,500 shares of our Preferred Stock.

We used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of our existing debt, repurchases of our Common Stock, lobbying expenses for efforts in Ohio and investment in corporate debt securities, with the remainder being invested primarily in short-term securities. The repurchase of up to $200 million of our Common Stock over the twenty-four month period ending July 2010 was authorized by our Board of Directors in July 2008. During the year ended December 31, 2009, we did not repurchase any shares of our Common Stock. During the year ended December 31, 2008, we repurchased 8,934,984 shares of our Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

Capital Expenditures

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

The following table summarizes our capital project expenditures by property for the year ended December 31, 2009:

Property	Actual(1) (in millions)	
Hollywood Casino Lawrenceburg	$	124.6
Empress Casino Hotel		50.8
Hollywood Casino Perryville		19.2
Hollywood Casino at Penn National Race Course		4.7
Hollywood Casino Toledo		2.5
Hollywood Slots Hotel and Raceway		0.6
Other		6.6
Total	$	209.0

(1)

Excludes licensing fees

The Hollywood-themed expansion at Lawrenceburg includes the addition of 1,500 parking spaces and 1,168 gaming positions, as well as enhanced amenities and a floor layout that will better facilitate customer flow. The garage and pedestrian walkway opened in May 2008 and the gaming facility opened in June 2009. Meeting space for Hollywood Casino Lawrenceburg partially opened in December 2009 and will be completed in the first quarter of 2010, a new steakhouse/lounge is scheduled for completion

in the second quarter of 2010, and a new mid-priced restaurant is scheduled for completion in the third quarter of 2010.

At Empress Casino Hotel, we started the facility enhancements in late 2008. On March 20, 2009, Empress Casino Hotel, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and we began construction of a new land-based pavilion. Construction on a new 1,100 space parking garage was completed in the first quarter of 2010. The permanent land-based pavilion is expected to be completed by the fourth quarter of 2010 and upgrades to the gaming vessel and other areas are expected to be completed by the first quarter of 2011.

In Cecil County, Maryland, following our selection by the Maryland Video Lottery Facility Location Commission to develop and manage a video lottery terminal facility, we exercised our option and completed the purchase of approximately 36 acres of land located in Perryville, Maryland, and commenced construction of a $97.5 million Hollywood-themed facility, inclusive of licensing fees of $9.0 million. The new facility will feature 75,000 square feet of gaming space, 1,500 video lottery terminals, food and beverage offerings, and parking for over 1,600 vehicles. The facility is expected to open to the public in late 2010.

In January 2010, the Pennsylvania legislature passed legislation permitting table games for gaming licensees. We intend to install table games at Hollywood Casino at Penn National Race Course in two phases. Phase I includes the addition of an estimated 40 table games and 12 poker tables within the existing facility, and is expected to be completed in the fourth quarter of 2010.

In November 2009, the "Ohio Jobs and Growth Plan," a casino ballot proposal calling for an amendment to Ohio's Constitution to authorize casinos in the state's four largest cities, Cincinnati, Cleveland, Columbus and Toledo, was approved. Plans are currently being developed for a $300 million Hollywood-themed casino in Toledo, Ohio, inclusive of $50 million in licensing fees, and a $400 million Hollywood-themed casino in Columbus, Ohio, inclusive of $50 million in licensing fees. Hollywood Casino Toledo is expected to feature a 125,000 square foot casino, up to 3,000 slot machines, 80 table games and 20 poker tables, a 2,500 parking space garage, as well as food and beverage outlets and an entertainment lounge. Hollywood Casino Columbus is expected to feature a 180,000 square foot casino, up to 4,000 slot machines, 100 table games and 25 poker tables, a 4,000 parking space garage, as well as food and beverage outlets and an entertainment lounge. Hollywood Casino Toledo and Hollywood Casino Columbus are estimated to be completed in the second half of 2012.

In February 2010, Kansas Entertainment received the final approval under the Kansas Expanded Lottery Act, along with its gaming license from the Kansas Racing and Gaming Commission, to proceed with the development of a Hollywood-themed destination facility overlooking Turn 2 at Kansas Speedway. In December 2009, Kansas Entertainment was selected by the Kansas Lottery Gaming Facility Review Board to develop and operate a facility in the North East Gaming Zone in Wyandotte County, Kansas. Kansas Entertainment will begin construction of the facility in the second half of 2010 with a planned opening in early 2012. The $410 million Hollywood-themed destination facility, inclusive of licensing fees, is expected to feature a 100,000 square foot casino with capacity for 2,300 slot machines, 61 table games and 25 poker tables, a 1,500 parking structure, as well as a variety of dining and entertainment amenities. We and International Speedway Corporation will share equally the cost of developing and constructing the proposed facility. We estimate that our share of the project will be approximately $155 million.

In December 2009, we announced that we intend to install table games at Charles Town Entertainment Complex following voter approval of table games in the December 5, 2009 special election. Plans currently include the estimated addition of 85 table games and 27 poker tables, a high-end steakhouse/lounge, and a Hollywood on the Roof entertainment lounge. The table games, poker tables and the entertainment lounge are expected to be completed in the third quarter of 2010, and the high-end steakhouse/lounge is expected to be completed in the fourth quarter of 2010.

During the year ended December 31, 2009, we spent approximately $80.6 million for capital maintenance expenditures at our properties. The majority of the capital maintenance expenditures were for slot machines and slot machine equipment.

Cash generated from operations and cash available under the revolver portion of our senior secured credit facility have funded our capital project and capital maintenance expenditures in 2009.

The following table summarizes our expected capital project expenditures by property for the year ended December 31, 2010, as well as the projects in their entirety (including licensing fees):

Property	Project Total for 2010	Our Share of Project Total for 2010	Project Total	Our Share of Project Total
		(in millions)		
Hollywood Casino Lawrenceburg	$ 12.3	$ 12.3	$ 13.5	$ 13.5
Empress Casino Hotel(1)	63.3	63.3	81.0	81.0
Charles Town Entertainment Complex	38.6	38.6	40.0	40.0
Hollywood Casino at Penn National Race Course	24.7	24.7	25.0	25.0
Hollywood Casino Perryville	67.2	67.2	98.0	98.0
Hollywood Casino Columbus	105.0	94.5	400.0	360.0
Hollywood Casino Toledo	80.0	72.0	300.0	270.0
Wyandotte County, Kansas	50.0	25.0	410.0	155.0
Other	17.2	17.2	26.3	26.3
Total	$ 458.3	$ 414.8	$ 1,393.8	$ 1,068.8

(1)

Net of amounts received from insurance proceeds.

Debt

Senior Secured Credit Facility

The senior secured credit facility historically consisted of three credit facilities comprised of a $750 million revolving credit facility with a maturity date of October 3, 2010, a $325 million Term Loan A Facility with a maturity date of October 3, 2011 and a $1.65 billion Term Loan B Facility with a maturity date of October 3, 2012. In September 2009, we amended our senior secured credit facility, in order to increase the borrowing capacity and to extend the term under the revolving credit facility portion of the senior secured credit facility. Under the new revolving credit facility, two tranches were created, one for those participants who agreed to extend and one for those that did not extend. Tranche A Revolving Loans consist of available borrowings of $359.4 million, which are due on the original maturity date of October 3, 2010, and Tranche B Revolving Loans consist of available borrowings of $640.6 million, which are due on July 3, 2012, for a total borrowing capacity of $1 billion.

In August 2009, we repaid $40 million of borrowings under the Term Loan A Facility, $70 million of borrowings under the Term Loan B Facility, and all outstanding borrowings under the revolving credit facility at the time, using a portion of the proceeds from the offering of $325 million 8 3/4 % senior subordinated notes. In addition, in September 2009, we repaid all of the remaining outstanding borrowings under the Term Loan A Facility, using drawings under the new revolving credit facility.

As of December 31, 2009, $237.5 million was drawn under the revolving credit facility and $1,518.1 million was outstanding under the Term Loan B Facility, for a total of $1,755.6 million. As of December 31, 2008, $123.7 million was drawn under the revolving credit facility, $239.7 million was outstanding under the Term Loan A Facility, and $1,596.4 million was outstanding under the Term Loan B Facility, for a total of $1,959.8 million.

We recorded a $2.4 million loss on early extinguishment of debt during the year ended December 31, 2009 for the write-off of deferred financing fees related to the Term Loan A Facility.

During the year ended December 31, 2009, our senior secured credit facility amount outstanding decreased by $204.2 million, primarily due to the August 2009 repayment of $40 million of borrowings under the Term Loan A Facility, $70 million of borrowings under the Term Loan B Facility, and all outstanding borrowings under the revolving credit facility at the time, using a portion of the proceeds from the offering of $325 million 8 3/4 % senior subordinated notes. These repayments were partially offset by drawings under the revolving credit facility, primarily to repay $105.5 million outstanding aggregate principal amount of the 6 7/8 % senior subordinated notes.

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

Redemption of 6 7/8% Senior Subordinated Notes

In August 2009, we called for the redemption of our $200 million 6 7/8% senior subordinated notes. The redemption price was $1,000 per $1,000 principal amount, plus accrued and unpaid interest, which was paid in September 2009. Approximately $94.5 million aggregate principal amount of the 6 7/8 % senior subordinated notes were validly tendered and paid. In October 2009, we called for the redemption of all of the $105.5 million outstanding aggregate principal amount of our 6 7/8 % senior subordinated notes. The redemption price was $1,000 per $1,000 principal amount, plus accrued and unpaid interest. In December 2009, we repaid all of the $105.5 million outstanding aggregate principal amount of our 6 7/8 % senior subordinated notes. We funded the $94.5 million redemption from a portion of the proceeds from the offering of $325 million 8 3/4 % senior subordinated notes and available cash and funded the $105.5 million redemption using drawings under the revolving credit facility.

We recorded a $2.4 million loss on early extinguishment of debt during the year ended December 31, 2009 for the write-off of the deferred financing fees related to the $200 million 6 7/8 % senior subordinated notes.

6 3/4% Senior Subordinated Notes

On March 9, 2005, we completed an offering of $250 million 6 3/4% senior subordinated notes that mature on March 1, 2015. Interest on the $250 million 6 3/4 % senior subordinated notes is payable on March 1 and September 1 of each year, beginning September 1, 2005. The $250 million 6 3/4 % senior subordinated notes are general unsecured obligations and are not guaranteed by our subsidiaries. The $250 million 6 3/4 % senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended. Effective March 2010, we may redeem all or part of the $250 million 6 3/4 % senior subordinated notes at certain specified redemption prices.

8 3/4% Senior Subordinated Notes

In August 2009, we completed an offering of $325 million 8 3/4% senior subordinated notes that mature on August 15, 2019. Interest on the $325 million 8 3/4 % senior subordinated notes is payable on February 15 and August 15 of each year, beginning February 15, 2010. The $325 million 8 3/4 % senior subordinated notes are general unsecured obligations and are not guaranteed by our subsidiaries. The $325 million 8 3/4 % senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended.

A portion of the proceeds from the offering were used to repay $40 million of borrowings under the Term Loan A Facility, $70 million of borrowings under the Term Loan B Facility, and all outstanding borrowings under the revolving credit facility at the time. The remainder of the proceeds, plus available cash, was used to pay the validly-tendered principal amounts of the $200 million 6 7/8 % senior subordinated notes.

Other Long-Term Obligations

On October 15, 2004, we announced the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTWs located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, we received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, we entered into the Second Amendment to the Purchase Agreement and Release of Claims with the MTGA pertaining to the October 14, 2004 Purchase Agreement (the "Purchase Agreement"), and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against us under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. We recorded the present value of the $30 million liability within debt, as the amount due to the MTGA was payable over five years. In March 2009, we entered into the Third Amendment to the Purchase Agreement, in which the remaining payments due under the Purchase Agreement were accelerated and reduced. Under the Third Amendment to the Purchase Agreement, in exchange for the accelerated payment, which was paid to the MTGA in March 2009, all remaining obligations under the Purchase Agreement were deemed to be satisfied and, as result, we recorded a $1.3 million gain during the year ended December 31, 2009, which is included in other income within the consolidated statements of operations.

Covenants

Our senior secured credit facility, $325 million 8¾% and $250 million 6¾% senior subordinated notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, our senior secured credit facility, $325 million 8 3/4 % and $250 million 6 3/4 % senior subordinated notes restrict, among other things, our ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

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

At December 31, 2009, we were in compliance with all required financial covenants.

Outlook

Based on our current level of operations, and anticipated revenue growth, we believe that cash generated from operations and from the Investment, together with amounts available under our senior secured credit facility, will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated revenue growth will be realized, or that future borrowings will be available under our senior secured credit facility or otherwise will be available to enable us to service our indebtedness, including the senior secured credit facility and the senior subordinated notes, to retire or redeem the senior subordinated notes when

required or to make anticipated capital expenditures. In addition, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable valuations, greenfield projects, jurisdictional expansions and property expansion in under-penetrated markets. If we consummate significant acquisitions in the future or undertake any significant property expansions, our cash requirements may increase significantly and we may need to make additional borrowings or complete equity or debt financings to meet these requirements. We may need to refinance all or a portion of our debt on or before maturity. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. See "Risk Factors—Risks Related to Our Capital Structure" of this Annual Report on Form 10-K for a discussion of the risk related to our capital structure.

Commitments and Contingencies

Contractual Cash Obligations

At December 31, 2009, there was $237.5 million indebtedness outstanding under the revolving credit portion of our senior secured credit facility and approximately $734.7 million available for borrowing. The following table presents our contractual cash obligations at December 31, 2009:

	Payments Due By Period				
	Total	2010	2011 - 2012	2013 - 2014	2015 and After
			(in thousands)		
Senior secured credit facility					
Principal	$ 1,755,602	$ 85,019	$ 1,670,583	$ —	$ —
Interest	183,709	85,248	98,461	—	—
6¾% senior subordinated notes					
Principal	250,000	—	—	—	250,000
Interest	92,813	16,875	33,750	33,750	8,438
8¾% senior subordinated notes					
Principal	325,000	—	—	—	325,000
Interest	284,454	28,516	56,875	56,875	142,188
Purchase obligations	25,957	17,807	4,294	2,595	1,261
Capital expenditure commitments	53,102	53,102	—	—	—
Capital leases	4,175	1,052	1,203	171	1,749
Operating leases	63,948	7,006	12,152	8,462	36,328
Other liabilities reflected in the Company's consolidated balance sheets(1)	12,904	12,904	—	—	—
Total	$ 3,051,664	$ 307,529	$ 1,877,318	$ 101,853	$ 764,964

(1)

Does not include any liability for unrecognized tax benefits, as the Company cannot make a reasonably reliable estimate of the period of cash settlement with the respective taxing authority.

Other Commercial Commitments

The following table presents our material commercial commitments as of December 31, 2009 for the following future periods:

	Total Amounts Committed	2010	2011–2012	2013–2014	2015 and After
			(in thousands)		
Letters of Credit(1)	$ 27,865	$ 27,865	$ —	$ —	$ —
Guarantees of New Jersey Joint Venture Obligations(2)	4,365	1,000	2,000	1,365	—
Total	$ 32,230	$ 28,865	$ 2,000	$ 1,365	$ —

(1)

The available balance under the revolving credit portion of our senior secured credit facility is diminished by outstanding letters of credit.

(2)
In connection with our 50% ownership interest in Pennwood Racing, Inc. ("Pennwood"), our joint venture in New Jersey, we entered into a debt service maintenance agreement with Pennwood's lender to guarantee up to 50% of Pennwood's $8.7 million term loan. Our obligation at December 31, 2009 under this guarantee was approximately $4.4 million.

Interest Rate Swap Agreements

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

New Accounting Pronouncements

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance provides amendments to require new disclosures regarding transfers in and out of Levels 1 and 2 of the fair value measurement hierarchy, and activity in Level 3, and to clarify existing disclosures regarding the level of disaggregation, inputs and valuation techniques. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the guidance, except for the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, as of January 1, 2010, as required. We do not expect that the January 1, 2010 adoption of the guidance will have a material impact on our consolidated financial statements. We are currently determining the impact of the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements on our consolidated financial statements.

In January 2010, the FASB issued guidance to address implementation issues related to the changes in ownership provisions in ASC 810, "Consolidation," ("ASC 810"). The guidance clarifies the scope of the decrease in ownership provisions in ASC 810 and expands the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of ASC 810. As we previously adopted ASC 810, the guidance is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009, and should be applied retrospectively to the first period that ASC 810 was adopted by us. We adopted the guidance as of December 31, 2009, as required. This guidance did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued guidance concerning fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent). The guidance creates a practical expedient to measure the fair value of an investment that is within the scope of the guidance on the basis of the net asset value per share of the investment (or its equivalent) determined as of the reporting entity's measurement date. Therefore, the guidance allows certain attributes of the

investment, which in the past may have indicated that it was necessary to make adjustments to the net asset value per share (or its equivalent) to estimate the fair value of the investment, to not be considered if the practical expedient is used. Additional disclosures are also required under the guidance. The guidance is effective for interim and annual periods ending after December 15, 2009, with early application permitted. We adopted the guidance as of December 31, 2009, as required. This guidance did not have a material impact on our consolidated financial statements.

In August 2009, the FASB issued guidance on the measurement of liabilities at fair value. The guidance provides clarification in measuring the fair value of liabilities. The guidance is effective for the first reporting period (including interim periods) beginning after issuance. We adopted the guidance as of October 1, 2009, as required. This guidance did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued the ASC. The ASC became the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP"). The ASC eliminates the previous United States GAAP hierarchy and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. The ASC is effective for most financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the ASC as of September 30, 2009, as required. The adoption of the ASC did not have an impact on our consolidated financial statements.

In June 2009, the FASB issued amended guidance for variable interest entities. The objective of the amended guidance is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amended guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. We adopted the amended guidance as of January 1, 2010, as required. We do not expect that the adoption of the amended guidance will have a material impact on our consolidated financial statements.

In May 2009, the FASB issued guidance on subsequent events. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, under the guidance, an entity is required to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. The guidance is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. We adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on our consolidated financial statements. In February 2010, the FASB issued amended guidance on subsequent events. The amended guidance removes the requirement for United States Securities and Exchange Commission filers to disclose the date through which subsequent events have been evaluated. The amended guidance is effective upon issuance, except for the use of the issued date for conduit debt obligors. We adopted the amended guidance upon issuance, as required. The adoption of the amended guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued additional requirements regarding disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The new requirements are effective for interim reporting periods ending after June 15, 2009. We adopted the additional requirements as of June 30, 2009, as required. The adoption of the new requirements did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued guidance on the recognition and presentation of other-than-temporary impairments. The guidance amends the other-than-temporary impairment

guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The guidance is effective for interim and annual reporting periods ending after June 15, 2009. We adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and on identifying transactions that are not orderly. The guidance is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. We adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued guidance regarding the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. The guidance addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The guidance is effective for all assets acquired or liabilities assumed arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted the guidance as of January 1, 2009, as required. We expect that the adoption of the guidance will have an impact on our consolidated financial statements, in the event that we acquire companies in the future.

In April 2008, the FASB issued guidance regarding the determination of the useful life of intangible assets. The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. We adopted the guidance as of January 1, 2009, as required. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued guidance regarding the disclosure of derivative instruments and hedging activities. The guidance requires enhanced disclosures about an entity's derivative and hedging activities. Specifically, entities are required to provide enhanced disclosures about: a) how and why an entity uses derivative instruments; b) how derivative instruments and related hedged items are accounted; and c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The guidance encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We adopted the guidance as of January 1, 2009, as required. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued amended guidance on business combinations. The intention of the amended guidance is to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. The amended guidance requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, the amended guidance modifies the accounting for transaction and restructuring costs. The amended guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted the amended guidance as of January 1, 2009, as required. We expect

that the adoption of the amended guidance will have an impact on our consolidated financial statements, in the event that we acquire companies in the future.

In September 2006, the FASB issued guidance on fair value measurements. The guidance defines fair value, establishes a framework for measuring fair value, and expands the disclosure requirements about fair value measurements. In February 2008, the FASB amended the guidance so as to exclude from its scope certain accounting pronouncements that address fair value measurements associated with leases and to delay the effective date of the guidance to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In October 2008, the FASB issued additional guidance that provides clarification on the application of the guidance on fair value measurements in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. We adopted the guidance on fair value measurements, as amended, and on a prospective basis, as of January 1, 2008. The January 1, 2008 adoption did not have a material impact on our consolidated financial statements. We adopted the guidance on fair value measurements, as amended, and on a prospective basis, as of January 1, 2009 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The January 1, 2009 adoption did not have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information at December 31, 2009 about our financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents notional amounts maturing during the year and the related weighted-average interest rates at year-end. For interest rate swaps, the table presents notional amounts and weighted-average interest rates outstanding at each year-end. Notional amounts are used to calculate the contractual payments to be exchanged under the contract and the weighted-average variable rates are based on implied forward rates in the yield curve at December 31, 2009.

	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value 12/31/09
				(in thousands)				
Long-term debt:								
Fixed rate	$ —	$ —	$ —	$ —	$ —	$ 575,000	$ 575,000	$ 572,375
Average interest rate	—	—	—	—	—	7.88%		
Variable rate	$ 85,019	$ 354,875	$ 1,315,708	$ —	$ —	$ —	$ 1,755,602	$ 1,755,602
Average interest rate(1)	3.25%	4.58%	5.09%	—	—	—		
Leases	$ 1,052	$ 1,126	$ 77	$ 82	$ 89	$ 1,749	$ 4,175	$ 4,175
Average interest rate	5.68%	5.67%	7.72%	7.72%	7.72%	7.72%		
Interest rate derivatives:								
Interest rate swaps								
Variable to fixed(2)	$ 1,240,000	$ —	$ —	$ —	$ —	$ —	N/A	$ (43,925)
Average pay rate	2.58%						N/A	
Average receive rate(3)	2.00%						N/A	

(1)

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

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

(3)
Estimated rate, reflective of forward LIBOR.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Penn National Gaming, Inc. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Penn National Gaming, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 26, 2010

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

	December 31,	
	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 713,118	$ 746,278
Receivables, net of allowance for doubtful accounts of $3,548 and $3,797 at December 31, 2009 and 2008, respectively	46,672	43,574
Insurance receivable	33,494	—
Prepaid expenses and other current assets	121,545	95,386
Deferred income taxes	23,619	21,065
Total current assets	938,448	906,303
Property and equipment, net	1,837,504	1,812,131
Other assets		
Investment in and advances to unconsolidated affiliates	26,305	14,419
Goodwill	1,379,961	1,598,571
Other intangible assets	376,954	693,764
Deferred financing fees, net of accumulated amortization of $39,703 and $38,914 at December 31, 2009 and 2008, respectively	40,889	34,910
Other assets	112,555	129,578
Total other assets	1,936,664	2,471,242
Total assets	$ 4,712,616	$ 5,189,676
Liabilities		
Current liabilities		
Current maturities of long-term debt	$ 86,071	$ 105,281
Accounts payable	19,850	35,540
Accrued expenses	110,108	106,769
Accrued interest	61,786	80,190
Accrued salaries and wages	65,608	55,380
Gaming, pari-mutuel, property, and other taxes	38,943	44,503
Insurance financing	6,752	8,093
Other current liabilities	41,138	34,730
Total current liabilities	430,256	470,486
Long-term liabilities		
Long-term debt, net of current maturities	2,248,706	2,324,899
Deferred income taxes	127,107	265,610
Noncurrent tax liabilities	46,702	68,632
Other noncurrent liabilities	7,769	2,776
Total long-term liabilities	2,430,284	2,661,917
Shareholders' equity		
Penn National Gaming, Inc. and subsidiaries shareholders' equity:		
Preferred stock ($.01 par value, 1,000,000 shares authorized, 12,500 issued and outstanding at December 31, 2009 and 2008)	—	—

Common stock ($.01 par value, 200,000,000 shares authorized, 78,972,256 and 78,148,488 shares issued at December 31, 2009 and 2008, respectively)	786	782
Additional paid-in capital	1,480,476	1,442,829
Retained earnings	397,407	662,355
Accumulated other comprehensive loss	(26,028)	(48,693)
Total Penn National Gaming, Inc. and subsidiaries shareholders' equity	1,852,641	2,057,273
Noncontrolling interests	(565)	—
Total shareholders' equity	1,852,076	2,057,273
Total liabilities and shareholders' equity	$ 4,712,616	$ 5,189,676

See accompanying notes to the consolidated financial statements.

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

Year ended December 31,	2009	2008	2007
Revenues			
Gaming	$ 2,158,028	$ 2,206,500	$ 2,227,944
Management service fee	14,787	16,725	17,273
Food, beverage and other	339,235	334,206	320,520
Gross revenues	2,512,050	2,557,431	2,565,737
Less promotional allowances	(142,775)	(134,378)	(128,944)
Net revenues	2,369,275	2,423,053	2,436,793
Operating expenses			
Gaming	1,161,510	1,181,870	1,180,437
Food, beverage and other	266,351	257,653	240,912
General and administrative	403,136	415,093	369,720
Impairment losses	532,377	481,333	—
Empress Casino Hotel fire	6,063	—	—
Depreciation and amortization	194,436	173,545	147,915
Total operating expenses	2,563,873	2,509,494	1,938,984
(Loss) income from operations	(194,598)	(86,441)	497,809
Other income (expenses)			
Interest expense	(134,984)	(169,827)	(198,059)
Interest income	6,522	8,362	4,016
Loss from joint venture	(1,121)	(1,526)	(99)
Merger termination settlement fees, net of related expenses	—	195,426	—
Loss on early extinguishment of debt	(4,793)	—	—
Other	1,093	6,421	(11,427)
Total other (expenses) income	(133,283)	38,856	(205,569)
(Loss) income from operations before income taxes	(327,881)	(47,585)	292,240
Taxes on income	(60,468)	105,738	132,187
Net (loss) income including noncontrolling interests	(267,413)	(153,323)	160,053
Less: Net loss attributable to noncontrolling interests	(2,465)	—	—
Net (loss) income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	$ (264,948)	$ (153,323)	$ 160,053
(Loss) earnings per common share attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries:			
Basic (loss) earnings per common share	$ (3.39)	$ (1.81)	$ 1.87
Diluted (loss) earnings per common share	$ (3.39)	$ (1.81)	$ 1.81

See accompanying notes to the consolidated financial statements.

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

	Penn National Gaming Inc. shareholders										
	Preferred Stock		Common Stock								
	Shares	Amount	Shares	Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Shareholders' Equity	Comprehensive (Loss) Income
Balance, December 31, 2006	—	$ —	86,814,999	$ 868	$ (2,379)	$ 251,943	$ 667,557	$ 3,174	$ —	$ 921,163	
Stock option activity, including tax benefit of $20,460	—	—	1,824,071	19	—	68,851	—	—	—	68,870	$ —
Restricted stock	—	—	(60,000)	—	—	1,966	—	—	—	1,966	—
Change in fair value of interest rate swap contracts, net of income taxes of $11,203	—	—	—	—	—	—	—	(19,728)	—	(19,728)	(19,728)
Foreign currency translation adjustment	—	—	—	—	—	—	—	570	—	570	570
Cumulative effect of adoption of ASC 740	—	—	—	—	—	—	(11,932)	—	—	(11,932)	—
Net income	—	—	—	—	—	—	160,053	—	—	160,053	160,053
Balance, December 31, 2007	—	—	88,579,070	887	(2,379)	322,760	815,678	(15,984)	—	1,120,962	140,895
Issuance of Preferred Stock	12,500	—	—	—	—	1,246,400	—	—	—	1,246,400	—
Stock option activity, including tax benefit of $1,060	—	—	203,202	2	—	26,305	—	—	—	26,307	—
Share activity	—	—	(10,633,784)	(107)	2,379	(154,633)	—	—	—	(152,361)	—
Restricted stock	—	—	—	—	—	1,997	—	—	—	1,997	—
Change in fair value of interest rate swap contracts, net of income taxes of $13,072	—	—	—	—	—	—	—	(23,216)	—	(23,216)	(23,216)
Change in fair value of corporate debt securities	—	—	—	—	—	—	—	(8,008)	—	(8,008)	(8,008)
Foreign currency translation adjustment	—	—	—	—	—	—	—	(1,485)	—	(1,485)	(1,485)
Net loss	—	—	—	—	—	—	(153,323)	—	—	(153,323)	(153,323)
Balance, December 31, 2008	12,500	—	78,148,488	782	—	1,442,829	662,355	(48,693)	—	2,057,273	(186,032)
Stock option activity, including tax benefit of $2,388	—	—	491,078	4	—	35,173	—	—	—	35,177	—
Restricted stock	—	—	332,690	—	—	2,474	—	—	—	2,474	—
Change in fair value of interest rate swap contracts, net of income taxes of $8,150	—	—	—	—	—	—	—	14,586	—	14,586	14,586
Change in fair value of corporate debt securities	—	—	—	—	—	—	—	6,843	—	6,843	6,843
Foreign currency translation adjustment	—	—	—	—	—	—	—	1,236	—	1,236	1,236
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	1,900	1,900	—
Net loss	—	—	—	—	—	—	(264,948)	—	(2,465)	(267,413)	(267,413)
Balance, December 31, 2009	12,500	$ —	78,972,256	$ 786	$ —	$ 1,480,476	$ 397,407	$ (26,028)	$ (565)	$ 1,852,076	$ (244,748)

See accompanying notes to the consolidated financial statements.

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

Year ended December 31,	2009	2008	2007
Operating activities			
Net (loss) income including noncontrolling interests	$ (267,413)	$ (153,323)	$ 160,053
Adjustments to reconcile net (loss) income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	194,436	173,545	147,915
Amortization of items charged to interest expense	12,255	12,625	13,011
Amortization of items charged to interest income	(1,522)	(912)	—
Loss on sale of fixed assets	332	1,610	1,637
Loss from joint venture	1,121	1,526	99
Loss on early extinguishment of debt	4,793	—	—
Empress Casino Hotel fire	5,186	—	—
Gain on accelerated payment of other long-term obligations	(1,305)	—	—
Gain on sale of investment in corporate debt securities	(6,598)	—	—
Deferred income taxes	(146,408)	(91,098)	18,265
Charge for stock compensation	28,360	26,857	25,465
Impairment losses	532,377	481,333	—
(Increase) decrease, net of businesses acquired			
Accounts receivable	(16,091)	12,853	(2,168)
Insurance receivable	—	—	100,000
Prepaid expenses and other current assets	(13,160)	(27,722)	924
Other assets	(8,138)	25,747	(7,159)
(Decrease) increase, net of businesses acquired			
Accounts payable	(5,292)	(350)	(22,234)
Accrued expenses	4,837	(12,045)	(12,436)
Accrued interest	4,332	(12,729)	(1,594)
Accrued salaries and wages	10,228	1,231	(6,003)
Gaming, pari-mutuel, property and other taxes	(5,560)	882	(4,629)
Income taxes	—	(6,794)	(3,584)
Other current and noncurrent liabilities	11,401	1,014	9,470
Other noncurrent tax liabilities	75	(13,787)	14,187
Net cash provided by operating activities	338,246	420,463	431,219
Investing activities			
Expenditures for property and equipment	(289,551)	(344,894)	(361,155)
Proceeds from sale of property and equipment	2,628	1,066	15,020
Investment in corporate debt securities	—	(47,286)	—
Proceeds from sale of investment in corporate debt securities	50,602	—	—
Proceeds from Empress Casino Hotel fire	20,593	—	—
Investment in Kansas Entertainment	(12,895)	—	—
Increase in cash in escrow	(25,036)	—	—
Acquisition of businesses and licenses, net of cash acquired	(9,000)	(384)	(265,482)
Net cash used in investing activities	(262,659)	(391,498)	(611,617)
Financing activities			
Proceeds from exercise of options	5,431	2,397	24,911
Repurchases of common stock	—	(152,361)	—
Proceeds from issuance of long-term debt	784,929	447,833	426,065
Principal payments on long-term debt	(879,193)	(993,966)	(282,360)
Proceeds from issuance of preferred stock, net of related expenses	—	1,246,400	—
Proceeds from insurance financing	15,454	22,255	29,009
Payments on insurance financing	(16,795)	(30,677)	(31,830)

Contributions from noncontrolling interests	1,900	—	—
Increase in deferred financing fees	(22,861)	—	—
Tax benefit from stock options exercised	2,388	1,060	20,460
Net cash (used in) provided by financing activities	(108,747)	542,941	186,255
Net (decrease) increase in cash and cash equivalents	(33,160)	571,906	5,857
Cash and cash equivalents at beginning of year	746,278	174,372	168,515
Cash and cash equivalents at end of year	$ 713,118	$ 746,278	$ 174,372
Supplemental disclosure			
Interest expense paid	$ 124,992	$ 183,264	$ 199,425
Income taxes paid	$ 109,200	$ 190,287	$ 88,546

See accompanying notes to the consolidated financial statements.

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

1. Business and Basis of Presentation

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

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

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

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

2. Principles of Consolidation

The consolidated financial statements include the accounts of Penn and its subsidiaries, including wholly-owned subsidiaries and subsidiaries with a noncontrolling interest. Investment in and advances to unconsolidated affiliates that are 50% owned are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. Merger Announcement and Termination

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

On July 3, 2008, the Company entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, the Company agreed to receive a total of $1.475 billion, consisting of a nonrefundable $225 million cash termination fee (the "Cash Termination Fee") and a $1.25 billion, zero coupon, preferred equity investment (the "Investment"). On October 30, 2008, the Company closed the sale of

the Investment and issued 12,500 shares of Series B Redeemable Preferred Stock (the "Preferred Stock").

The Company used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of its existing debt, repurchases of its Common Stock, lobbying expenses for efforts in Ohio and investment in corporate debt securities, with the remainder being invested primarily in short-term securities. The repurchase of up to $200 million of the Company's Common Stock over the twenty-four month period ending July 2010 was authorized by the Company's Board of Directors in July 2008. During the year ended December 31, 2009, the Company did not repurchase any shares of its Common Stock. During the year ended December 31, 2008, the Company repurchased 8,934,984 shares of its Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

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

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

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

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

The Company's receivables of $46.7 million and $43.6 million at December 31, 2009 and 2008, respectively, primarily consist of $12.9 million and $10.8 million, respectively, due from the West Virginia Lottery for gaming revenue settlements and capital reinvestment projects at the Charles Town

Entertainment Complex, and $11.7 million and $11.4 million, respectively, for reimbursement of expenses paid on behalf of Casino Rama.

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Investment in Corporate Debt Securities

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

Long-term Debt

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

Interest Rate Swap Contracts

The fair value of the Company's interest rate swap contracts is measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation, subject to a credit adjustment to the LIBOR-based yield curve's implied discount rates. The credit adjustment reflects the Company's best estimate as to the Company's credit quality at December 31, 2009. The interest rate swap contracts are measured at fair value on a recurring basis.

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

	2009		2008	
December 31,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 713,118	$ 713,118	$ 746,278	$ 746,278
Investment in corporate debt securities	4,550	4,550	40,190	40,190
Financial liabilities:				
Long-term debt				
Senior secured credit facility	1,755,602	1,755,602	1,959,784	1,959,784
Senior subordinated notes and other long-term obligations	575,000	572,375	464,201	389,201
Capital leases	4,175	4,175	6,195	6,195
Interest rate swap contracts	43,925	43,925	63,185	63,185

See Note 21 to the Consolidated Financial Statements for further information regarding the Company's assessment of the inputs used to measure the fair value for the investment in corporate debt securities and interest rate swap contracts.

Property and Equipment

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

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

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

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

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

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

Goodwill and Other Intangible Assets

At December 31, 2009, the Company had $1,380.0 million in goodwill and $377.0 million in other intangible assets within its consolidated balance sheet, representing 29.3% and 8.0% of total assets, respectively, resulting from the Company's acquisition of other businesses and payment for gaming licenses and racing permits. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation; and (ii) the ongoing evaluation for impairment.

In connection with the Company's acquisitions, valuations are completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of the Company's due diligence in connection with the acquisitions, projections for future operations, and data obtained from third-party valuation specialists as deemed appropriate. Goodwill is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the reporting units to their carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment test is performed to determine the implied value of goodwill for that reporting unit. If the implied value is less than the carrying amount for that reporting unit, an impairment loss is recognized for that reporting unit. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, "Intangibles-Goodwill and Other," the Company considers its gaming license, racing permit and trademark intangible assets as

indefinite-life intangible assets that do not require amortization. Rather, these intangible assets are tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the gaming license, racing permit and trademark intangible assets exceed their fair value, an impairment loss is recognized. The evaluation of goodwill and indefinite-life intangible assets requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. The Company uses a market approach model, which includes the use of EBITDA (earnings before interest, taxes, charges for stock compensation, depreciation and amortization, gain or loss on disposal of assets, and certain other income and expenses, and inclusive of loss from joint venture) multiples, as the Company believes that EBITDA is a widely-used measure of performance in the gaming industry and as the Company uses EBITDA as the primary measurement of the operating performance of its properties (including the evaluation of operating personnel). In addition, the Company believes that an EBITDA multiple is the principal basis for the valuation of gaming companies. Changes in the estimated EBITDA multiple or forecasted operations can materially affect these estimates. Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because the Company's goodwill and indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that have a definite-life, including the management service contract for Casino Rama, are amortized on a straight-line basis over their estimated useful lives or related service contract. The Company reviews the carrying value of its intangible assets that have a definite-life for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount of the intangible assets that have a definite-life exceed their fair value, an impairment loss is recognized.

Deferred Financing Fees

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

Comprehensive Income

The Company accounts for comprehensive income in accordance with ASC 220, "Comprehensive Income," which established standards for the reporting and presentation of comprehensive income in the consolidated financial statements. The Company presents comprehensive income in its consolidated statements of changes in shareholders' equity.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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

ASC 740 also creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by

prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2009.

Accounting for Derivatives and Hedging Activities

The Company uses fixed and variable-rate debt to finance its operations. Both funding sources have associated risks and opportunities, such as interest rate exposure, and the Company's risk management policy permits the use of derivatives to manage this exposure. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Thus, uses of derivatives are strictly limited to hedging and risk management purposes in connection with managing interest rate exposure. Acceptable derivatives for this purpose include interest rate swap contracts, futures, options, caps, and similar instruments.

When using derivatives, the Company's intent is to apply "special hedge accounting," which is conditional upon satisfying specific documentation and performance criteria. In particular, the underlying hedged item must expose the Company to risks associated with market fluctuations and the instrument used as the hedging derivative must generate offsetting effects in prescribed magnitudes. If these criteria are not met, a change in the market value of the financial instrument and all associated settlements would be recognized as gains or losses in the period of change.

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

The fair value of the Company's interest rate swap contracts is measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation, subject to a credit adjustment to the LIBOR-based yield curve's implied discount rates. The credit adjustment reflects the Company's best estimate as to the Company's credit quality at December 31, 2009.

Under cash flow hedge accounting, effective derivative results are initially recorded in other comprehensive income ("OCI") and later reclassified to earnings, coinciding with the income recognition relating to the variable interest payments being hedged (i.e., when the interest expense on the variable-rate liability is recorded in earnings). Any hedge ineffectiveness (which represents the amount by which hedge results exceed the variability in the cash flows of the forecasted transaction due to the risk being hedged) is recorded in current period earnings.

Under cash flow hedge accounting, derivatives are included in the consolidated balance sheets as assets or liabilities at fair value. The interest rate swap contract liabilities are included in accrued interest within the consolidated balance sheets at December 31, 2009 and 2008.

During the year ended December 31, 2009, the Company had certain derivative instruments that were not designated to qualify for hedge accounting. The periodic change in the mark-to-market of these derivative instruments is recorded in current period earnings.

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

Revenue Recognition and Promotional Allowances

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

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

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

Revenues are recognized net of certain sales incentives in accordance with ASC 605-50, "Revenue Recognition—Customer Payments and Incentives" ("ASC 605-50"). The consensus in ASC 605-50 requires that sales incentives and points earned in point-loyalty programs be recorded as a reduction of revenue. The Company recognizes incentives related to gaming play and points earned in point-loyalty programs as a direct reduction of gaming revenue.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is primarily included in food, beverage and other expense. The amounts included in promotional allowances for the years ended December 31, 2009, 2008 and 2007 are as follows:

Year ended December 31,	2009	2008	2007
		(in thousands)	
Rooms	$ 23,316	$ 17,750	$ 15,518
Food and beverage	108,473	103,038	101,040
Other	10,986	13,590	12,386
Total promotional allowances	$ 142,775	$ 134,378	$ 128,944

The estimated cost of providing such complimentary services for the years ended December 31, 2009, 2008 and 2007 are as follows:

Year ended December 31,	2009	2008	2007
		(in thousands)	
Rooms	$ 9,406	$ 7,280	$ 6,538
Food and beverage	77,444	73,565	71,922
Other	6,590	6,034	5,471
Total cost of complimentary services	$ 93,440	$ 86,879	$ 83,931

Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with ASC 260, "Earnings Per Share" ("ASC 260"). Basic EPS is computed by dividing net income applicable to common stock,

excluding net income attributable to noncontrolling interests, by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities such as stock options.

In the fourth quarter of 2008, the Company issued 12,500 shares of the Company's Preferred Stock, which the Company determined qualified as a participating security as defined in ASC 260. Under ASC 260, a security is considered a participating security if the security may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. In accordance with ASC 260, a company is required to use the two-class method when computing EPS when a company has a security that qualifies as a "participating security." The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. A participating security is included in the computation of basic EPS using the two-class method. Under the two-class method, basic EPS for the Company's Common Stock is computed by dividing net income applicable to common stock attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries by the weighted-average common shares outstanding during the period. Diluted EPS for the Company's Common Stock is computed using the more dilutive of the two-class method or the if-converted method.

However, since the Company reported a loss from operations for the years ended December 31, 2009 and 2008, it was required by ASC 260 to use basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding, when calculating diluted EPS for the years ended December 31, 2009 and 2008. In addition, since the Company reported a loss from operations for the years ended December 31, 2009 and 2008, the Preferred Stock was not deemed to be a participating security for the years ended December 31, 2009 and 2008, pursuant to ASC 260. The basic weighted-average common shares outstanding for the years ended December 31, 2009 and 2008 were 78,121,571 and 84,535,877, respectively.

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

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

Options to purchase 9,966,125 and 8,804,578 shares were outstanding during the years ended December 31, 2009 and 2008, respectively, but were not included in the computation of diluted EPS because they are antidilutive since the Company reported a loss from operations for the years ended December 31, 2009 and 2008. Options to purchase 1,395,610 shares were outstanding during the year ended December 31, 2007, but were not included in the computation of diluted EPS because they are antidilutive.

The repurchase of up to $200 million of the Company's Common Stock over the twenty-four month period ending July 2010 was authorized by the Company's Board of Directors in July 2008. During the year ended December 31, 2009, the Company did not repurchase any shares of its Common Stock. During the year ended December 31, 2008, the Company repurchased 8,934,984 shares of its Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

Stock-Based Compensation

The Company accounts for stock compensation under ASC 718, "Compensation-Stock Compensation," which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The risk-free interest rate was based on the United States ("U.S.") Treasury spot rate with a remaining term equal to the expected life assumed at the date of grant. Expected volatility was estimated based on the historical volatility of the Company's stock price over a period of 5.32 years, in order to match the expected life of the options at the grant date. There is no expected dividend yield since the Company has not paid any cash dividends on its Common Stock since its initial public offering in May 1994 and since the Company intends to retain all of its earnings to finance the development of its business for the foreseeable future. The weighted-average expected life was based on the contractual term of the stock option and expected employee exercise dates, which was based on the historical and expected exercise behavior of the Company's employees. Forfeitures are estimated at the date of grant based on historical experience. The following are the weighted-average assumptions used in the Black-Scholes option-pricing model at December 31, 2009, 2008 and 2007:

Year ended December 31,	2009	2008	2007
Risk-free interest rate	2.80%	1.61%	4.24%
Expected volatility	49.68%	45.56%	37.68%
Dividend yield	—	—	—
Weighted-average expected life (years)	5.32	5.36	4.73
Forfeiture rate	5.00%	4.00%	4.00%

Segment Information

In accordance with ASC 280, "Segment Reporting" ("ASC 280"), the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

Statements of Cash Flows

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

Acquisitions

The Company accounts for its acquisitions in accordance with ASC 805, "Business Combinations" ("ASC 805"). The results of operations of acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

Certain Risks and Uncertainties

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

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

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

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

5. New Accounting Pronouncements

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance provides amendments to require new disclosures regarding transfers in and out of Levels 1 and 2 of the fair value measurement hierarchy, and activity in Level 3, and to clarify existing disclosures regarding the level of disaggregation, inputs and valuation techniques. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the guidance, except for the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, as of January 1, 2010, as required. The Company does not expect that the January 1, 2010 adoption of the guidance will have a material impact on its consolidated financial statements. The Company is currently determining the impact of the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements on its consolidated financial statements.

In January 2010, the FASB issued guidance to address implementation issues related to the changes in ownership provisions in ASC 810, "Consolidation," ("ASC 810"). The guidance clarifies the scope of the decrease in ownership provisions in ASC 810 and expands the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of ASC 810. As the Company previously adopted ASC 810, the guidance is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009, and should be applied retrospectively to the first period that ASC 810 was adopted by the Company. The Company adopted the guidance as of December 31, 2009, as required. This guidance did not have a material impact on the Company's consolidated financial statements.

In September 2009, the FASB issued guidance concerning fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent). The guidance creates a practical expedient to measure the fair value of an investment that is within the scope of the guidance on the basis of the net asset value per share of the investment (or its equivalent) determined as of the reporting entity's measurement date. Therefore, the guidance allows certain attributes of the investment, which in the past may have indicated that it was necessary to make adjustments to the net asset value per share (or its equivalent) to estimate the fair value of the investment, to not be considered if the practical expedient is used. Additional disclosures are also required under the guidance. The guidance is effective for interim and annual periods ending after December 15, 2009, with early application permitted. The Company adopted the guidance as of December 31, 2009, as required. This guidance did not have a material impact on the Company's consolidated financial statements.

In August 2009, the FASB issued guidance on the measurement of liabilities at fair value. The guidance provides clarification in measuring the fair value of liabilities. The guidance is effective for the first reporting period (including interim periods) beginning after issuance. The Company adopted the guidance as of October 1, 2009, as required. This guidance did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued the ASC. The ASC became the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The ASC eliminates the previous U.S. GAAP hierarchy

and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. The ASC is effective for most financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the ASC as of September 30, 2009, as required. The adoption of the ASC did not have an impact on the Company's consolidated financial statements.

In June 2009, the FASB issued amended guidance for variable interest entities. The objective of the amended guidance is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amended guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company adopted the amended guidance as of January 1, 2010, as required. The Company does not expect that the adoption of the amended guidance will have a material impact on its consolidated financial statements.

In May 2009, the FASB issued guidance on subsequent events. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, under the guidance, an entity is required to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. The guidance is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Company adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements. In February 2010, the FASB issued amended guidance on subsequent events. The amended guidance removes the requirement for U.S. Securities and Exchange Commission filers to disclose the date through which subsequent events have been evaluated. The amended guidance is effective upon issuance, except for the use of the issued date for conduit debt obligors. The Company adopted the amended guidance upon issuance, as required. The adoption of the amended guidance did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued additional requirements regarding disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The new requirements are effective for interim reporting periods ending after June 15, 2009. The Company adopted the additional requirements as of June 30, 2009, as required. The adoption of the new requirements did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued guidance on the recognition and presentation of other-than-temporary impairments. The guidance amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The guidance is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and on identifying transactions that are not orderly. The guidance is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Company adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued guidance regarding the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. The guidance addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The guidance is effective for all assets acquired or liabilities assumed arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted the guidance as of January 1, 2009, as required. The Company expects that the adoption of the guidance will have an impact on its consolidated financial statements, in the event that the Company acquires companies in the future.

In April 2008, the FASB issued guidance regarding the determination of the useful life of intangible assets. The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The Company adopted the guidance as of January 1, 2009, as required. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued guidance regarding the disclosure of derivative instruments and hedging activities. The guidance requires enhanced disclosures about an entity's derivative and hedging activities. Specifically, entities are required to provide enhanced disclosures about: a) how and why an entity uses derivative instruments; b) how derivative instruments and related hedged items are accounted; and c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The guidance encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company adopted the guidance as of January 1, 2009, as required. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

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

In September 2006, the FASB issued guidance on fair value measurements. The guidance defines fair value, establishes a framework for measuring fair value, and expands the disclosure requirements about fair value measurements. In February 2008, the FASB amended the guidance so as to exclude from its scope certain accounting pronouncements that address fair value measurements associated with leases and to delay the effective date of the guidance to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In October 2008, the FASB issued additional guidance that provides clarification on the application of the guidance on fair value measurements in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted the guidance on fair value measurements, as amended, and on a prospective basis,

as of January 1, 2008. The January 1, 2008 adoption did not have a material impact on the Company's consolidated financial statements. The Company adopted the guidance on fair value measurements, as amended, and on a prospective basis, as of January 1, 2009 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The January 1, 2009 adoption did not have a material impact on the Company's consolidated financial statements.

6. Acquisitions

Sanford-Orlando Kennel Club

On October 17, 2007, pursuant to the Asset Purchase Agreement dated July 5, 2007, the Company completed the purchase of Sanford-Orlando Kennel Club in Longwood, Florida from Sanford-Orlando Kennel Club, Inc. and Collins and Collins. In connection with the purchase, the Company also secured a right of first refusal with respect to a majority stake in the Sarasota Kennel Club in Sarasota, Florida. The purchase price for the Sanford-Orlando Kennel Club provides for additional consideration to be paid by the Company based upon certain future regulatory developments. Located on approximately 26 acres in Longwood, Florida, the Sanford-Orlando Kennel Club features year-round greyhound racing, a simulcast wagering facility, a clubhouse lounge and two dining areas. The Company accounted for the acquisition in accordance with ASC 805. The results of the Sanford-Orlando Kennel Club have been included in the Company's consolidated financial statements since the acquisition date.

Black Gold Casino at Zia Park

On April 16, 2007, pursuant to the Asset Purchase Agreement dated November 7, 2006 among Zia Partners, LLC ("Zia"), Zia Park LLC (the "Buyer"), a wholly-owned subsidiary of Penn, and (solely with respect to specified sections thereof which relate to the Company's guarantee of the Buyer's payment and performance) Penn, the Buyer completed the acquisition of Black Gold Casino at Zia Park and all related assets of Zia. Penn funded this purchase with additional borrowings under its existing revolving credit facility. The Company accounted for the acquisition in accordance with ASC 805. As a result of the acquisition, goodwill of $144.2 million and other intangible assets of $2.9 million are included within the consolidated balance sheet at December 31, 2009. The results of the Black Gold Casino at Zia Park have been included in the Company's consolidated financial statements since the acquisition date.

7. Investment In and Advances to Unconsolidated Affiliates

On September 10, 2009, the Company announced that it had entered into an agreement, subject to local and regulatory approvals and certain other closing conditions, with principals of The Cordish Company ("Cordish"), the managing member of Kansas Entertainment, LLC ("Kansas Entertainment"), wherein the Company agreed to acquire Cordish's 50% interest in Kansas Entertainment and to assume their role as managing member.

As a result of the agreement with Cordish, the Company joined Kansas Speedway Development Corporation, a wholly-owned subsidiary of International Speedway Corporation (which owns the other 50% of Kansas Entertainment) in its application with the Kansas Lottery Commission to develop and operate a facility in the North East Gaming Zone in Wyandotte County, Kansas. The Company and International Speedway Corporation will share equally the cost of developing and constructing the proposed facility, and intend to jointly seek third party financing for the project.

On December 1, 2009, Kansas Entertainment was selected by the Kansas Lottery Gaming Facility Review Board to develop and operate a facility in the North East Gaming Zone in Wyandotte County, Kansas.

In February 2010, Kansas Entertainment received the final approval under the Kansas Expanded Lottery Act, along with its gaming license from the Kansas Racing and Gaming Commission, to proceed with the development of the facility.

On September 14, 2009, as a result of the agreement with Cordish, the Company withdrew its license application with the Kansas Lottery Commission to be considered as a Lottery Gaming Facility Manager at another site in Wyandotte County.

The Company's investment in Kansas Entertainment, which consists of the Company's portion of the privilege fee paid to the Kansas Lottery Commission in conjunction with its application and its portion of capital expenditures spent to develop the proposed facility, is accounted for under the equity method and is included in investment in and advances to unconsolidated affiliates within the consolidated balance sheet at December 31, 2009.

In accordance with the agreement, $25.0 million was placed in escrow until certain conditions in the agreement with Cordish are satisfied. This amount is included in other assets within the consolidated balance sheet at December 31, 2009.

8. Property and Equipment

Property and equipment, net, consists of the following:

December 31,	2009	2008
	(in thousands)	
Land and improvements	$ 239,933	$ 216,834
Building and improvements	1,433,611	1,298,513
Furniture, fixtures, and equipment	849,071	692,851
Leasehold improvements	17,204	17,128
Construction in progress	47,299	183,056
Total property and equipment	2,587,118	2,408,382
Less accumulated depreciation	(749,614)	(596,251)
Property and equipment, net	$ 1,837,504	$ 1,812,131

Depreciation expense, for property and equipment, totaled $187.8 million, $165.9 million and $140.3 million in 2009, 2008, and 2007, respectively. Interest capitalized in connection with major construction projects was $7.0 million, $13.8 million and $14.6 million in 2009, 2008 and 2007, respectively.

During the year ended December 31, 2009, the Company recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.9 million ($7.1 million, net of taxes) in conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg. During the year ended December 31, 2008, the Company recorded a pre-tax impairment charge of $15.1 million ($10.0 million, net of taxes), as it determined that a portion of the value of its long-lived assets, primarily at its Bullwhackers property, was impaired.

9. Goodwill and Other Intangible Assets

A reconciliation of goodwill and accumulated goodwill impairment losses is as follows (in thousands):

Balance at January 1, 2008:		
Goodwill	$	2,047,661
Accumulated goodwill impairment losses		(34,522)
Goodwill, net	$	2,013,139
Goodwill acquired during the year		—
Goodwill impairment losses		(397,220)
Other		(17,348)
Balance at December 31, 2008:		
Goodwill	$	2,030,313
Accumulated goodwill impairment losses		(431,742)
Goodwill, net	$	1,598,571
Goodwill acquired during the year		—
Goodwill impairment losses		(213,260)
Other		(5,350)
Balance at December 31, 2009:		
Goodwill	$	2,024,963
Accumulated goodwill impairment losses		(645,002)
Goodwill, net	$	1,379,961

Goodwill consists mainly of goodwill from the acquisitions of Hollywood Casino Corporation in March 2003, Argosy in October 2005 and Black Gold Casino at Zia Park in April 2007.

During the year ended December 31, 2009, goodwill decreased by $218.6 million. As a result of the anticipated impact of gaming expansion in Ohio, the Company recorded a pre-tax impairment charge of $213.3 million ($188.7 million, net of taxes) during the year ended December 31, 2009, as the Company determined that a portion of the value of the goodwill associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

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

The table below presents the gross carrying value, accumulated amortization, and net book value of each major class of intangible asset at December 31, 2009 and 2008:

	2009			2008		
December 31,	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
	(in thousands)					
Indefinite-life intangible assets	$ 368,886	$ —	$ 368,886	$ 679,054	$ —	$ 679,054
Other intangible assets	49,396	41,328	8,068	49,396	34,686	14,710
Total	$ 418,282	$ 41,328	$ 376,954	$ 728,450	$ 34,686	$ 693,764

Indefinite-life intangible assets consist mainly of gaming licenses and trademark intangible assets from the acquisition of Argosy and the placement of slot machines at Hollywood Casino at Penn National Race Course.

During the year ended December 31, 2009, indefinite-life intangible assets decreased by $310.2 million. As a result of the anticipated impact of gaming expansion in Ohio, the Company recorded a pre-tax impairment charge of $307.2 million ($180.1 million, net of taxes), as the Company determined that a portion of the value of the indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

During the year ended December 31, 2008, indefinite-life intangible assets decreased by $76.1 million, primarily as the Company recorded a pre-tax impairment charge of $69.0 million ($44.1 million, net of taxes), as a portion of the value of the indefinite-life intangible assets associated with the original purchase of Argosy, and all of the indefinite-life intangible assets associated with the original purchase of Hollywood Slots Hotel and Raceway, was impaired.

The Company's intangible asset amortization expense was $6.6 million, $7.7 million and $7.6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The following table presents expected intangible asset amortization expense based on existing intangible assets at December 31, 2009 (in thousands):

2010	$	5,773
2011		2,096
2012		199
Total	$	8,068

10. Investment in Corporate Securities

During the year ended December 31, 2008, the Company made a $47.3 million investment in the corporate debt securities of other gaming companies. The investment, which the Company is treating as available-for-sale securities, is included in other assets within the consolidated balance sheets at December 31, 2009 and 2008. During the years ended December 31, 2009 and 2008, the Company recorded a $6.8 million unrealized gain and an $8.0 million unrealized loss, respectively, in OCI for this investment. The change in the fair value also reflects the original issue discount amortization, which was $1.5 million and $0.9 million for the years ended December 31, 2009 and 2008, respectively.

During the year ended December 31, 2009, the Company sold $42.2 million of this investment and recorded a $6.6 million gain, which is included in other income within the consolidated statements of operations.

The following is a schedule of the contractual maturities of the Company's investment in corporate securities at December 31, 2009 (in thousands):

2010	$	—
2011		—
2012		4,550
Total	$	4,550

11. Long-term Debt

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

December 31,	2009	2008
	(in thousands)	
Senior secured credit facility	$ 1,755,602	$ 1,959,784
$200 million 6 7/8 % senior subordinated notes	—	200,000
$250 million 6 3/4 % senior subordinated notes	250,000	250,000
$325 million 8 3/4 % senior subordinated notes	325,000	—
Other long-term obligations	—	14,201
Capital leases	4,175	6,195
	2,334,777	2,430,180
Less current maturities of long-term debt	(86,071)	(105,281)
	$ 2,248,706	$ 2,324,899

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2009 (in thousands):

2010	$ 86,071
2011	356,001
2012	1,315,785
2013	82
2014	89
Thereafter	576,749
Total minimum payments	$ 2,334,777

At December 31, 2009, the Company was contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating $27.9 million.

Senior Secured Credit Facility

The senior secured credit facility historically consisted of three credit facilities comprised of a $750 million revolving credit facility with a maturity date of October 3, 2010, a $325 million Term Loan A Facility with a maturity date of October 3, 2011 and a $1.65 billion Term Loan B Facility with a maturity date of October 3, 2012. In September 2009, the Company amended its senior secured credit facility, in order to increase the borrowing capacity and to extend the term under the revolving credit facility portion of the senior secured credit facility. Under the new revolving credit facility, two tranches were created, one for those participants who agreed to extend and one for those that did not extend. Tranche A Revolving Loans consist of available borrowings of $359.4 million, which are due on the original maturity date of October 3, 2010, and Tranche B Revolving Loans consist of available borrowings of $640.6 million, which are due on July 3, 2012, for a total borrowing capacity of $1 billion.

In August 2009, the Company repaid $40 million of borrowings under the Term Loan A Facility, $70 million of borrowings under the Term Loan B Facility, and all outstanding borrowings under the revolving credit facility at the time, using a portion of the proceeds from the offering of $325 million 8 3/4 % senior subordinated notes. In addition, in September 2009, the Company repaid all of the remaining outstanding borrowings under the Term Loan A Facility, using drawings under the new revolving credit facility.

As of December 31, 2009, $237.5 million was drawn under the revolving credit facility and $1,518.1 million was outstanding under the Term Loan B Facility, for a total of $1,755.6 million. As of December 31, 2008, $123.7 million was drawn under the revolving credit facility, $239.7 million was

outstanding under the Term Loan A Facility, and $1,596.4 million was outstanding under the Term Loan B Facility, for a total of $1,959.8 million.

The Company recorded a $2.4 million loss on early extinguishment of debt during the year ended December 31, 2009 for the write-off of deferred financing fees related to the Term Loan A Facility.

During the year ended December 31, 2009, the Company's senior secured credit facility amount outstanding decreased by $204.2 million, primarily due to the August 2009 repayment of $40 million of borrowings under the Term Loan A Facility, $70 million of borrowings under the Term Loan B Facility, and all outstanding borrowings under the revolving credit facility at the time, using a portion of the proceeds from the offering of $325 million 8 3/4 % senior subordinated notes. These repayments were partially offset by drawings under the revolving credit facility, primarily to repay $105.5 million outstanding aggregate principal amount of the 6 7/8 % senior subordinated notes.

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

Interest Rate Swap Contracts

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

The effect of derivative instruments on the consolidated statement of operations for the year ended December 31, 2009 was as follows (in thousands):

Derivatives in a Cash Flow Hedging Relationship	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate swap contracts	$ (23,478)	Interest expense	$ (30,358)	None	$ —
Total	$ (23,478)		$ (30,358)		$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative
Interest rate swap contracts	Interest expense	$ 359
Total		$ 359

In addition, during the year ended December 31, 2009, the Company amortized $15.9 million in OCI related to the derivatives that were de-designated as hedging instruments under ASC 815, "Derivatives and Hedging."

In the coming twelve months, the Company anticipates that approximately a $35.3 million loss will be reclassified from OCI to earnings, as part of interest expense. As this amount represents effective hedge results, a comparable offsetting amount of incrementally lower interest expense will be realized in connection with the variable funding being hedged.

The following table sets forth the fair value of the interest rate swap contract liabilities included in accrued interest within the consolidated balance sheets at December 31, 2009 and 2008:

	December 31, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(in thousands)		
Derivatives designated as hedging instruments				
Interest rate swap contracts	Accrued interest	$ 23,485	Accrued interest	$ 63,185
Total derivatives designated as hedging instruments		$ 23,485		$ 63,185
Derivatives not designated as hedging instruments				
Interest rate swap contracts	Accrued interest	$ 20,440	Accrued interest	$ —
Total derivatives not designated as hedging instruments		$ 20,440		$ —
Total derivatives		$ 43,925		$ 63,185

Redemption of 6⁷/₈% Senior Subordinated Notes

In August 2009, the Company called for the redemption of its $200 million 6⁷/₈% senior subordinated notes. The redemption price was $1,000 per $1,000 principal amount, plus accrued and unpaid interest, which was paid in September 2009. Approximately $94.5 million aggregate principal amount of the 6 7/8 % senior subordinated notes were validly tendered and paid. In October 2009, the Company called for the redemption of all of the $105.5 million outstanding aggregate principal amount of its 6 7/8 % senior subordinated notes. The redemption price was $1,000 per $1,000 principal amount, plus accrued and unpaid interest. In December 2009, the Company repaid all of the $105.5 million outstanding aggregate principal amount of its 6 7/8 % senior subordinated notes. The Company funded the $94.5 million redemption from a portion of the proceeds from the offering of $325 million 8 3/4 % senior subordinated notes and available cash and funded the $105.5 million redemption using drawings under the revolving credit facility.

The Company recorded a $2.4 million loss on early extinguishment of debt during the year ended December 31, 2009 for the write-off of the deferred financing fees related to the $200 million 6 7/8 % senior subordinated notes.

6¾% Senior Subordinated Notes

On March 9, 2005, the Company completed an offering of $250 million 6¾% senior subordinated notes that mature on March 1, 2015. Interest on the $250 million 6 3/4 % senior subordinated notes is payable on March 1 and September 1 of each year, beginning September 1, 2005. The $250 million 6 3/4 % senior subordinated notes are general unsecured obligations and are not guaranteed by the Company's subsidiaries. The $250 million 6 3/4 % senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended. Effective March 2010, the Company may redeem all or part of the $250 million 6 3/4 % senior subordinated notes at certain specified redemption prices.

8¾% Senior Subordinated Notes

In August 2009, the Company completed an offering of $325 million 8¾% senior subordinated notes that mature on August 15, 2019. Interest on the $325 million 8 3/4 % senior subordinated notes is payable on February 15 and August 15 of each year, beginning February 15, 2010. The $325 million

8 3/4% senior subordinated notes are general unsecured obligations and are not guaranteed by the Company's subsidiaries. The $325 million 8 3/4% senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended.

A portion of the proceeds from the offering were used to repay $40 million of borrowings under the Term Loan A Facility, $70 million of borrowings under the Term Loan B Facility, and all outstanding borrowings under the revolving credit facility at the time. The remainder of the proceeds, plus available cash, was used to pay the validly-tendered principal amounts of the $200 million 6 7/8 % senior subordinated notes.

Other Long-Term Obligations

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTWs located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Second Amendment to the Purchase Agreement and Release of Claims ("Amendment and Release") with the MTGA pertaining to the October 14, 2004 Purchase Agreement (the "Purchase Agreement"), and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. The Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA was payable over five years. In March 2009, the Company entered into the Third Amendment to the Purchase Agreement, in which the remaining payments due under the Purchase Agreement were accelerated and reduced. Under the Third Amendment to the Purchase Agreement, in exchange for the accelerated payment, which was paid to the MTGA in March 2009, all remaining obligations under the Purchase Agreement were deemed to be satisfied and, as a result, the Company recorded a $1.3 million gain during the year ended December 31, 2009, which is included in other income within the consolidated statements of operations.

Covenants

The Company's senior secured credit facility, $325 million 8 3/4% and $250 million 6 3/4% senior subordinated notes require it, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, the Company's senior secured credit facility, $325 million 8 3/4 % and $250 million 6 3/4 % senior subordinated notes restrict, among other things, the Company's ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

During the year ended December 31, 2008, the Company placed some of the funds received from the issuance of its Preferred Stock into unrestricted subsidiaries, in order to allow for maximum

flexibility in the deployment of the funds. The funds and activity maintained within the unrestricted subsidiaries are excluded from the Company's covenant calculations.

At December 31, 2009, the Company was in compliance with all required financial covenants.

12. Commitments and Contingencies

Litigation

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

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

In conjunction with the Company's acquisition of Argosy Gaming Company in 2005, and subsequent disposition of the Argosy Casino Baton Rouge property, the Company became responsible for litigation initiated in 1997 related to the Baton Rouge casino license formerly owned by Argosy. On November 26, 1997, Capitol House filed an amended petition in the Nineteenth Judicial District Court for East Baton Rouge Parish, State of Louisiana, amending its previously filed but unserved suit against Richard Perryman, the person selected by the Louisiana Gaming Division to evaluate and rank the applicants seeking a gaming license for East Baton Rouge Parish, and adding state law claims against Jazz Enterprises, Inc., the former Jazz Enterprises, Inc. shareholders, Argosy, Argosy of Louisiana, Inc. and Catfish Queen Partnership in Commendam, d/b/a the Belle of Baton Rouge Casino. This suit alleged that these parties violated the Louisiana Unfair Trade Practices Act in connection with obtaining the gaming license that was issued to Jazz Enterprises, Inc./Catfish Queen Partnership in Commendam. The plaintiff, an applicant for a gaming license whose application was denied by the Louisiana Gaming Division, sought to prove that the gaming license was invalidly issued and to recover lost profits that the plaintiff contended it could have earned if the gaming license had been issued to the plaintiff. On October 2, 2006, the Company prevailed on a partial summary judgment motion which limited plaintiff's damages to its out-of-pocket costs in seeking its gaming license, thereby eliminating any recovery for potential lost gaming profits. On February 6, 2007, the jury returned a verdict of $3.8 million (exclusive of statutory interest and attorneys' fees) against Jazz Enterprises, Inc. and Argosy. After ruling on post-trial motions, on September 27, 2007, the trial court entered a judgment in the amount of $1.4 million, plus attorneys' fees, costs and interest. The Company has the right to seek indemnification from two of the former Jazz Enterprises, Inc. shareholders for any liability suffered as a result of such cause of action, however, there can be no assurance that the former Jazz Enterprises, Inc. shareholders will have assets sufficient to satisfy any claim in excess of Argosy's recoupment rights. The Company established an appropriate reserve and bonded the judgment pending its appeal. Both the plaintiff and the Company appealed the judgment to the First Circuit Court of Appeals in Louisiana. On August 31, 2009, the appellate court reversed the trial court's decision and dismissed the case against Argosy in its entirety. Capitol House has requested that the Louisiana Supreme Court take its appeal of the dismissal and that request is currently pending.

The Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including the Company's Empress Casino Hotel and Hollywood Casino

Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin (collectively, the "Four Casinos"), and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the pendency of the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Empress Casino Hotel and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court's ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the Four Casinos filed a petition for certiorari, requesting the U.S. Supreme Court to hear the case. Seven amicus curiae briefs supporting the plaintiffs' request were also filed. On June 8, 2009, the U.S. Supreme Court decided not to hear the case. On June 10, 2009, the Four Casinos filed a petition with the Court to open the judgment based on new evidence that came to light during the investigation of former Illinois Governor Rod Blagojevich that the 2006 law was procured by corruption. On August 17, 2009, the Court dismissed the Four Casinos' petition to reopen the case, and the Four Casinos have decided not to pursue an appeal of the dismissal.

On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the Four Casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the Four Casinos filed suit in the Court, asking it to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The defendants have filed a motion to dismiss, which was granted on August 17, 2009. The Four Casinos have appealed the dismissal and have filed a motion to keep the funds in the protest fund while the appeal is being litigated. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

On June 12, 2009, the Four Casinos filed a lawsuit in Illinois Federal Court naming former Illinois Governor Rod Blagojevich, his campaign fund, racetrack owner John Johnston, and his two racetracks as defendants alleging a civil conspiracy in violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §1962(c),(d) ("RICO"), based on an illegal scheme to secure the enactment of the 3% tax surcharge legislation in exchange for the payment of money by Johnston and entities controlled by him. The Four Casinos also seek to impose a constructive trust over all funds paid under the tax surcharge, and therefore all of the Illinois racetracks are named as parties to the lawsuit. The defendants in the RICO case filed motions to dismiss. On December 7, 2009, the district court denied the motion to dismiss the RICO count, but it granted the motion to dismiss the constructive trust count, stating that it did not have jurisdiction in this case to impose the constructive trust. The Four Casinos have appealed this dismissal to the Seventh Circuit Court of Appeals. The appellate court has ordered that any monies disbursed to the tracks be maintained until the appeal has been decided.

In August 2007, a complaint was filed on behalf of a putative class of public shareholders of the Company, and derivatively on behalf of the Company, in the Court of Common Pleas of Berks County, Pennsylvania (the "Complaint"). The Complaint names the Company's Board of Directors as defendants and the Company as a nominal defendant. The Complaint alleges, among other things, that the Board of Directors breached their fiduciary duties by agreeing to the proposed transaction with Fortress and Centerbridge for inadequate consideration, that certain members of the Board of Directors have conflicts with regard to the Merger, and that the Company and its Board of Directors have failed to disclose certain material information with regard to the Merger. The Complaint seeks, among other things, a court order determining that the action is properly maintained as a class action

and a derivative action enjoining the Company and its Board of Directors from consummating the proposed Merger, and awarding the payment of attorneys' fees and expenses. The Company and the plaintiff had reached a tentative settlement, contingent upon consummation of the transaction with Fortress and Centerbridge, in which the Company agreed to pay certain attorneys' fees and to make certain disclosures regarding the events leading up to the transaction with Fortress and Centerbridge in the proxy statement sent to shareholders in November 2007. The case was terminated by the court for inactivity on September 7, 2009, and no payments were made.

On July 16, 2008, the Company was served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of the Company's Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that the Company's disclosure practices relative to the proposed transaction with Fortress and Centerbridge and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint was amended, among other things, to add three new named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. The Company filed a motion to dismiss the complaint in November 2008, and the court granted the motion and dismissed the complaint with prejudice. The plaintiffs filed a motion for reconsideration, which was denied on October 21, 2009. The plaintiffs have appealed the decision and the parties are in the process of filing appellate briefs.

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary of Penn created to pursue a development project in Cherokee County, Kansas) and the Company in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. The defendants have filed motions to dissolve and reduce the attachment. Those motions were denied and the defendants appealed those decisions to the appellate court. The Kansas appellate court declined to hear the appeal on jurisdictional grounds and the defendants have requested that the Kansas Supreme Court review that decision.

On September 23, 2008, KPG filed an action against HV Properties of Kansas, LLC ("HV") in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the "Contract") that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against the Company claiming the Company is liable to HV for KPG's alleged breach based on a Guaranty Agreement signed by the Company. Both cases were consolidated. The Company filed a motion to dismiss HV's claims, which was denied on May 6, 2009. Discovery has concluded and dispositive motions are currently being briefed by both sides.

Operating Lease Commitments

The Company is liable under numerous operating leases for airplanes, automobiles, land for the property on which some of its casinos operate, other equipment and buildings, which expire at various dates through 2093. Total rental expense under these agreements was $31.5 million, $30.7 million and $29.6 million for the years ended December 31, 2009, 2008, and 2007, respectively.

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

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

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

The future minimum lease commitments relating to the base lease rent portion of noncancelable operating leases at December 31, 2009 are as follows (in thousands):

Year ending December 31,		
2010	$	7,006
2011		6,672
2012		5,480
2013		4,639
2014		3,823
Thereafter		36,328
Total	$	63,948

Capital Expenditure Commitments

At December 31, 2009, the Company was contractually committed to spend approximately $53.1 million in capital expenditures for projects in progress.

Employee Benefit Plans

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

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

The Company maintains a non-qualified deferred compensation plan that covers most management and other highly-compensated employees. This plan was effective March 1, 2001. The plan allows the participants to defer, on a pre-tax basis, a portion of their base annual salary and bonus, and earn tax-deferred earnings on these deferrals. The plan also provides for matching Company contributions that vest over a five-year period. The Company has established a Trust, and transfers to the Trust, on a periodic basis, an amount necessary to provide for its respective future liabilities with respect to

participant deferral and Company contribution amounts. The Company's matching contributions in 2009, 2008 and 2007 were $1.5 million, $1.7 million and $2.2 million, respectively.

Agreements with Horsemen and Pari-Mutuel Clerks

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

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

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

The Company's agreement with the Maine Harness Horsemen Association at Bangor Raceway expires on December 31, 2011.

The Company's agreement with the Ohio Harness Horsemen Association expires on December 31, 2012.

Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires on December 31, 2011.

Throughout the Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately one thousand eight hundred of the Company's employees. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE") Local 1 represents approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2011. At certain of the Company's Argosy properties, the Seafarer International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO, the International Brotherhood of Electrical Workers, the Security Police and Fire Professionals of America, the American Maritime Officers Union, the International Brotherhood of Electrical Workers Local 176, and UNITE/HERE Local 10 represent certain of the Company's employees. The Company has collective bargaining agreements with these unions that expire at various times between July 2010 and October 2015. None of these unions individually represent more than fifty of the Company's employees.

If the Company fails to maintain operative agreements with the horsemen at a track, it will not be permitted to conduct live racing and export and import simulcasting at that track and OTWs and, in West Virginia, the Company will not be permitted to operate its gaming machines. In addition, the Company's simulcasting agreements are subject to the horsemen's approval. If the Company fails to renew or modify existing agreements on satisfactory terms, this failure could have a material adverse effect on its business, financial condition and results of operations. Except for the closure of the facilities at Penn National Race Course and its OTWs from February 16, 1999 to March 24, 1999 due to a horsemen's strike, and a few days at other times and locations, the Company has been able to maintain the necessary agreements. There can be no assurance that the Company will be able to maintain the required agreements.

New Jersey Joint Venture

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

In 1999, the Company made an $11.3 million loan to the joint venture and an equity investment of $0.3 million. In 2008, the balance of the loan was increased by $0.5 million to $11.8 million to substitute a payment of interest on the loan. The loan is evidenced by a subordinated secured note, which is included in investment in and advances to unconsolidated affiliates within the consolidated balance sheets. The $11.3 million portion of the note bears interest at prime plus 2.25% or a minimum of 10.00% (at December 31, 2009, the interest rate was 10.00%). The $0.5 million portion of the note bears interest at the lesser of prime plus 2.00% or the 30-day LIBOR plus 3.00% (at December 31, 2009, the interest rate was 3.23%). The Company has recorded interest income within the consolidated statements of operations of $1.2 million, $1.2 million and $1.2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The joint venture, through Freehold Racing Association, was part of a multi-employer pension plan. For collectively bargained, multi-employer pension plans, contributions were made in accordance with negotiated labor contracts and generally were based on days worked. With the passage of the Multi-Employer Pension Plan Amendments Act of 1980, the joint venture may, under certain circumstances, become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, these liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. In June 2006, Freehold Racing Association withdrew from the multi-employer pension plan, and thereby became subject to payment of a withdrawal liability to the multi-employer pension plan. In January 2008, Freehold Racing Association was informed that the multi-employer pension plan experienced a mass withdrawal termination as of December 25, 2007. In November 2009, Freehold Racing Association received notice and demand for payment of the reallocation component of the joint venture withdrawal liability. The reallocation liability was calculated to be $5.1 million as of the date of withdrawal. Freehold Racing Association's obligation will continue until 2055 or such time that it is notified that the obligation has been satisfied. At December 31, 2009, the joint venture withdrawal liability was approximately $5.0 million for Freehold Racing Association.

The Company and Greenwood entered into a Debt Service Maintenance Agreement with a bank in which each joint venture partner has guaranteed up to 50% of a $23.0 million term loan to the joint venture. The Debt Service Maintenance Agreement remains in effect for the life of the loan and was due to expire on September 30, 2009. In 2008, the joint venture borrowed an additional $1.75 million and the maturity date of the term loan was extended to September 30, 2013. In 2009, certain terms and conditions of the agreement were amended, including the interest rates to be applied and the payment schedule. At December 31, 2009, the outstanding balance on the loan to the joint venture amounted to $8.7 million, of which the Company's obligation under its guarantee of the term loan was limited to approximately $4.4 million. The Company's investment in the joint venture is accounted for under the equity method. The original investment was recorded at cost and has been adjusted by the Company's share of income (loss) of the joint venture and distributions received. The Company's 50% share of the income (loss) of the joint venture is included in other income (expenses) within the consolidated statements of operations.

13. Income Taxes

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

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

Year ended December 31,	2009	2008
	(in thousands)	
Deferred tax assets:		
Stock-based compensation expense	$ 26,499	$ 17,510
Accrued expenses	26,092	21,973
Deferred tax assets resulting from unrecognized tax benefits	11,682	12,751
State net operating losses	7,404	6,622
Accumulated other comprehensive loss	14,916	21,929
Gross deferred tax assets	86,593	80,785
Less valuation allowance	(4,268)	(3,860)
Net deferred tax assets	82,325	76,925
Deferred tax liabilities:		
Property, plant and equipment	(86,334)	(86,342)
Intangibles	(99,479)	(235,128)
Net deferred tax liabilities	(185,813)	(321,470)
Net:	$ (103,488)	$ (244,545)
Reflected on consolidated balance sheets:		
Current deferred tax assets, net	$ 23,619	$ 21,065
Noncurrent deferred tax liabilities, net	(127,107)	(265,610)
Net deferred taxes	$ (103,488)	$ (244,545)

For income tax reporting, the Company has state net operating loss carryforwards aggregating approximately $157.3 million available to reduce future state income taxes primarily for the Commonwealth of Pennsylvania and the State of Mississippi as of December 31, 2009. The tax benefit associated with these net operating loss carryforwards is approximately $7.4 million. Due to state tax statutes on annual net operating loss utilization limits, the availability of gaming tax credits, and income and loss projections in the applicable jurisdictions, a $3.9 million valuation allowance has been recorded to reflect the net operating losses which are not presently expected to be realized. In addition, a $0.4 million valuation has been recorded to reflect the income tax effect of unrealized capital loss carryforwards of the Company which are not presently expected to be realized. If not used, substantially all the carryforwards will expire at various dates from December 31, 2010 to December 31, 2029. In the event that the valuation allowance is ultimately unnecessary, the majority would be treated as a reduction of tax expense.

In addition, certain subsidiaries have accumulated state net operating loss carryforwards aggregating approximately $650.5 million for which no benefit has been recorded as they are attributable to uncertain tax positions. The unrecognized tax benefits as of December 31, 2009 attributable to these net operating losses was approximately $42.1 million. Due to the uncertain tax position, these net operating losses are not included as components of deferred tax assets as of December 31, 2009. In the event of any benefit from realization of these net operating losses, $8.6 million would be treated as an increase to equity, and the remainder would be treated as a reduction of tax expense. If not used, substantially all the carryforwards will expire at various dates from December 31, 2010 to December 31, 2029.

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

Year ended December 31,	2009	2008	2007
		(in thousands)	
Current tax expense			
Federal	$ 65,941	$ 157,043	$ 75,959
State	20,232	35,461	28,536
Foreign	(233)	4,332	9,427
Total current	85,940	196,836	113,922
Deferred tax (benefit) expense			
Federal	(112,072)	(78,895)	16,223
State	(34,336)	(12,203)	2,042
Total deferred	(146,408)	(91,098)	18,265
Total provision	$ (60,468)	$ 105,738	$ 132,187

The following table reconciles the statutory federal income tax rate to the actual effective income tax rate for 2009, 2008 and 2007:

Year ended December 31,	2009	2008	2007
Percent of pretax income			
Federal taxes	35.0%	35.0%	35.0%
State and local income taxes	3.3%	(32.0)%	6.8%
Permanent differences	(20.5)%	(217.9)%	2.6%
Foreign	0.4%	(7.5)%	1.2%
Other miscellaneous items	0.2%	0.2%	(0.4)%
	18.4%	(222.2)%	45.2%

Year ended December 31,	2009	2008	2007
		(in thousands)	
Amount based upon pretax income			
Federal taxes	$ (114,758)	$ (16,655)	$ 102,284
State and local income taxes	(10,671)	15,229	19,953
Permanent differences	67,166	103,707	7,460
Foreign	(1,291)	3,587	3,453
Other miscellaneous items	(914)	(130)	(963)
	$ (60,468)	$ 105,738	$ 132,187

The Company adopted the provisions of ASC 740 on January 1, 2007. As a result of the implementation of ASC 740, the Company recognized a liability for unrecognized tax benefits of approximately $11.9 million, which was accounted for as a reduction to the January 1, 2007 retained earnings balance. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2009 and 2008.

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

	Noncurrent tax liabilities (in thousands)
Balance at January 1, 2008	$ 82,849
Additions based on current year tax positions	10,702
Additions based on prior year tax positions	2,105
Decreases due to settlements and/or reduction in liabilities	(6,984)
Currency translation adjustments	(20,040)
Balance at December 31, 2008	68,632
Additions based on current year tax positions	4,614
Additions based on prior year tax positions	9,333
Decreases due to settlements and/or reduction in liabilities	(45,848)
Currency translation adjustments	9,971
Balance at December 31, 2009	$ 46,702

Included in the liability for unrecognized tax benefits at December 31, 2009 and 2008 were $9.5 million and $31.7 million, respectively, of tax positions that are indemnified by a third party. The indemnification stems from a transaction the Company completed in 2001 with The Continental Companies and CHC International, Inc. (the "Seller") whereby the Company acquired Casino Rouge in Baton Rouge, Louisiana and the management contract for Casino Rama in Orillia, Ontario, Canada. As part of the acquisition, Continental and the Company entered into an Indemnification Agreement whereby Continental indemnified the Company for any tax liabilities to arise subsequent to the acquisition for taxation years which Continental was the owner. The Canada Revenue Agency ("CRA") proposed a reassessment of CHC Canada in respect to its 1996 through 2000 taxation years. The Company and Seller disagreed with the CRA's position, and the matter was placed in Competent Authority in 2004.

On May 20, 2009, the Company was notified by the Competent Authority Services Division of the CRA that the CRA and the U.S. Competent Authority ("IRS") negotiated a settlement regarding the years under assessment from the CRA—1996 through 2000 taxation years. According to the terms of the agreement, the CRA had agreed to reduce their original disallowance of management fees charged by the Company's indirect U.S. subsidiary CRC Holdings, Inc. to CHC Casinos Canada, Limited from CND$54,472,752 to CND$13,556,919 in exchange for the IRS granting relief by allowing CRC Holdings-US to decrease its income by $9,130,658 (US$) (or $13,556,919 (CND$)) and repay the $9,130,658 (US$) to CHC Casinos Canada Limited free of any U.S. withholding taxes.

On November 27, 2009, the Company received from the CRA Notice of Reassessment ("Notice") for the taxation years covered under the Component Authority settlement. In accordance with the terms of the Notice, the Company paid CND$8,466,363.09 on December 16, 2009. Based upon the calculations within the Notice, the Company recalculated its pre-acquisition liability/indemnification receivable and decreased its liability/indemnification receivable. As of December 31, 2009, the Company is currently working with Continental to be reimbursed in accordance with the Indemnification Agreement. Once payment is received by the Company, it will reverse the federal portion of the indemnification receivable. For the years after 2001, where the Company has no indemnification, it has included in the liability for unrecognized tax benefits $22.0 million of tax reserves, including $12.6 million of accrued interest and penalties.

Included in the liability for unrecognized tax benefits at December 31, 2009 and 2008 were $10.0 million and ($20.0) million, respectively, of currency translation adjustments for foreign currency tax positions.

Included in the liability for unrecognized tax benefits at December 31, 2009 and 2008 were $37.2 million and $36.6 million, respectively, of tax positions that, if reversed, would affect the effective tax rate.

The Company is required under ASC 740 to disclose its accounting policy for classifying interest and penalties, the amount of interest and penalties charged to expense each period, as well as the cumulative amounts recorded in the consolidated balance sheets. The Company will continue to classify any tax-related penalties and interest accrued related to unrecognized tax benefits in taxes on income within the consolidated statements of operations.

During the years ended December 31, 2009 and 2008, the Company recognized approximately $2.7 million and $2.5 million, respectively, of interest and penalties, net of deferred taxes. In addition, due to settlements and/or reductions in previously recorded liabilities on uncertain tax positions, the Company had reductions in previously accrued interest and penalties of $1.6 million, net of deferred taxes. The Company has accrued approximately $25.9 million (gross) for the payment of interest and penalties at December 31, 2009. These accruals were included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2009.

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

As of December 31, 2009, the Company is subject to U.S. Federal income tax examinations for the tax years 2006, 2007 and 2008. In addition, the Company is subject to state and local income tax examinations for various tax years in the taxing jurisdictions in which the Company operates.

14. Shareholders' Equity

Shareholder Rights Plan

On May 20, 1998, the Board of Directors of the Company authorized and declared a dividend distribution of one preferred stock purchase right (the "Right" or "Rights") for each outstanding share of the Company's Common Stock, par value $.01 per share, payable to shareholders of record at the close of business on March 19, 1999. In addition, a Right was issued for each share of the Company's Common Stock issued after March 19, 1999 and prior to the Rights' expiration. Each Right entitled the registered holder to purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction") of the Company's Series A Preferred Stock (or another series of preferred stock with substantially similar terms), or a combination of securities and assets of equivalent value, at a purchase price of $10.00 per Preferred Stock Fraction, subject to adjustment. The description and terms of the Rights were set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999, and amended on June 15, 2007, between the Company and Continental Stock Transfer and Trust Company as Rights Agent. The Rights Agreement and the associated Rights expired on March 18, 2009.

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

On July 3, 2008, the Company entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, the Company agreed to receive a total of $1.475 billion, consisting of the Cash Termination Fee and the Investment. On October 30, 2008, the Company closed the sale of the Investment and issued 12,500 shares of Preferred Stock.

The Investment is generally non-voting, but possesses voting rights with respect to certain extraordinary events. The Investment is entitled to vote with the Common Stock on an as-converted basis with respect to any change-in-control or other significant transaction if the consideration to be paid to shareholders is less than $45 per share (which amount is subject to adjustment in certain circumstances). In addition, the approval of holders of a majority of the Investment shares is required

to authorize (i) special dividends to security holders of the Company; (ii) issuance by the Company of equity securities senior to or on a parity with the Investment; (iii) stock repurchases, including but not limited to, by means of a tender offer which is funded by an asset sale outside the ordinary course (other than repurchases in the open market and repurchases by tender offer at not greater than a 20% premium); and (iv) certain other amendments to the terms of the Investment. The Investment has an aggregate liquidation preference equal to $1.25 billion, the aggregate purchase price paid for the Investment shares (the "Purchase Price"), subject to certain adjustments. In addition, the Investment terms provide that the Investment participates in any dividends paid on the Common Stock. To the extent that the Company pays a special dividend, such special dividend will reduce the amount to be paid to the holders of the Investment upon a liquidation or redemption.

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

The redemption price to be paid to the holders of the Investment on June 30, 2015 is equal to the Purchase Price, subject to increase or decrease in the event that the average trading price of the Common Stock (measured over the 20 consecutive trading days prior to May 26, 2015) is greater than $67 per share or less than $45 per share, respectively. There is no coupon payable with respect to the Investment. The Company shall redeem all of the Investment for cash, provided the Company may elect on or prior to June 1, 2015 to pay all or part of the redemption price in shares of the Common Stock. At December 31, 2009, the redemption price was $755.3 million (27.8 million shares of Common Stock if the Company elected to redeem through the issuance of Common Stock).

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

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

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

Pursuant to the Investor Rights Agreement, the Investment holders may not directly or indirectly sell, transfer, pledge, encumber, assign or otherwise dispose of any portion of any Investment shares to any person without the prior written consent of the Company prior to July 21, 2009. However, the Investment holders may sell, transfer, pledge, encumber, assign or otherwise dispose of their Investment shares prior to July 21, 2009 if such transaction is made: (i) to an affiliate of any such Investment holder which agrees to be bound by the terms of the Investor Rights Agreement; (ii) with the prior written consent of the Company's Board of Directors, to a person pursuant to a tender or exchange offer for Investment shares or Common Stock by such person or a merger, consolidation or reorganization of the Company with such person; (iii) if the Company acknowledges in writing that it is unable to pay its debts, commences a voluntary case in bankruptcy or a voluntary petition seeking reorganization or makes an assignment for the benefit of creditors; or (iv) if the Company consents to the entry of an order for relief against it seeking liquidation, reorganization or a creditor's arrangement of the Company.

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

15. Noncontrolling Interests

In November 2009, the Company entered into an agreement with Lakes Entertainment, Inc. ("Lakes"), permitting Lakes to invest in up to a 10% equity interest in each of the Company's proposed facilities in Columbus and Toledo, Ohio. During the year ended December 31, 2009, Lakes contributed $1.9 million to the Company towards the proposed facilities, and its portion of the net loss for the proposed facilities was $2.5 million. The noncontrolling interest is included in shareholders' equity within the consolidated balance sheet at December 31, 2009, stated separately from the Company's shareholders' equity.

16. Stock-Based Compensation

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

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

On August 20, 2008, the Company's Board of Directors adopted and approved the 2008 Long Term Incentive Compensation Plan (the "2008 Plan"). On November 12, 2008, the Company's shareholders approved the 2008 Plan. The 2008 Plan permits the Company to issue stock options (incentive and/or non-qualified), stock appreciation rights, restricted stock, phantom stock units and other equity and cash awards to employees. Non-employee directors are eligible to receive all such awards, other than incentive stock options. The aggregate number of shares of Common Stock that may be issued under the 2008 Plan shall not exceed 6,900,000. Awards of stock options and stock appreciation rights will be counted against the 6,900,000 limit as one share of Common Stock for each share granted. However each share awarded in the form of restricted stock, phantom stock units or any other full value stock award will be counted as issuing 2.16 shares of Common Stock for purposes of determining the number of shares available for issuance under the plan. At December 31, 2009, there were 4,401,889 options available for future grants under the 2008 Plan.

Stock options that expire between February 12, 2010 and September 11, 2018 have been granted to officers, directors and employees to purchase Common Stock at prices ranging from $7.75 to $61.82 per share. All options were granted at the fair market value of the Common Stock on the date the options were granted.

The following table contains information on stock options issued under the plans for the three-year period ended December 31, 2009:

	Number of Option Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2006	8,110,601	$ 21.87	4.97	$ 160,225
Granted	1,458,750	42.21		
Exercised	(1,824,071)	13.66		
Canceled	(495,375)	28.44		
Outstanding at December 31, 2007	7,249,905	$ 27.58	4.87	$ 231,837
Granted	1,834,000	29.56		
Exercised	(203,202)	11.80		
Canceled	(76,125)	37.00		
Outstanding at December 31, 2008	8,804,578	$ 28.27	6.30	$ 17,677
Granted	1,849,375	22.32		
Exercised	(491,078)	11.06		
Canceled	(196,750)	32.27		
Outstanding at December 31, 2009	9,966,125	$ 27.83	5.67	$ 33,038

Included in the above are Common Stock options that were issued in 2003 to the Company's Chairman outside of the 1994 Plan and the 2003 Plan. These options were issued at $7.95 per share, and are exercisable through February 6, 2013. At December 31, 2009 and 2008, the number of these Common Stock options that were outstanding was 23,750. On December 31, 2008, the Company modified the expiration date of certain of its stock options from the seventh anniversary of the date of grant to the tenth anniversary of the date of grant. This modification resulted in additional compensation costs related to stock-based compensation of $2.3 million pre-tax ($1.6 million after-tax) for the year ended December 31, 2008.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2009, 2008 and 2007 were $8.91, $10.57 and $16.08, respectively.

	Number of Option Shares	Weighted-Average Exercise Price
Exercisable at December 31,		
2009	5,872,151	$ 27.41
2008	4,608,441	23.60
2007	3,080,480	19.74

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2009, 2008 and 2007 was $8.4 million, $4.1 million and $74.6 million, respectively.

At December 31, 2009, there were 5,872,151 shares that were exercisable, with a weighted-average exercise price of $27.41, a weighted-average remaining contractual term of 4.82 years, and an aggregate intrinsic value of $22.3 million.

The following table summarizes information about stock options outstanding at December 31, 2009:

	Exercise Price Range			Total
	$7.75 to $29.22	$29.34 to $38.42	$38.43 to $61.82	$7.75 to $61.82
Outstanding options				
Number outstanding	5,273,461	3,332,915	1,359,749	9,966,125
Weighted-average remaining contractual life (years)	4.49	7.01	6.99	5.67
Weighted-average exercise price	$ 21.80	$ 31.53	$ 42.10	$ 27.83
Exercisable options				
Number outstanding	3,483,336	1,680,540	708,275	5,872,151
Weighted-average exercise price	$ 22.01	$ 32.40	$ 42.07	$ 27.41

The following table contains information on restricted stock awards issued under the plans for the three-year period ended December 31, 2009:

	Number of Award Shares
Outstanding at December 31, 2006	160,000
Awarded	280,000
Released	—
Canceled	(60,000)
Outstanding at December 31, 2007	380,000
Awarded	—
Released	—
Canceled	—
Outstanding at December 31, 2008	380,000
Awarded	332,690
Released	(160,000)
Canceled	—
Outstanding at December 31, 2009	552,690

Compensation costs related to stock-based compensation for the years ended December 31, 2009, 2008, and 2007 totaled $28.4 million pre-tax ($20.9 million after-tax), $26.9 million pre-tax ($19.8 million after-tax), and $25.5 million pre-tax ($18.6 million after-tax), respectively, and are included within the consolidated statements of operations under general and administrative expense.

At December 31, 2009 and December 31, 2008, the total compensation cost related to nonvested awards not yet recognized equaled $39.5 million and $67.0 million, respectively, including $31.2 million and $63.9 million for stock options, respectively, and $8.3 million and $3.1 million for restricted stock, respectively. This cost is expected to be recognized over the remaining vesting periods, which will not exceed five years.

17. Segment Information

In accordance with ASC 280, the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

18. Summarized Quarterly Data (Unaudited)

The following table summarizes the quarterly results of operations for the years ended December 31, 2009 and 2008:

	Fiscal Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
2009				
Net revenues	$ 612,226	$ 580,817	$ 620,426	$ 555,806
Income (loss) from operations	100,835	76,705	87,404	(459,542)
Net income (loss) attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	40,661	28,480	21,351	(355,440)
Earnings (loss) per common share attributable to the shareholders of Penn National Gaming, Inc. and shareholders:				
Basic earnings (loss) per common share	0.42	0.29	0.22	(4.54)
Diluted earnings (loss) per common share	0.38	0.27	0.20	(4.54)
2008				
Net revenues	$ 613,494	$ 620,586	$ 617,887	$ 571,086
Income (loss) from operations	118,559	113,591	96,377	(414,968)
Net income (loss) attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	40,736	37,023	147,491	(378,573)
Earnings (loss) per common share attributable to the shareholders of Penn National Gaming, Inc. and shareholders:				
Basic earnings (loss) per common share	0.47	0.43	1.72	(4.77)
Diluted earnings (loss) per common share	0.46	0.42	1.69	(4.77)

In conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg, the Company recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.7 million ($6.8 million, net of taxes) during the second quarter of 2009. In addition, as a result of the anticipated impact of gaming expansion in Ohio, the Company recorded a pre-tax impairment charge of $520.5 million ($368.8 million, net of taxes) during the fourth quarter of 2009, as the Company determined that a portion of the value of the goodwill and indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

As a result of a decline in the Company's share price, an overall reduction in industry valuations, and property operating performance in the then-current economic environment, the Company recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the fourth quarter of 2008, as the Company

determined that a portion of the value of its goodwill, indefinite-life intangible assets and long-lived assets was impaired. The impairment charge by property was as follows: Hollywood Casino Lawrenceburg, $214.1 million pre-tax ($189.3 million, net of taxes); Hollywood Casino Aurora, $43.7 million pre-tax and net of taxes; Empress Casino Hotel, $94.4 million pre-tax ($60.4 million, net of taxes); Argosy Casino Alton, $14.1 million pre-tax and net of taxes; Bullwhackers, $14.2 million pre-tax ($9.1 million, net of taxes); Hollywood Slots Hotel and Raceway, $82.7 million pre-tax ($64.0 million, net of taxes); and Corporate overhead, $18.1 million pre-tax ($12.0 million, net of taxes).

19. Related Party Transactions

Executive Office Lease

The Company currently leases 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of its Chairman and Chief Executive Officer. Rent

expense for the years ended December 31, 2009, 2008 and 2007 amounted to $0.9 million, $0.8 million and $0.7 million, respectively. The leases for the office space expire in March 2012, May 2012 and May 2013, and the lease for the warehouse space expires in July 2010. The future minimum lease commitments relating to these leases at December 31, 2009 equaled $2.2 million. The Company also paid $0.7 million and $3.7 million in construction costs to these same affiliates for the years ended December 31, 2008 and 2007, respectively.

20. Subsidiary Guarantors

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

With regard to the senior secured credit facility, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of operations and condensed consolidating statements of cash flows at, and for the year ended, December 31, 2007, as Penn had no significant independent assets and no independent operations at, and for the year ended, December 31, 2007. However, during the year ended December 31, 2008, the Company placed some of the funds received from the issuance of its Preferred Stock into unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds and this resulted in significant independent assets. Summarized financial information for the years ended December 31, 2009 and 2008 for Penn, the subsidiary guarantors of the senior secured credit facility and the subsidiary non-guarantors is presented below.

Under the terms of the $200 million 6⁷/₈% senior subordinated notes, most of Penn's subsidiaries are guarantors under the agreement. Each of the subsidiary guarantors is 100% owned by Penn. In addition, the guarantees provided by such subsidiaries under the terms of the $200 million 6⁷/₈% senior subordinated notes are full and unconditional, joint and several. There are no significant restrictions within the $200 million 6⁷/₈% senior subordinated notes on the Company's ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn's ability to obtain funds from its subsidiaries.

With regard to the $200 million 6⁷/₈% senior subordinated notes, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of operations and condensed consolidating statements of cash flows at, and for the year ended, December 31, 2007, as Penn had no significant independent assets and no independent operations at, and for the year ended, December 31, 2007. However, during the year ended December 31, 2008, the Company placed some of the funds received from the issuance of its Preferred Stock into unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds and this resulted in significant independent assets. Summarized financial information for the year ended December 31, 2008 for Penn, the subsidiary guarantors of the $200 million 6⁷/₈% senior subordinated notes and the subsidiary non-guarantors is presented below. Summarized financial information for the year ended December 31, 2009 is not reported because, during the year ended December 31, 2009, the Company repaid all of the outstanding aggregate principal amount of its $200 million 6⁷/₈% senior subordinated notes.

The Company's $250 million 6¾% senior subordinated notes and $325 million 8¾% senior subordinated notes are not guaranteed by the Company's subsidiaries.

	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
Senior Secured Credit Facility					
At December 31, 2009					
Condensed Consolidating Balance Sheet					
Total current assets	$ 69,290	$ 243,073	$ 586,140	$ 39,945	$ 938,448
Property and equipment, net	23,273	1,774,157	40,074	—	1,837,504
Total other assets	4,037,883	5,109,436	248,058	(7,458,713)	1,936,664
Total assets	$ 4,130,446	$ 7,126,666	$ 874,272	$ (7,418,768)	$ 4,712,616
Total current liabilities	$ 83,294	$ 285,926	$ 21,106	$ 39,930	$ 430,256
Total long-term liabilities	2,194,508	3,221,642	61,739	(3,047,605)	2,430,284
Total shareholders' equity	1,852,644	3,619,098	791,427	(4,411,093)	1,852,076
Total liabilities and shareholders' equity	$ 4,130,446	$ 7,126,666	$ 874,272	$ (7,418,768)	$ 4,712,616
Year Ended December 31, 2009					
Condensed Consolidating Statement of Operations					
Net revenues	$ —	$ 2,339,014	$ 30,261	$ —	$ 2,369,275
Total operating expenses	83,823	2,424,420	55,630	—	2,563,873
Loss from operations	(83,823)	(85,406)	(25,369)	—	(194,598)
Other income (expenses)	66,227	(211,391)	11,881	—	(133,283)
Loss from operations before income taxes	(17,596)	(296,797)	(13,488)	—	(327,881)
Taxes on income	(40,838)	(24,896)	5,266	—	(60,468)
Net income (loss) including noncontrolling interests	23,242	(271,901)	(18,754)	—	(267,413)
Less: Net loss attributable to noncontrolling interests	—	—	(2,465)	—	(2,465)
Net income (loss) attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	$ 23,242	$ (271,901)	$ (16,289)	$ —	$ (264,948)
Year Ended December 31, 2009					
Condensed Consolidating Statement of Cash Flows					
Net cash provided by (used in) operating activities	$ 101,367	$ 241,677	$ (4,798)	$ —	$ 338,246
Net cash used in investing activities	(1,877)	(236,242)	(24,540)	—	(262,659)

Net cash used in financing activities	(95,565)	(2,020)	(11,162)	—	(108,747)
Net increase (decrease) in cash and cash equivalents	3,925	3,415	(40,500)	—	(33,160)
Cash and cash equivalents at beginning of year	2,460	142,104	601,714	—	746,278
Cash and cash equivalents at end of year	$ 6,385	$ 145,519	$ 561,214	$ —	$ 713,118
Senior Secured Credit Facility					
At December 31, 2008					
Condensed Consolidating Balance Sheet					
Total current assets	$ 40,598	$ 235,862	$ 614,787	$ 15,056	$ 906,303
Property and equipment, net	17,707	1,781,982	12,442	—	1,812,131
Total other assets	4,351,845	2,351,302	262,923	(4,494,828)	2,471,242
Total assets	$ 4,410,150	$ 4,369,146	$ 890,152	$ (4,479,772)	$ 5,189,676
Total current liabilities	$ 105,147	$ 332,812	$ 17,468	$ 15,059	$ 470,486
Total long-term liabilities	2,247,736	3,667,014	97,151	(3,349,984)	2,661,917
Total shareholders' equity	2,057,267	369,320	775,533	(1,144,847)	2,057,273
Total liabilities and shareholders' equity	$ 4,410,150	$ 4,369,146	$ 890,152	$ (4,479,772)	$ 5,189,676

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

Total liabilities and shareholders' equity	$ 4,410,150	$ 4,490,876	$ 768,422	$ (4,479,772)	$ 5,189,676
Year Ended December 31, 2008					
Condensed Consolidating Statement of Operations					
Net revenues	$ —	$ 2,406,328	$ 16,725	$ —	$ 2,423,053
Total operating expenses	94,925	2,376,103	38,466	—	2,509,494
(Loss) income from operations	(94,925)	30,225	(21,741)	—	(86,441)
Other income (expenses)	239,920	(201,134)	70	—	38,856
Income (loss) from operations before income taxes	144,995	(170,909)	(21,671)	—	(47,585)
Taxes on income	38,851	66,102	785	—	105,738
Net income (loss)	$ 106,144	$ (237,011)	$ (22,456)	$ —	$ (153,323)
Year Ended December 31, 2008					
Condensed Consolidating Statement of Cash Flows					
Net cash (used in) provided by operating activities	$ (544,759)	$ 367,455	$ 597,767	$ —	$ 420,463
Net cash used in investing activities	(2,085)	(389,413)	—	—	(391,498)
Net cash provided by (used in) financing activities	552,233	(9,292)	—	—	542,941
Net increase (decrease) in cash and cash equivalents	5,389	(31,250)	597,767	—	571,906
Cash and cash equivalents at beginning of year	(2,929)	173,684	3,617	—	174,372
Cash and cash equivalents at end of year	$ 2,460	$ 142,434	$ 601,384	$ —	$ 746,278

21. Fair Value Measurements

ASC 820, "Fair Value Measurements and Disclosures," establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

The following tables set forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the consolidated balance sheet at December 31, 2009 and 2008 (in thousands):

	Balance Sheet Location	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2009 Total
Assets:					
Investment in corporate debt securities	Other assets	$ 4,550	$ —	$ —	$ 4,550
Liabilities:					
Interest rate swap contracts	Accrued interest	—	43,925	—	43,925

	Balance Sheet Location	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2008 Total
Assets:					
Investment in corporate debt securities	Other assets	$ 40,190	$ —	$ —	$ 40,190
Liabilities:					
Interest rate swap contracts	Accrued interest	—	63,185	—	63,185

The valuation technique used to measure the fair value of the investment in corporate debt securities and interest rate swap contracts was the market approach.

In conjunction with the opening of the new casino riverboat at Hollywood Casino Lawrenceburg, the Company recorded a pre-tax impairment charge for the replaced Lawrenceburg vessel of $11.9 million ($7.1 million, net of taxes) during the year ended December 31, 2009. In addition, as a result of the anticipated impact of gaming expansion in Ohio, the Company recorded a pre-tax impairment charge of $520.5 million ($368.8 million, net of taxes) during the year ended December 31, 2009, as the Company determined that a portion of the value of goodwill and indefinite-life intangible assets associated with the original purchase of Hollywood Casino Lawrenceburg was impaired.

The following table sets forth the assets and liabilities measured at fair value on a nonrecurring basis, by input level, in the consolidated balance sheet at December 31, 2009 (in thousands):

	Balance Sheet Location	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2009 Total	Total Reduction in Fair Value Recorded at December 31, 2009
Assets:						
Goodwill	Goodwill	$ —	$ —	$ 1,379,961	$ 1,379,961	$ (213,260)
Indefinite-life intangible assets	Other intangible assets	—	—	368,886	368,886	(307,228)
Long-lived assets	Other assets	—	6,750	—	6,750	(11,889)
						$ (532,377)

The valuation technique used to measure the fair value of goodwill, indefinite-life intangible assets and long-lived assets was the market approach. See Note 4 to the Consolidated Financial Statements for a description of the inputs and the information used to develop the inputs in calculating the fair value measurements of goodwill, indefinite-life intangible assets and long-lived assets.

22. Empress Casino Hotel Fire

On March 20, 2009, the Company's Empress Casino Hotel, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and the Company began construction of a new land-based pavilion.

The Company carries a builders' risk insurance policy for the on-going renovations with a policy limit of $57 million, inclusive of $14 million for delay in completion and $43 million for property damage. The builders' risk insurance policy includes a $50,000 property damage deductible and a 30-day delay in completion deductible for the peril of fire. In addition, the Company carries comprehensive business interruption and property damage insurance for the operational components of the Empress Casino Hotel with an overall limit of $228 million. The operational insurance policy includes a $2.5 million property damage deductible and a 48-hour business interruption deductible for the peril of fire.

During the year ended December 31, 2009, the Company recorded a $6.1 million pre-tax loss for the insurance deductibles for property damage, business interruption and employee lost wages, as well as a write-off of construction fees related to the renovation that are not recoverable under the Company's insurance policies.

The $33.5 million insurance receivable recorded at December 31, 2009 was limited to the net book value of assets believed to be damaged, destroyed or abandoned and other costs incurred during the year ended December 31, 2009 as a result of the fire at Empress Casino Hotel that are expected to be recovered via the insurance claim. During the year ended December 31, 2009, the Company received $20.6 million in insurance proceeds related to the fire at Empress Casino Hotel.

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

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the MTGA. Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTWs located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the

MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Amendment and Release with the MTGA pertaining to the Purchase Agreement, and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. The Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA was payable over five years. In March 2009, the Company entered into the Third Amendment to the Purchase Agreement, in which the remaining payments due under the Purchase Agreement were accelerated and reduced. Under the Third Amendment to the Purchase Agreement, in exchange for the accelerated payment, which was paid to the MTGA in March 2009, all remaining obligations under the Purchase Agreement were deemed to be satisfied and, as a result, the Company recorded a $1.3 million gain during the year ended December 31, 2009, which is included in other income within the consolidated statements of operations.

24. Subsequent Events

The Company evaluated all subsequent events through the date that the consolidated financial statements were issued. No material subsequent events have occurred since December 31, 2009 that required recognition or disclosure in the consolidated financial statements.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting, and concluded that it was effective as of December 31, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework* .

The effectiveness of the Company's internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited Penn National Gaming, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Penn National Gaming, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Penn National Gaming, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 26, 2010

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning directors is hereby incorporated by reference to the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders (the "2010 Proxy Statement"), to be filed with the U.S. Securities and Exchange Commission within 120 days after December 31, 2009, pursuant to Regulation 14A under the Securities Act. Information required by this item concerning executive officers is included in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for in this item is hereby incorporated by reference to the 2010 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 2010 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information called for in this item is hereby incorporated by reference to the 2010 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for in this item is hereby incorporated by reference to the 2010 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2009 and 2008

Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007

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

3. Exhibits, Including Those Incorporated by Reference.

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

SIGNATURES

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

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

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

Dated: February 26, 2010

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

Signature	Title	Date
/s/ PETER M. CARLINO Peter M. Carlino	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2010
/s/ WILLIAM J. CLIFFORD William J. Clifford	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)	February 26, 2010
/s/ DESIREE A. BURKE Desiree A. Burke	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 26, 2010
/s/ HAROLD CRAMER Harold Cramer	Director	February 26, 2010
/s/ WESLEY R. EDENS Wesley R. Edens	Director	February 26, 2010
/s/ DAVID A. HANDLER David A. Handler	Director	February 26, 2010
/s/ JOHN M. JACQUEMIN John M. Jacquemin	Director	February 26, 2010
/s/ ROBERT P. LEVY Robert P. Levy	Director	February 26, 2010
/s/ BARBARA Z. SHATTUCK Barbara Z. Shattuck	Director	February 26, 2010

EXHIBIT INDEX

Exhibit	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of August 7, 2002, by and among Hollywood Casino Corporation, Penn National Gaming, Inc. and P Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, dated August 7, 2002).
2.2	Purchase Agreement by and among PNGI Pocono Corp., PNGI, LLC, and the Mohegan Tribal Gaming Authority, dated October 14, 2004. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed October 20, 2004).
2.2(a)	Amendment No. 1 to Purchase Agreement, dated as of January 7, 2005, by and among PNGI Pocono Corp., PNGI, LLC, and The Mohegan Tribal Gaming Authority. (Incorporated by reference to Exhibit 2.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).
2.2(b)	Second Amendment to Purchase Agreement and Release of Claims, dated as of August 7, 2006, between PNGI Pocono Inc. and The Mohegan Tribal Gaming Authority, and joined in by Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).
2.2(c)	Third Amendment to Purchase Agreement and Release of Claims, dated as of March 10, 2009, between PNGI Pocono Corp., PNGI, LLC and The Mohegan Tribal Gaming Authority (Incorporated by reference to Exhibit 2.2(c) to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2009).
2.3	Agreement and Plan of Merger, dated as of November 3, 2004, among Penn National Gaming, Inc., Argosy Gaming Company and Thoroughbred Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed November 5, 2004).
2.4	Agreement to Execute Securities Purchase Agreement, dated June 20, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C. and Columbia Sussex Corporation. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed June 22, 2005).
2.4(a)	Letter agreement, dated October 3, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C., Columbia Sussex Corporation and Wimar Tahoe Corporation amending Agreement to Execute Securities Purchase Agreement. (Incorporated by reference to Exhibit 10.3 to the Company's current report on Form 8-K, filed October 4, 2005).
2.5	Securities Purchase Agreement, dated October 3, 2005, among Argosy Gaming Company, Wimar Tahoe Corporation and CP Baton Rouge Casino, L.L.C. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K, filed October 4, 2005).
2.6	Asset Purchase Agreement, dated as of November 7, 2006, by and among Zia Partners, LLC, Zia Park, LLC and (solely with respect to Section 2.6 and Articles VI and XII thereof) Penn National Gaming, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed November 9, 2006).
2.6(a)	First Amendment to Asset Purchase Agreement, dated as of April 13, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's current report on Form 8-K filed on April 18, 2007).
2.6(b)	Second Amendment to Asset Purchase Agreement, dated as of April 16, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.3 to the Company's current report on Form 8-K filed on April 18, 2007).

Exhibit	Description of Exhibit
2.7	Agreement and Plan of Merger, dated as of June 15, 2007, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc. and PNG Merger Sub Inc. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K filed on June 15, 2007).
2.8	Asset Purchase Agreement, dated as of November 16, 2009, by and among Fontainebleau Las Vegas Holdings, LLC, Fontainebleau Las Vegas, LLC, Fontainebleau Las Vegas Capital Corp., Fontainebleau Las Vegas Retail Parent, LLC, Fontainebleau Las Vegas Retail Mezzanine, LLC, Fontainebleau Las Vegas Retail, LLC and Nevada Gaming Ventures, Inc. (Incorporated by reference to Exhibit 99.1 to the Company's current report on Form 8-K, filed on November 17, 2009)
3.1	Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on October 15, 1996. (Incorporated by reference to Exhibit 3.1 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on November 13, 1996. (Incorporated by reference to Exhibit 3.2 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.3	Statement with respect to shares of Series A Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on March 16, 1999. (Incorporated by reference to Exhibit 3.3 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 23, 2001. (Incorporated by reference to Exhibit 3.4 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
3.5	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on December 28, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K, filed on January 2, 2008).
3.6	Second Amended and Restated Bylaws of Penn National Gaming, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K filed on November 18, 2008).
3.7	Statement with Respect to Shares of Series B Redeemable Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 9, 2008. (Incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on July 9, 2008).
4.1	Specimen copy of Common Stock Certificate (Incorporated by reference to Exhibit 3.6 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003).
4.2	Indenture dated as of December 4, 2003 by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6 7/8 % Senior Subordinated Notes due 2011 (Incorporated by reference to Exhibit 4.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).
4.3	Form of Penn National Gaming, Inc. 6 7/8% Senior Subordinated Note due 2011. (Included as Exhibit A to Exhibit 4.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).
4.4	Form of 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 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).

Exhibit	Description of Exhibit
4.5	Indenture dated as of March 9, 2005 by and among Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6 3/4 % Senior Subordinated Notes due 2015. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed March 15, 2005).
4.5(a)	First Supplemental Indenture dated as of July 5, 2005 between Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6 3/4 % Senior Subordinated Notes due 2015. (Incorporated by reference to Exhibit 10.37 to the Company's registration statement on Form S-4, filed July 7, 2005 (File #333-125274)).
4.6	Form of Penn National Gaming, Inc. 6¾% Senior Subordinated Note due 2015. (Included as Exhibit A to Exhibit 4.6).
4.7	Specimen copy of Series B Redeemable Preferred Stock Certificate. (Incorporated by reference to Exhibit 4.8 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008).
4.8	Investor Rights Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on July 9, 2008).
4.9	Indenture, dated as of August 14, 2009, between Penn National Gaming, Inc. and Wells Fargo Bank, National Association, as trustee, relating to the 8 3/4 % Senior Subordinated Notes due 2019 (Incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K, filed on August 14, 2009).
9.1	Form of Trust Agreement of Peter D. Carlino, Peter M. Carlino, Richard J. Carlino, David E. Carlino, Susan F. Harrington, Anne de Lourdes Irwin, Robert M. Carlino, Stephen P. Carlino and Rosina E. Carlino Gilbert. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.1#	Penn National Gaming, Inc. 1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.2#	Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Appendix A of the Company's Proxy Statement dated April 22, 2003 filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended).
10.2(a)#	Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.2(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.2(b)#	Form of Incentive Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.2(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.2(c)#	Form of Restricted Stock Award for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.2(c) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.3#	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to Exhibit 10.3 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008).
10.4#	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and William Clifford. (Incorporated by reference to Exhibit 10.4 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008).
10.5#	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Jordan B. Savitch. (Incorporated by reference to Exhibit 10.5 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008).

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

Exhibit	Description of Exhibit
10.16	Credit Agreement, dated October 3, 2005 by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed October 4, 2005).
10.16(a)	Amendment, dated September 18, 2006, to the Credit Agreement by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on September 21, 2006).
10.16(b)	Second Amendment to Credit Agreement, dated as of September 23, 2009, among Penn National Gaming, Inc., certain of its subsidiaries, Deutsche Bank Securities Inc., Wells Fargo Securities, LLC, Banc of America Securities LLC and RBS Securities Inc., as co-lead arrangers and co-book running managers, Wells Fargo Bank, National Association and Bank of America, N.A., as syndication agents, the lenders party thereto, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and Collateral Agent under the Credit Agreement (as defined therein), and Wachovia Bank National Association, as L/C Lender under the Credit Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on September 25, 2009).
10.17	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).
10.18	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).
10.19	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).
10.20#	Penn National Gaming, Inc. Nonqualified Stock Option granted to Peter M. Carlino, dated February 6, 2003. (Incorporated by reference to Exhibit 10.26 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).
10.21	Ground Lease, dated March 23, 2007, between Skrmetta MS, LLC as Landlord and BTN, Inc., a wholly-owned subsidiary of Penn National Gaming, Inc., as Tenant. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2007).
10.22	Penn-Argosy Merger Approval Agreement between the Illinois Gaming Board and Penn National Gaming, Inc., effective September 29, 2005. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2005).

Exhibit	Description of Exhibit
10.22(a)	First Amendment to the September 29, 2005 Penn-Argosy Merger Approval Agreement, dated April 25, 2006, between Penn National Gaming, Inc. and the Illinois Gaming Board. (Incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2006).
10.23	Riverboat Gaming Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company, L.P. dated as of April 13, 1994, as amended by Amendment Number One to Riverboat Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company L.P., dated as of December 28, 1995 (Incorporated by reference to Argosy Gaming Company's annual report on Form 10-K for the fiscal year ended December 31, 1995).
10.23(a)	Second Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated August 20, 1996. (Incorporated by reference to Exhibit 10.23(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.23(b)	Third Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated June 24, 2004. (Incorporated by reference to Exhibit 10.2 of Argosy Gaming Company's quarterly report on Form 10-Q for the quarter ended September 30, 2004).
10.24#	Compensatory Arrangements with Certain Executive Officers. (Incorporated by reference to Exhibit 10.26 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007)
10.25#	Penn National Gaming, Inc. Deferred Compensation Plan, as amended. (Incorporated by reference to Exhibit 10.27 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006).
10.26#	Description of Penn National Gaming, Inc. Annual Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on June 12, 2007).
10.27#	Employment Agreement by and between Penn National Gaming, Inc. and Tim Wilmott dated December 31, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on January 7, 2009).
10.28	Stock Purchase Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on July 9, 2008).
10.29	Termination and Settlement Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc., PNG Merger Sub Inc., PNG Holdings LLC, FIG PNG Holdings LLC, Fortress Investment Fund V (Fund A) L.P., Fortress Investment Fund V (Fund D) L.P., Fortress Investment Fund V (Fund E) L.P., Fortress Investment Fund V (Fund B) L.P., Fortress Investment Fund V (Fund C) L.P., Fortress Investment Fund V (Fund F) L.P., CB PNG Holdings LLC, Centerbridge Capital Partners, L.P., Centerbridge Capital Partners Strategic, L.P., Centerbridge Capital Partners SBS, L.P., DB Investment Partners, Inc., Wachovia Investment Holdings, LLC, Deutsche Bank Securities Inc., Deutsche Bank AG New York Branch, Wachovia Capital Markets, LLC, Wachovia Bank, National Association and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on July 9, 2008).
10.30#	Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.32 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008).

Exhibit	Description of Exhibit
10.31	Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.33 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008).
10.32*	Form of Restricted Stock Award for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan.
10.33#	Employment Agreement by and between Penn National Gaming, Inc. and John Finamore dated December 31, 2008. (Incorporated by reference to Exhibit 10.35 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008).
10.34	Registration Rights Agreement, dated as of August 14, 2009, among Penn National Gaming, Inc. and Deutsche Bank Securities Inc., Wells Fargo Securities, LLC, Banc of America Securities LLC and RBS Securities Inc., each for itself and on behalf of each of the other initial purchasers (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on August 14, 2009).
10.35	Debtor-In-Possession Credit Agreement, dated as of November 16, 2009, among Fontainebleau Las Vegas Holdings, LLC, Fontainebleau Las Vegas, LLC, Fontainebleau Las Vegas Capital Corp., the Lenders party thereto and Nevada Gaming Ventures, Inc. (Incorporated by reference to Exhibit 99.2 to the Company's current report on Form 8-K/A, filed on November 18, 2009)
14.1	Penn National Gaming, Inc. Code of Business Conduct. (Incorporated by reference to Exhibit 14.1 to the Company's current report on Form 8-K, filed on April 24, 2006).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
99.1*	Description of Governmental Regulation.

#
Compensation plans and arrangements for executives and others.

*
Filed herewith.

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.32

PENN NATIONAL GAMING, INC.

NOTICE OF AWARD OF RESTRICTED STOCK

The purpose of this Notice is to inform you that an Award of Restricted Stock of Penn National Gaming, Inc. (the "Company") has been made to you pursuant to the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as follows:

Name and Address of Grantee: _____
_____
_____

Date of Grant:

Type of Grant:
Restricted Stock Award

Number of shares:

Lapse of Forfeiture Restrictions:

_____ shares on _____ [1st anniversary of Date of Grant]
_____ shares on _____ [2nd anniversary of Date of Grant]
_____ shares on _____ [3rd anniversary of Date of Grant]
_____ shares on _____ [4th anniversary of Date of Grant]

OR

_____ shares on _____ [1st anniversary of Date of Grant]
_____ shares on _____ [2nd anniversary of Date of Grant]
_____ shares on _____ [3rd anniversary of Date of Grant]

OR

_____ shares on _____ [4th anniversary of Date of Grant]
_____ shares on _____ [5th anniversary of Date of Grant]

The Award is subject to all the terms and conditions of the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, which is available upon request.

GRANTEE

Date: _____ _____

PENN NATIONAL GAMING, INC.

Date: _____ _____

By: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

PENN NATIONAL GAMING, INC.
RESTRICTED STOCK AWARD AGREEMENT

All Restricted Stock is subject to the provisions of the 2008 Long Term Incentive Compensation Plan (the "Plan") and any rules and regulations established by the Compensation Committee of the Board of Directors of Penn National Gaming, Inc. A copy of the Plan is available upon request. Unless specifically defined herein, words used herein with initial capitalized letters are defined in the attached Notice or the Plan.

The terms provided herein are applicable to the Restricted Stock Award specified in the attached Notice. Different terms may apply to any prior or future awards under the Plan.

I. PAYMENT FOR SHARES

There is no exercise price or other payment required from you in exchange for this Restricted Stock Award.

II. FORFEITURE RESTRICTIONS/LAPSE OF RESTRICTIONS

This Restricted Stock Award is subject to forfeiture until lapse of such forfeiture restrictions as set forth below. The lapse of such forfeiture restrictions means that the Common Stock subject to the Award shall, thereafter, be fully transferable by you, subject to compliance with Section VIII of this Award Agreement. Until the lapse of such forfeiture restrictions you may not sell, transfer, pledge or otherwise dispose of the shares of Common Stock subject to this Restricted Stock Award.

The forfeiture restrictions on this Restricted Stock Award shall lapse in [25% installments on each of the first, second, third and fourth anniversaries of the Date of Grant] OR [33.33% installments on each of the first, second and third anniversaries of the Date of Grant] OR [50% installments on each of the fourth and fifth anniversaries of the Date of Grant].

In addition, the forfeiture restrictions on this Restricted Stock Award shall lapse in their entirety as of the occurrence of any of the following events:

A. Your service as an Employee or Director of the Company, as applicable, terminates because of your death or Disability; or

B. A Change of Control (as defined in the Plan) occurs.

There are no additional events or occurrences that shall lead to lapse of any forfeiture restrictions on this Award.

III. FORFEITURE

If your service as an Employee or Director of the Company, as applicable, terminates for any reason (except as otherwise provided for in the Plan or this Award Agreement), then all of the Restricted Stock that remains subject to forfeiture restrictions at such time shall be cancelled and forfeited. This means that the Restricted Stock will immediately revert to the Company. You will receive no payment for shares of Restricted Stock that are forfeited.

IV. LEAVES OF ABSENCE

For purposes of this Award, your service as an Employee or Director, as applicable, does not terminate when you go on a leave of absence recognized under the Plan. Your service will terminate when the leave of absence ends, however, unless you immediately return to active service in the applicable capacity.

V. STOCK CERTIFICATES

The Restricted Stock, or any part thereof, may be represented by certificates or may be notated the form of uncertificated shares. The rights and obligations of the holder of shares represented by a certificate and the rights and obligations of the holder of uncertificated shares of the same class and series shall be identical. During the Restricted Period the shares underlying this Restricted Stock Award

will be held for you by the Company. After the lapse of any applicable forfeiture restrictions, the shares of Common Stock will be released to you in the form of a stock certificate or uncertificated shares at your option.

VI. VOTING AND DIVIDEND RIGHTS

You may vote your Restricted Stock and you will receive any dividends paid with respect to your Restricted Stock even before the lapse of forfeiture restrictions. Dividends with respect to your Restricted Stock will be paid on the same date or dates that dividends are payable on the Common Stock to Company shareholders generally.

VII. WITHHOLDING TAXES

No stock certificate or other evidence of shares of Common Stock will be released or issued to you unless you have made arrangements, acceptable to the Company, to pay any withholding taxes that may be due as a result of the lapse of the forfeiture restrictions. In accordance with the Plan, you are authorized to make payment of any such withholding tax in cash, by payroll deduction, by authorizing the Company to withhold shares of Common Stock from this Award or by surrendering to the Company shares of Common Stock that you already own. In the event you elect to authorize the Company to withhold shares of Common Stock from this Award, you can only authorize the retention of shares of Common Stock equal to the minimum tax withholding obligation. The Fair Market Value of the shares of Common Stock retained by the Company or surrendered by you shall be determined in accordance with the Plan as of the date the tax obligation arises.

VIII. RESTRICTIONS ON RESALE

By signing this Award Agreement, you agree not to sell any shares of Common Stock free from the forfeiture restrictions of this Award at a time when applicable laws or Company policies would prohibit a sale. This restriction will apply as long as you are an Employee or Director of the Company, as applicable.

IX. NO RIGHT TO CONTINUED SERVICE

This Restricted Stock Award does not give you the right to continue in service with the Company in any capacity. The Company reserves the right to terminate your services at any time, with or without cause, subject to any employment agreement or other contract.

X. ADJUSTMENTS

In the event of a stock split, a stock dividend or a similar change in the Common Stock, the number of shares of Restricted Stock that remain subject to forfeiture will be adjusted accordingly.

XI. APPLICABLE LAW

This Award Agreement will be interpreted and enforced under the laws of the Commonwealth of Pennsylvania, without regard to its choice of law provisions.

XII. ENTIRE AGREEMENT/AMENDMENT

The text of the Plan is incorporated in this Award Agreement by reference.

This Award Agreement and the Plan constitute the entire understanding between you and the Company regarding this Award. Any prior agreements, commitments or negotiations concerning this Award are superseded. This Award Agreement may be amended in a way that is adverse to you or your beneficiaries only by another written agreement, signed by both parties, otherwise, the rights of

the Board or Grantor as set forth in the Plan control as to any modification, alteration or amendment of this Award.

BY SIGNING THE ATTACHED NOTICE,
YOU AGREE TO ALL OF THE TERMS AND CONDITIONS
DESCRIBED IN THIS AWARD AGREEMENT AND IN THE PLAN.

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Exhibit 21.1

Subsidiaries of Penn National Gaming, Inc. (a Pennsylvania corporation)

Name of Subsidiary	State or Other Jurisdiction of Incorporation
Alton Gaming Company (d/b/a Argosy Casino Alton)	Illinois
Argosy Gaming Company	Delaware
Argosy of Iowa, Inc.	Iowa
Bangor Historic Track, Inc. (d/b/a Hollywood Slots Hotel and Raceway)	Maine
Belle of Sioux City, L.P. (d/b/a Argosy Casino Sioux City)	Iowa
BSL, Inc. (d/b/a Hollywood Casino at Bay St. Louis)	Mississippi
BTN, Inc. (d/b/a Boomtown Biloxi)	Mississippi
Casino Rama Services, Inc.	Ontario
CHC (Ontario) Supplies Limited	Nova Scotia
CHC Casinos Canada Limited	Nova Scotia
CHC Casinos Corp.	Florida
Columbus Gaming Ventures, Inc.	Ohio
Concord Gaming Ventures, LLC	Delaware
Crazy Horses, Inc.	Ohio
CRC Holdings, Inc.	Florida
Delvest Corp.	Delaware
Delvest Sub. Corp.	Delaware
eBetUSA.com, Inc.	Delaware
Empress Casino Joliet Corporation (d/b/a Empress Casino Hotel)	Illinois
Hollywood Casino Corporation	Delaware
Hollywood Casino—Aurora, Inc. (d/b/a Hollywood Casino Aurora)	Illinois
HWCC—Tunica, Inc. (d/b/a Hollywood Casino Tunica)	Texas
Indiana Gaming Company, L.P. (d/b/a Hollywood Casino Lawrenceburg)	Indiana
Indiana Gaming Holding Company	Indiana
Indiana Gaming II, L.P.	Indiana
Iowa Gaming Company	Iowa
Kansas Entertainment, LLC	Delaware
Kansas Penn Gaming LLC	Delaware
Louisiana Casino Cruises, Inc. (d/b/a Hollywood Casino Baton Rouge)	Louisiana
Mountainview Thoroughbred Racing Association (d/b/a Hollywood Casino at Penn National Race Course)	Pennsylvania
Nevada Gaming Ventures, Inc.	Nevada
Ohio Racing Company	Ohio
Penn Bullpen, Inc.	Colorado
Penn Bullwhackers Retail, LLC	Colorado
Penn Bullwhackers, Inc. (d/b/a Bullwhackers Casino)	Colorado
Penn Cecil Maryland, Inc.	Maryland
Penn Hollywood Kansas, Inc.	Delaware

Penn National GSFR, LLC	Delaware
Penn National Holding Company	Delaware
Penn Sanford, LLC (d/b/a Sanford-Orlando Kennel Club)	Delaware
Penn Ventures, LLC	Delaware
Pennsylvania National Turf Club, Inc. (d/b/a Hollywood Casino at Penn National Race Course)	Pennsylvania
Pennwood Racing, Inc.	Delaware
PNGI Charles Town Gaming Limited Liability Company (d/b/a Charles Town Races & Slots)	West Virginia
Raceway Park, Inc. (d/b/a Raceway Park)	Ohio
SOKC, LLC (d/b/a Sanford-Orlando Kennel Club)	Delaware
The Indiana Gaming Company	Indiana
The Missouri Gaming Company (d/b/a Argosy Casino Riverside)	Missouri
Toledo Gaming Ventures, Inc.	Ohio
Zia Park LLC (d/b/a Black Gold Casino at Zia Park)	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-4 No. 333-164505) of Penn National Gaming, Inc.,
(2) Registration Statement (Form S-3 No. 333-156487) of Penn National Gaming, Inc.,
(3) Registration Statement (Form S-8 No. 333-125928) pertaining to the Nonqualified Stock Option Agreement with Peter M. Carlino,
(4) Registration Statement (Form S-8 No. 333-108173) pertaining to the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan, and
(5) Registration Statement (Form S-8 No. 333-61684) pertaining to the Amended and Restated Penn National Gaming, Inc. 1994 Stock Option Plan;

of our reports dated February 26, 2010, with respect to the consolidated financial statements of Penn National Gaming, Inc. and the effectiveness of internal control over financial reporting of Penn National Gaming, Inc., included in the Annual Report (Form 10-K) for the year ended December 31, 2009.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
February 26, 2010

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Peter M. Carlino, certify that:*1.*
I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2.
Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.
Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.
The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a)
Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)
Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c)
Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d)
Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.
The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a)
All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b)
Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2010

/s/ PETER M. CARLINO

Name: Peter M. Carlino
Title: *Chief Executive Officer*

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Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, William J. Clifford, certify that:*1.*
I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2.
Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.
Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.
The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a)
Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)
Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c)
Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d)
Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.
The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a)
All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b)
Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2010

/s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: *Chief Financial Officer*

QuickLinks
Exhibit 31.2

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, 2009 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Peter M. Carlino, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ PETER M. CARLINO

Peter M. Carlino
Chief Executive Officer
February 26, 2010

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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, 2009 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Clifford, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ WILLIAM J. CLIFFORD

William J. Clifford
Chief Financial Officer
February 26, 2010

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Exhibit 99.1

Description of Governmental Regulations

General

The ownership, operation, and management of our gaming and racing facilities are subject to pervasive regulation under the laws and regulations of each of the jurisdictions in which we operate. Gaming laws are generally based upon declarations of public policy designed to protect gaming consumers and the viability and integrity of the gaming industry. Gaming laws also may be designed to protect and maximize state and local revenues derived through taxes and licensing fees imposed on gaming industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, gaming laws establish procedures to ensure that participants in the gaming industry meet certain standards of character and fitness. In addition, gaming laws require gaming industry participants to:

- Ensure that unsuitable individuals and organizations have no role in gaming operations;
- Establish procedures designed to prevent cheating and fraudulent practices;
- Establish and maintain responsible accounting practices and procedures;
- Maintain effective controls over their financial practices, including establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- Maintain systems for reliable record keeping;
- File periodic reports with gaming regulators;
- Ensure that contracts and financial transactions are commercially reasonable, reflect fair market value and are arms-length transactions; and
- Establish programs to promote responsible gaming.

Typically, a state regulatory environment is established by statute and is administered by a regulatory agency with broad discretion to regulate the affairs of owners, managers, and persons with financial interests in gaming operations. Among other things, gaming authorities in the various jurisdictions in which we operate:

- Adopt rules and regulations under the implementing statutes;
- Interpret and enforce gaming laws;
- Impose disciplinary sanctions for violations, including fines and penalties;
- Review the character and fitness of participants in gaming operations and make determinations regarding their suitability or qualification for licensure;
- Grant licenses for participation in gaming operations;
- Collect and review reports and information submitted by participants in gaming operations;
- Review and approve transactions, such as acquisitions or change-of-control transactions of gaming industry participants, securities offerings and debt transactions engaged in by such participants; and
- Establish and collect fees and taxes.

Any change in the laws or regulations of a gaming jurisdiction could have a material adverse effect on our gaming operations.

Licensing and Suitability Determinations

Gaming laws require us, each of our subsidiaries engaged in gaming operations, certain of our directors, officers and employees, and in some cases, certain of our shareholders and holders of our debt securities, to obtain licenses from gaming authorities. Licenses typically require a determination that the applicant qualifies or is suitable to hold the license. Gaming authorities have very broad

discretion in determining whether an applicant qualifies for licensing or should be deemed suitable. Criteria used in determining whether to grant a license to conduct gaming operations, while varying between jurisdictions, generally include consideration of factors such as:

- The good character, honesty and integrity of the applicant;

- The financial stability, integrity and responsibility of the applicant, including whether the operation is adequately capitalized in the state and exhibits the ability to maintain adequate insurance levels;

- The quality of the applicant's casino facilities;

- The amount of revenue to be derived by the applicable state from the operation of the applicant's casino;

- The applicant's practices with respect to minority hiring and training; and

- The effect on competition and general impact on the community.

In evaluating individual applicants, gaming authorities consider the individual's business experience and reputation for good character, the individual's criminal history and the character of those with whom the individual associates.

Many gaming jurisdictions limit the number of licenses granted to operate casinos within the state, and some states limit the number of licenses granted to any one gaming operator. Licenses under gaming laws are generally not transferable without approval. Licenses in most of the jurisdictions in which we conduct gaming operations are granted for limited durations and require renewal from time to time. Our management agreement through which we operate Casino Rama extends until 2011, with the Province of Ontario possessing the option to extend the agreement for two successive periods of five years each. There can be no assurance that any of our licenses will be renewed or that our management agreement in Ontario will be extended beyond 2011. The failure to renew any of our licenses or to obtain an extension to our management agreement in Ontario could have a material adverse effect on our gaming operations. In addition, Iowa law requires that a qualified nonprofit organization hold the gaming license. At Argosy Casino Sioux City, we are the operator of the property. We own the assets (other than the land) and we manage the facility for Missouri River Historical Development, Inc. (the licensed nonprofit organization).

In addition to us and our direct and indirect subsidiaries engaged in gaming operations, gaming authorities may investigate any individual who has a material relationship to or material involvement with, any of these entities to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Our officers, directors and certain key employees must file applications with the gaming authorities and may be required to be licensed, qualify or be found suitable in many jurisdictions. Gaming authorities may deny an application for licensing for any cause which they deem reasonable. Qualification and suitability determinations require submission of detailed personal and financial information followed by a thorough investigation. The applicant must pay all the costs of the investigation. Changes in licensed positions must be reported to gaming authorities and in addition to their authority to deny an application for licensure, qualification or a finding of suitability, gaming authorities have jurisdiction to disapprove a change in a corporate position.

If one or more gaming authorities were to find that an officer, director or key employee fails to qualify or is unsuitable for licensing or unsuitable to continue having a relationship with us, we would be required to sever all relationships with such person. In addition, gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications.

Moreover, in many jurisdictions, certain of our stockholders or holders of our debt securities may be required to undergo a suitability investigation similar to that described above. Many jurisdictions require any person who acquires beneficial ownership of more than a certain percentage of our voting securities, typically 5%, to report the acquisition to gaming authorities, and gaming authorities may

require such holders to apply for qualification or a finding of suitability. Most gaming authorities, however, allow an "institutional investor" to apply for a waiver. An "institutional investor" is generally defined as an investor acquiring and holding voting securities in the ordinary course of business as an institutional investor, and not for the purpose of causing, directly or indirectly, the election of a member of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or those of any of our gaming affiliates, or the taking of any other action which gaming authorities find to be inconsistent with holding our voting securities for investment purposes only. Even if a waiver is granted, an institutional investor generally may not take any action inconsistent with its status when the waiver was granted without once again becoming subject to the foregoing reporting and application obligations.

Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period after being advised it is required by gaming authorities may be denied a license or found unsuitable, as applicable. Any stockholder found unsuitable or denied a license and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Furthermore, we may be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any of our subsidiaries, we: (i) pay that person any dividend or interest upon our voting securities; (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; (iii) pay remuneration in any form to that person for services rendered or otherwise; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

The gaming jurisdictions in which we operate also require that suppliers of certain goods and services to gaming industry participants be licensed and require us to purchase and lease gaming equipment, and certain supplies and services only from licensed suppliers.

Violations of Gaming Laws

If we or our subsidiaries violate applicable gaming laws, our gaming licenses could be limited, conditioned, suspended or revoked by gaming authorities, and we and any other persons involved could be subject to substantial fines. Further, a supervisor or conservator can be appointed by gaming authorities to operate our gaming properties, or in some jurisdictions, take title to our gaming assets in the jurisdiction, and under certain circumstances, earnings generated during such appointment could be forfeited to the applicable state or states. Furthermore, violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. As a result, violations by us of applicable gaming laws could have a material adverse effect on our gaming operations.

Some gaming jurisdictions prohibit certain types of political activity by a gaming licensee, its officers, directors and key people. A violation of such a prohibition may subject the offender to criminal and/or disciplinary action.

Reporting and Record-keeping Requirements

We are required periodically to submit detailed financial and operating reports and furnish any other information about us and our subsidiaries which gaming authorities may require. Under federal law, we are required to record and submit detailed reports of currency transactions involving greater than $10,000 at our casinos as well as any suspicious activity that may occur at such facilities. We are required to maintain a current stock ledger which may be examined by gaming authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to gaming authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Gaming authorities may require certificates for our securities to bear a legend indicating that the securities are subject to specified gaming laws.

Review and Approval of Transactions

Substantially all material loans, leases, sales of securities and similar financing transactions by us and our subsidiaries must be reported to and in some cases approved by gaming authorities. Neither we nor any of our subsidiaries may make a public offering of securities without the prior approval of certain gaming authorities. Changes in control through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or otherwise are subject to receipt of prior approval of gaming authorities. Entities seeking to acquire control of us or one of our subsidiaries must satisfy gaming authorities with respect to a variety of stringent standards prior to assuming control. Gaming authorities may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

Because of regulatory restrictions, our ability to grant a security interest in any of our gaming assets is limited and subject to receipt of prior approval by gaming authorities.

License Fees and Gaming Taxes

We pay substantial license fees and taxes in many jurisdictions, including some of the counties and cities in which our operations are conducted, in connection with our casino gaming operations, computed in various ways depending on the type of gaming or activity involved. Depending upon the particular fee or tax involved, these fees and taxes are payable with varying frequency. License fees and taxes are based upon such factors as:

- a percentage of the gross gaming revenues received;
- the number of gaming devices and table games operated;
- admission fees for customers boarding our riverboat casinos; and
- one time fees payable upon the initial receipt of license and fees in connection with the renewal of license.

In many jurisdictions, gaming tax rates are graduated such that they increase as gross gaming revenues increase. Furthermore, tax rates are subject to change, sometimes with little notice, and such changes could have a material adverse effect on our gaming operations.

In addition to taxes specifically unique to gaming, we are required to pay all other applicable taxes.

Operational Requirements

In most jurisdictions, we are subject to certain requirements and restrictions on how we must conduct our gaming operations. In many states, we are required to give preference to local suppliers and include minority and women-owned businesses as well as organized labor in construction projects to the maximum extent practicable as well as in general vendor business activity. Similarly, we may be required to give employment preference to minorities, women and in-state residents in certain jurisdictions.

Some gaming jurisdictions also prohibit a distribution, except to allow for the payment of taxes, if the distribution would impair the financial viability of the gaming operation. Moreover, many jurisdictions require a gaming operation to maintain insurance and post bonds in amounts determined by their gaming authority.

In addition, our ability to conduct certain types of games, introduce new games or move existing games within our facilities may be restricted or subject to regulatory review and approval. Some of our operations are subject to restrictions on the number of gaming positions we may have and the maximum wagers allowed to be placed by our customers.

In Maine, we are a party to a development agreement with the City of Bangor which requires that either we or an alternative developer construct a hotel when gaming revenues at the Bangor facility exceed $60 million in a calendar year. We constructed a hotel which opened in 2008.

In Mississippi, we are required to include a 500 car parking facility in close proximity to each casino complex and infrastructure facilities that will amount to at least twenty five percent of the casino cost. This requirement has recently been increased for any new casinos in Mississippi.

In Pennsylvania, the holder of a Category 1 license is required to create a fund to be used for the improvement and maintenance of the backside area of the racetrack. A Category 1 licensee must deposit into the fund $5,000,000 over the initial five year period of the license and an amount not less than $250,000 or more than $1,000,000 annually for the five years thereafter. We have reached an agreement with the Pennsylvania Horsemen's Benevolent and Protective Association on the allocation of these funds.

Riverboat Casinos

In addition to all other regulations generally applicable to the gaming industry generally, our riverboat casinos are also subject to regulations applicable to vessels operating on navigable waterways, including regulations of the U.S. Coast Guard. These requirements set limits on the operation of the vessel, mandate that it must be operated by a minimum complement of licensed personnel, establish periodic inspections, including the physical inspection of the outside hull, and establish other mechanical and operations rules. In addition, the riverboat casinos may be subject to future U.S. Coast Guard regulations, or alternative security procedures, designed to increase homeland security which could affect some of our properties and require significant expenditures to bring such properties into compliance.

Racetracks

We conduct horse racing operations at our thoroughbred racetracks in Charles Town, West Virginia, Grantville, Pennsylvania, Hobbs, New Mexico and at our harness racetracks in Bangor, Maine and Toledo, Ohio. We also have a 50% ownership interest in a harness racetrack in Freehold, New Jersey through a joint venture agreement. We conduct greyhound racing in Seminole County, Florida, at our Sanford Orlando facility. In Pennsylvania, we operate four off track wagering facilities and conduct account wagering operations. We currently operate video lottery terminals at the Charles Town, West Virginia racetrack. Slot machine operations commenced at the Grantville, Pennsylvania racetrack in the first quarter of 2008. We also conduct slot operations in Bangor, Maine at a facility located near the racetrack. Generally, our slot operations at racetracks are regulated in the same manner as our gaming operations in other jurisdictions. In some jurisdictions, our ability to conduct gaming operations may be conditioned on the maintenance of agreements or certain arrangements with horsemen's or labor groups.

Regulations governing our horse racing operations are administered separately from the regulations governing gaming operations, with separate licenses and license fee structures. The racing authorities responsible for regulating our racing operations have broad oversight authority, which may include: annually reviewing and granting racing licenses and racing dates; approving the opening and operation of off track wagering facilities; approving simulcasting activities; licensing all officers, directors, racing officials and certain other employees of a racing licensee; and approving all contracts entered into by a racing licensee affecting racing, pari-mutuel wagering, account wagering and off track wagering operations.

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FORM -K

PENN NATIONAL GAMING INC (PENN)

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10-K

Annual report pursuant to section 13 and 15(d)
Filed on 03/02/2009
Filed Period 12/31/2008

Use these links to rapidly review the document
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

Commission File Number 0-24206

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

Pennsylvania (State or other jurisdiction of Incorporation or Organization)	**23-2234473** (I.R.S. Employer Identification No.)
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

Series B Preferred Stock, par value $.01 per share

(Title of Class)

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

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

- our expectations of future results of operations or financial condition;
- our expectations for our properties;
- the timing, cost and expected impact of planned capital expenditures on our results of operations;
- the impact of our geographic diversification;
-

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

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

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

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- the effects of local and national economic, energy, credit, and capital markets on the economy in general and on the gaming and lodging industries in particular;
- the availability and cost of financing;
-

- the impact of weather on our operations;
- the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups;
- the impact of terrorism and other international hostilities; and
- other factors as discussed in our filings with the United States ("U.S.") Securities and Exchange Commission.

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

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PART I

ITEM 1. BUSINESS

Overview

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

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

Merger Announcement and Termination

On June 15, 2007, we announced that we had entered into a merger agreement that, at the effective time of the transactions contemplated thereby, would have resulted in our shareholders receiving $67.00 per share. Specifically, we, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned

subsidiary of Parent ("Merger Sub"), announced that we had entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (the "Merger Agreement"), that provided, among other things, for Merger Sub to be merged with and into us (the "Merger"), as a result of which we would have continued as the surviving corporation and would have become a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge").

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

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Properties

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

	Location	Type of Facility	Approx. Gaming Square Footage	Gaming Machines	Table Games(1)	Hotel Rooms
Owned Properties:						
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/ Thoroughbred racing	184,348	5,032	—	153
Argosy Casino Lawrenceburg	Lawrenceburg, IN	Dockside gaming	74,300	2,516	59	300
Hollywood Casino at Penn National Race Course(2)	Grantville, PA	Land-based gaming/ Thoroughbred racing	94,300	2,227	—	—
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	53,000	1,172	20	—
Empress Casino Hotel	Joliet, IL	Dockside gaming	50,000	1,194	20	100
Argosy Casino Riverside	Riverside, MO	Dockside gaming	56,400	1,975	39	258
Hollywood Casino Baton Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,145	27	—
Argosy Casino Alton	Alton, IL	Dockside gaming	23,000	1,100	18	—
Hollywood Casino Tunica	Tunica, MS	Dockside gaming	54,000	1,301	28	494
Hollywood Casino Bay St. Louis	Bay St. Louis, MS	Land-based gaming	40,000	1,192	21	291

Argosy Casino Sioux City	Sioux City, IA	Dockside gaming	20,500	702	19	—
Boomtown Biloxi	Biloxi, MS	Dockside gaming	51,665	1,228	18	—
Hollywood Slots Hotel and Raceway(3)	Bangor, ME	Land-based gaming/ Harness racing	30,000	1,000	—	152
Bullwhackers	Black Hawk, CO	Land-based gaming	12,785	666	—	—
Black Gold Casino at Zia Park	Hobbs, New Mexico	Land-based gaming/ Thoroughbred racing	18,460	750	—	—
Raceway Park	Toledo, OH	Harness racing	—	—	—	—
Freehold Raceway(4)	Monmouth, NJ	Harness racing	—	—	—	—
Sanford-Orlando Kennel Club	Longwood, FL	Greyhound racing	—	—	—	—
Managed Property:						
Casino Rama	Orillia, Ontario	Land-based gaming	93,000	2,535	105	289
Total			883,758	25,735	374	2,037

(1) Excludes poker tables.

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

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

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

Owned Properties

Charles Town Entertainment Complex

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

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Argosy Casino Lawrenceburg

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

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

Hollywood Casino at Penn National Race Course

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

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

Hollywood Casino Aurora

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

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

Empress Casino Hotel

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

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

Argosy Casino Riverside

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

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

Hollywood Casino Baton Rouge

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

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

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

Argosy Casino Alton

The Argosy Casino Alton is located on the Mississippi River in Alton, Illinois, approximately 20 miles northeast of downtown St. Louis. The target customers of the Argosy Casino Alton are drawn largely from the northern and eastern regions of the greater St. Louis metropolitan area, as well as portions of central and

southern Illinois. The Argosy Casino Alton is a three-deck gaming facility featuring 23,000 square feet of gaming space with 1,100 slot machines and 18 table games.

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

Hollywood Casino Tunica

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

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

Hollywood Casino Bay St. Louis

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

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

Argosy Casino Sioux City

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

Boomtown Biloxi

Boomtown Biloxi is located in Biloxi, Mississippi. On January 18, 2008, we reopened our buffet which was closed for the first few weeks of 2008 for an approximately $4.0 million renovation to expand the offerings,

change the décor, and create separate live-action cooking stations. In conjunction with the renovation, we also opened the Grill, which is a 24-hour deli which also houses our famous bakery. Boomtown Biloxi offers 51,665 square feet of gaming space with 1,228 slot machines, 18 table games and 5 poker tables.

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Hollywood Slots Hotel and Raceway

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

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

Bullwhackers

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

Black Gold Casino at Zia Park

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

Raceway Park

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

Freehold Raceway

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

Sanford-Orlando Kennel Club

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

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Off-track Wagering Facilities

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

Account Wagering/Internet Wagering

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

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

Managed Gaming Property

Casino Rama

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

The Development and Operating Agreement (the "Agreement"), which we refer to as the management

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

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

Trademarks

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

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

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

Competition

Gaming Operations

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

Charles Town, West Virginia. Our gaming machine operations at the Charles Town Entertainment Complex face competition in the neighboring states of Pennsylvania, Delaware and New Jersey. On June 9, 2007, the citizens of Jefferson County, West Virginia, voted against the placement of table games at the Charles Town Entertainment Complex. According to the West Virginia Lottery Racetrack Table Games Act, we are required to wait at least two years from June 9, 2007 before we can propose another table games referendum

vote. In Pennsylvania, slot operations have commenced at Philadelphia Park, Mohegan Sun at Pocono Downs, Chester Downs, The Meadows, Mount Airy Casino Resort and Hollywood Casino at Penn National Race Course (which is also our property). These additions have had a negative impact on our business from Pennsylvania, however, we estimate that less than 7% of our slot revenue is derived from this region. In November 2008, the citizens of Maryland approved a referendum to allow up to 15,000 slot machines at five locations throughout the state. These locations include a facility in each of Cecil, Allegany, Anne Arundel, Baltimore City and Worchester counties. Applications for each of the gaming zones were submitted in February 2009. Any significant increase in the competition in the region could negatively impact the operations of Charles Town Entertainment Complex.

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

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

Grantville, Pennsylvania. The Pennsylvania Race Horse Development and Gaming Act, which was signed in 2004, authorized up to 5,000 slot machines at each of seven harness/thoroughbred racetracks and five stand-alone slot facilities, as well as 500 slot machines at each of two authorized resort facilities. Currently, slot machines are authorized and operating at six of the seven existing racetrack facilities, as well as one stand-alone facility, with a second stand-alone facility in Bethlehem expected to be open in the second quarter of 2009. Hollywood Casino at Penn National Race Course faces competition from these other Pennsylvania facilities, as well as casinos located in Delaware, New Jersey, and West Virginia. In addition, in November 2008, the citizens of Maryland approved a referendum to allow up to 15,000 slot machines at five locations throughout the state, for which applications were submitted in February 2009. Any other significant increase in the competition in the region, including the approval to operate table games at our property in West Virginia, could negatively impact the operations of Hollywood Casino at Penn National Race Course. In 2008, the Commonwealth of Pennsylvania passed legislation which authorized a partial ban on smoking in casino facilities, including a limit on the amount of casino floor space that could be designated as "smoking." For the

last four months of 2008, Hollywood Casino at Penn National Race Course was limited to smoking sections on only 25% of its casino floor. Under terms of the legislation, early in 2009, Hollywood Casino at Penn National Race Course was able to expand smoking sections to 50% of its casino floor. The legislation does not allow any further expansion of smoking areas. In addition, the Governor of Pennsylvania recently included in his 2009-2010 budget proposal a plan to legalize video lottery terminals at bars and private clubs across the state; approval of this could significantly impact the gaming business in Grantville.

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

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

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

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

petition for certiorari, requesting the U.S. Supreme Court to hear the case. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

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

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

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

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

Alton, Illinois. The Argosy Casino Alton faces competition from five other riverboat casinos currently operating in the St. Louis, Missouri area, including one other Illinois licensee. In addition, a casino project in south St. Louis County is in development and a competitor of the Argosy Casino Alton has announced that they intend, subject to regulatory approval, to relocate their license north of their current site to a location closer to Argosy Casino Alton, which could adversely affect business. Effective January 1, 2008, casinos in Illinois

became smoke-free due to state legislation. The casinos in Missouri continue to have smoking permitted in all areas, providing them with a significant competitive advantage, and have recently repealed their $500 loss limit. Should the Illinois legislature enact gaming-expansion legislation or increase admission or gaming taxes, our Alton casino's financial results could be adversely affected.

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

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

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

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

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

in the region could negatively impact our existing operations.

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

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

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

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

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

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

Racing Operations

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

of account wagering. From time to time, states consider legislation to permit other forms of gaming. If

additional gaming opportunities become available near our racing operations, such gaming opportunities could have an adverse effect on our business, financial condition and results of operations.

U.S. and Foreign Revenues

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

Segments

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

Management

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

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

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

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

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

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

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

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

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

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

Governmental Regulations

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

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

Employees and Labor Relations

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

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

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

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

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

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

Throughout our Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately one thousand nine hundred of our employees. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE") Local 1 represents approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2010. At certain of our

Argosy properties, the Seafarer International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO, the International Brotherhood of Electrical Workers, the Security Police and Fire Professionals of America, the American Maritime Officers Union, the International Brotherhood of Electronic Workers Local 176, and UNITE/HERE Local 10 represent certain of our employees. We have collective bargaining agreements with these unions that

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

Available Information

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

ITEM 1A. RISK FACTORS

Risks Related to Our Business

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

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

- risks related to local and regional economic and competitive conditions, such as a decline in the number of visitors to a facility, a downturn in the overall economy in the market, a decrease in consumer spending on gaming activities in the market or an increase in competition within and outside the state in which each property is located (for example, the effect on Charles Town of the new gaming venues now possible in Maryland and the impact of Indianapolis Downs and Hoosier Downs on Lawrenceburg);
- changes in local and state governmental laws and regulations (including changes in laws and regulations affecting gaming operations and taxes) applicable to a facility;
- impeded access to a facility due to weather, road construction or closures of primary access routes; and
- the occurrence of floods and other natural disasters.

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

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

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

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

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

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

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

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

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

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

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

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

We face significant competition from other gaming operations.

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

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

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

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

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

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

incentive fee equal to 5.0% of the casino's net operating profit.

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

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

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

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

We face extensive regulation from gaming and other regulatory authorities.

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

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

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

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

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

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

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

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

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

We depend on our key personnel.

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

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

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

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

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

river turbulence and traffic. Many of our casinos operate in areas which are subject to periodic flooding that has caused us to experience decreased attendance and increased operating expenses. Any

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

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

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

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

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

We also are subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs of remediating contaminated soil or groundwater on or from its property, without regard to whether the owner or operator knew of, or caused, the contamination, as well as incur liability to third parties impacted by such contamination. The presence of contamination, or failure to remediate it properly, may adversely affect our ability to sell or rent property. The Bullwhackers properties are located within the geographic footprint of the Clear Creek/Central City Superfund Site, a large area of historic mining activity which is the subject of state and federal clean-up actions. Although we have not been named a potentially responsible party for this Superfund Site, it is possible that as a result of our ownership and operation of these properties (on which mining may have occurred in the past), we may incur costs related to this matter in the future. Furthermore, we are aware that there is or may be soil or groundwater contamination at certain of our facilities resulting from current or former operations. These matters are in various stages of investigation, and we are not able at this time to estimate the costs that will be required to resolve them. Additionally, certain of the gaming chips used at many gaming properties, including ours, have been found to contain some level of lead. Analysis by third parties has indicated the normal handling of the chips does not create a health hazard. We are in the process of evaluating potential environmental issues and our disposal

alternatives. To date, none of these matters or other matters arising under environmental laws has had a material adverse effect on our business, financial condition, or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

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

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

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

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

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

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

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

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

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

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

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

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Risks Related to Our Capital Structure

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

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

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

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

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

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

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

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

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Our indebtedness imposes restrictive covenants on us.

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

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

control.

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

The price of our Common Stock may fluctuate significantly.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following describes our principal real estate properties:

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

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

Hollywood Casino at Penn National Race Course. We own approximately 625 acres in Grantville,

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

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

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

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

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

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

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

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

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

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

Hollywood Slots Hotel and Raceway. We lease approximately 26 acres located at Bass Park in Bangor, Maine, which consists of over 12,000 square feet of grandstand space with seating for 3,500 patrons. In

addition, we lease the land on which the Hollywood Slots Hotel and Raceway facility is located, consisting of just over 9 acres, which is near our Bass Park property.

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

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

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

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the

Grand Victoria Casino in Elgin, and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law

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

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

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

On July 16, 2008, we were served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of our Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that our disclosure practices relative to the proposed transaction with Fortress and Centerbridge and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint has been amended, among other things, to add three new

named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. We filed a motion to dismiss the complaint in November 2008, and oral arguments for the motion were heard by the court on February 23, 2009. Following oral arguments, the court granted our motion and dismissed the complaint with prejudice. We anticipate that the plaintiffs will file a motion for reconsideration with the court.

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

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

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

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

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

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

(a)

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

(b)

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

(i) Election of Directors:

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

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

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

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

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

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

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

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PART II

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

Range of Market Price

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

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

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

Dividend Policy

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

Stock Repurchase

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

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial and operating data for the years ended December 31, 2008, 2007 and 2006 is derived from our consolidated financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm. The following selected consolidated financial

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

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

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

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	Year Ended December 31,				
	2008(1)	2007(2)	2006(3)	2005(4)	2004
	(in thousands, except per share data)				
Income statement data:(5)					
Net revenues	$2,423,053	$2,436,793	$2,244,547	$ 1,369,105	$1,105,290
Total operating expenses	2,509,494	1,938,984	1,666,706	1,125,557	891,510
(Loss) income from continuing operations	(86,441)	497,809	577,841	243,548	213,780
Total other income (expenses)	38,856	(205,569)	(207,909)	(101,778)	(76,152)
(Loss) income from continuing operations before income taxes	(47,585)	292,240	369,932	141,770	137,628
Taxes on income	105,738	132,187	156,852	54,593	50,288
Net (loss) income from continuing operations	(153,323)	160,053	213,080	87,177	87,340
Income (loss) from discontinued operations	—	—	114,008	33,753	(15,856)
Net (loss) income	$ (153,323)	$ 160,053	$ 327,088	$ 120,930	$ 71,484
Per share data:(6)					
(Loss) earnings per share—Basic					
(Loss) income from continuing operations	$ (1.81)	$ 1.87	$ 2.53	$ 1.05	$ 1.09
Discontinued operations, net of tax	—	—	1.35	0.41	(0.20)
Basic (loss) earnings per share	$ (1.81)	$ 1.87	$ 3.88	$ 1.46	$ 0.89

(Loss) earnings per share—Diluted					
(Loss) income from continuing operations	$ (1.81)	$ 1.81	$ 2.46	$ 1.02	$ 1.05
Discontinued operations, net of tax	—	—	1.32	0.39	(0.19)
Diluted (loss) earnings per share	$ (1.81)	$ 1.81	$ 3.78	$ 1.41	$ 0.86
Weighted shares outstanding—Basic(7)	84,536	85,578	84,229	82,893	80,510
Weighted shares outstanding—Diluted(7)	84,536	88,384	86,634	85,857	83,508
Other data:					
Net cash provided by operating activities	$ 420,463	$ 431,219	$ 281,809	$ 150,475	$ 197,164
Net cash used in investing activities	(391,498)	(611,617)	(302,341)	(1,978,800)	(67,114)
Net cash provided by (used in) financing activities	542,941	186,255	56,427	1,873,221	(124,177)
Depreciation and amortization	173,545	147,915	123,951	72,531	65,785
Interest expense	169,827	198,059	196,328	89,344	75,720
Capital expenditures	344,894	361,155	408,883	121,135	68,957
Balance sheet data:					
Cash and cash equivalents(8)	$ 746,278	$ 174,372	$ 168,515	$ 132,620	$ 87,620
Total assets	5,189,676	4,967,032	4,514,082	4,190,404	1,632,701
Total debt(8)	2,430,180	2,974,922	2,829,448	2,786,229	858,909
Shareholders' equity	2,057,273	1,120,962	921,163	546,543	398,092

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

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

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

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

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

year presentation.

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

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

(8) Does not include discontinued operations.

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

Our Operations

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

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

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

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

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

game drop.

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

Merger Announcement and Termination

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

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

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

Executive Summary

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

Financial Highlights:

- Net revenues decreased by $13.7 million, or 0.6%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions, competitive pressures at some of our properties, as well as the effect of the impact of the Illinois and Colorado smoking bans that became effective on January 1, 2008. These decreases were partially offset by increases in net revenues due to the opening of the casino at Hollywood Casino at Penn National Race Course, the opening of the permanent facility at Hollywood Slots Hotel and Raceway, the acquisitions of Sanford-Orlando Kennel Club and Black Gold Casino at Zia Park, and the impact of the Argosy Casino Riverside hotel.
- As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, we recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the year ended December 31, 2008, as we determined that a portion of the value of our goodwill, indefinite-life intangible assets and long-lived assets was impaired.
- Loss from continuing operations changed by $584.3 million, or 117.4%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily due to the impairment loss recorded in the year ended December 31, 2008, as well as the overall decrease

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

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

Other Developments:

- In February 2009, we filed a license application with the Maryland Video Lottery Facility Location Commission to be considered for a Video Lottery Operation License for the Cecil County Zone in Cecil County, Maryland. On July 7, 2008, we had announced that we had secured an 18-month option to purchase approximately 36 acres of land located in Perryville, Cecil County, Maryland from Principio Iron Company L.P.
- In December 2008, the Board of Directors extended the expiration date for all previous stock option grants by three years. Due to potential adverse tax consequences of IRS regulations, certain executives with in the money stock options elected not to take advantage of this extension for their in the money stock options or elected to extend for less than three years.
- In November 2008, the arbitrators of litigation between Capital Seven, LLC and Shawn A. Scott

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

- In November 2008, a ballot measure that would have amended the Ohio Constitution to allow a casino near the Town of Wilmington in Southwest Ohio failed. We contributed towards the campaign to defeat the amendment. In Maryland, voters approved gaming expansion at five targeted regions throughout the state. In Missouri, the state's $500 loss limit was repealed and, in Colorado, the state bet limit was increased from $5 to $100.
- On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, we closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent. On July 3, 2008, we had entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we had agreed to receive a total of $1.475 billion, consisting of the Cash Termination Fee and the Investment. Pursuant to the terms of the preferred equity purchase agreement, the purchasers made the Initial Investment to us on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers had deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock.

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- Pursuant to the terms of the preferred equity purchase agreement, and in conjunction with the closing of the sale of the Investment, Wesley R. Edens, the Chairman and Chief Executive Officer of Fortress, joined our Board of Directors, increasing the size of our Board to seven members.
- We used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of our existing debt, repurchases of our Common Stock, lobbying expenses for efforts in Ohio and the investment in corporate debt securities, with the remainder being invested primarily in short-term securities. The repurchase of up to $200 million of our Common Stock over the twenty-four month period ending July 2010 was authorized by our Board of Directors in July 2008. During the year ended December 31, 2008, we repurchased 8,934,984 shares of our Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.
- On September 5, 2008, the 153-room hotel at Charles Town Entertainment Complex was opened to the public.
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In deference to the proposed Merger, our Board of Directors had determined that the compensation to be paid in 2008 to the non-employee directors be composed of a fixed amount of cash compensation (with no special payment, meeting fees or equity grants). Each non-employee director was expected to receive $150,000, 50% of which was to be paid on January 25, 2008, and the balance of which was expected to be paid in equal monthly installments throughout 2008 (with the total balance payable at the time of the closing of the Merger). If the Merger was not consummated, our Board of Directors would then consider whether equity awards were appropriate. As of June 30, 2008, each non-employee director had received $112,500. On August 8, 2008, our Board of Directors approved changes to the compensation for the non-employee directors. Under the approved program, in lieu of the $37,500 cash remaining to be paid to each non-employee director in 2008, each non-employee director was granted stock options to purchase 20,000 shares of our Common Stock at an exercise price of $29.34 per share, in lieu of further cash payments. The stock options were granted pursuant to our 2003 Long Term Incentive Compensation Plan.

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

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

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

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

- In the third quarter of 2008, we paid certain members of our management team a total of approximately $3.1 million in cash, which represents the external measure portion of our Annual Incentive Plan for 2007. The payments to the named executive officers were made as follows: Peter M. Carlino, $1.4 million; William J. Clifford, $0.5 million; Leonard M. DeAngelo, $0.5 million;

Jordan B. Savitch, $0.2 million; Robert S. Ippolito, $0.1 million. The external measure portion provided for the payment of incentive compensation upon our achievement of pre-established goals regarding our free cash flow (ranking results versus the peer group from data reported in the Standard & Poors Research Insight database). The payments were not made earlier as the external free cash flow measure is calculated using publicly-available information regarding the peer group, which had not yet been published. Each named executive officer agreed and confirmed in writing that such payment would not be included in any future determination of any severance or change in control payment that may be due under any employment agreement between such executive and us.

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

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

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

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

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

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

- On February 6, 2008, we announced that we named Timothy J. Wilmott to the position of President and Chief Operating Officer.
- On August 31, 2007 and November 28, 2007, we filed license applications with the Kansas Lottery Commission to be considered as a Lottery Gaming Facility Manager for our proposed resorts in Cherokee County and Sumner County, respectively. In May 2008, the Kansas Lottery Commission approved our subsidiary's contracts to act as a Lottery Gaming Facility Manager in both counties. The management contracts were sent to the Kansas Lottery Gaming Facility Review Board (the "Review Board") for their consideration, and we presented our proposals to the Review Board in July 2008. In June 2008, in accordance with the management contracts, we paid privilege fees totaling $50.0 million to the State of Kansas, which were refundable if the required approvals were not obtained or if we withdrew our application prior to obtaining all required approvals. In August 2008, we learned that we were unsuccessful in our bid to manage a gaming facility in Sumner County, and the $25 million privilege fee paid to the State of Kansas for Sumner County was returned in September 2008. In addition, in September 2008, we withdrew our application to manage the facility in Cherokee County for various reasons.
- On September 23, 2008, Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary created to pursue a development project in Cherokee County, Kansas) filed an action against HV Properties of Kansas, LLC ("HV") in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the "Contract") that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against us claiming that we are liable to HV for KPG's alleged breach based on a Guaranty Agreement signed by us. Both cases were consolidated. We have filed a motion to dismiss HV's claims against us. This motion has been fully briefed and is pending.
- On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against KPG and us in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. Defendants are currently contesting the validity and scope of the attachment and intend to defend the merits of the case going forward.
- In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax

surcharge into a protest fund which accrues interest during the

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

- On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the same four casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the four casinos filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois, asking the Court to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.
- We are continuing to build and develop several of our properties, including Argosy Casino Lawrenceburg and Empress Casino Hotel. Additional information regarding our capital projects is discussed in detail in the section entitled "Liquidity and Capital Resources—Capital Expenditures" below.

Critical Accounting Policies

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

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

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

Long-lived assets

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

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

Goodwill and other intangible assets

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

In connection with our acquisitions, valuations are completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of our due diligence in connection with the acquisitions, projections for future operations, and data obtained from third-party valuation specialists as deemed appropriate. Goodwill is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the reporting units to their carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment test is performed to determine the implied value of goodwill for that reporting unit. If the implied value is less than the carrying amount for that reporting unit, an impairment loss is recognized for that reporting unit. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), issued by the Financial Accounting Standards Board ("FASB"), we consider our gaming license, racing permit and trademark intangible assets as indefinite-life intangible assets that do not require amortization. Rather, these intangible assets are tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the gaming license, racing permit and trademark intangible assets exceed their fair value, an impairment loss is recognized. The evaluation of goodwill and indefinite-life intangible assets requires the use of estimates about future operating results of

each reporting unit to determine their estimated fair value. We use a market approach model, with EBITDA (earnings before interest, taxes, charges for stock compensation, impairment loss, depreciation and amortization, gain or loss on disposal of assets, merger termination settlement fees, net of related expenses, and other expense, and inclusive of loss from joint venture) multiples, as we believe that EBITDA is a widely-used measure of performance in the gaming industry and as we use EBITDA as the primary measurement of the operating performance of our properties (including the evaluation of operating personnel). In addition, we believe that an EBITDA multiple is the principal basis for the valuation of gaming companies. Changes in the estimated EBITDA multiple or forecasted operations can materially affect these estimates. Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because our goodwill and indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that

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

Income taxes

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

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

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is an interpretation of SFAS 109, on January 1, 2007. FIN 48 creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements.

FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. At December 31, 2008, we had a liability relating to FIN 48 of $68.6 million, which is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008. We operate within multiple taxing jurisdictions and are subject to audit in each jurisdiction. These audits can involve complex issues that may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all periods.

Litigation, claims and assessments

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

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Results of Operations

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

- The fact that most of our properties operate in mature competitive markets. As a result, we expect a majority of our future growth to come from prudent acquisitions of gaming properties, jurisdictional expansions (such as the recent openings in Pennsylvania and Maine) and property expansion in under-penetrated markets.
- The actions of government bodies can affect our operations in a variety of ways. For instance, the continued pressure on governments to balance their budgets could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. In addition, government bodies may restrict, prevent or negatively impact operations in the jurisdictions in which we do business (such as through the Illinois, Colorado and Pennsylvania smoking bans that became effective on January 1, 2008).
- The fact that a number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for instance, in Maryland) and potential competitive threats to business at our existing properties (such as in Kansas, Maryland, Ohio, and Kentucky). The timing and occurrence of these events remain uncertain. We also face uncertainty regarding anticipated gaming expansion by one of our competitors in Baton Rouge, Louisiana. Legalized gaming from casinos located on Native American lands can also have a significant competitive effect.
- The continued demand for, and our emphasis on, slot wagering entertainment at our properties.
- The successful expansion at Empress Casino Hotel and Argosy Casino Lawrenceburg.
- The successful execution of the development and construction activities currently underway at a number of our facilities, as well as the risks associated with the costs, regulatory approval and the

timing for these activities.

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

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

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

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

	Net Revenues			Income (loss) from Continuing Operations		
Year Ended December 31,	2008	2007	2006	2008(5)	2007	2006(6)
			(in thousands)			
Charles Town Entertainment Complex	$ 477,032	$ 500,800	$ 485,197	$ 114,726	$127,277	$122,938
Argosy Casino Lawrenceburg	432,082	478,719	474,046	(96,094)	142,690	139,267
Hollywood Casino at Penn National Race Course(1)	224,935	48,488	50,303	11,530	(9,451)	629
Hollywood Casino Aurora	198,693	251,877	245,475	13,009	73,914	70,140
Empress Casino Hotel	168,663	225,794	238,843	(63,922)	38,821	47,822
Argosy Casino Riverside	186,132	174,426	153,441	48,526	42,388	37,744

Hollywood Casino Baton Rouge	131,013	135,869	144,001	43,829	47,417	52,097
Argosy Casino Alton	84,040	119,166	115,194	(301)	29,709	21,373
Hollywood Casino Tunica	88,540	103,858	106,352	14,363	19,536	19,393
Hollywood Casino Bay St. Louis	101,997	96,622	32,184	6,025	4,850	35,810
Argosy Casino Sioux City	54,774	54,417	53,909	14,634	13,259	13,363
Boomtown Biloxi	75,701	86,159	51,421	9,753	12,979	72,812
Hollywood Slots Hotel and Raceway(2)	55,780	46,689	40,871	(79,922)	9,523	7,332
Bullwhackers	22,128	28,882	26,812	(16,922)	1,149	947
Black Gold Casino at Zia Park(3)	90,255	58,572	—	27,755	16,702	—
Casino Rama management service contract	16,725	17,273	18,146	15,183	15,899	16,765
Raceway Park	7,549	7,814	8,352	(1,368)	(1,119)	(651)
Sanford-Orlando Kennel Club(4)	7,014	1,368	—	(725)	(3)	—
Earnings from Pennwood Racing, Inc.	—	—	—	—	—	—
Corporate overhead	—	—	—	(146,520)	(87,731)	(79,940)
Total	$2,423,053	$2,436,793	$2,244,547	$ (86,441)	$497,809	$577,841

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

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

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

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

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

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

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

Revenues

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

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

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

Gaming revenue

2008 Compared with 2007

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

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

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

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

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

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

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

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

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

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

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

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

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

2007 Compared with 2006

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

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

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

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

Gaming revenue at Argosy Casino Riverside increased by $16.4 million in 2007, primarily due to

successful marketing promotions and increased patronage at the property due to the opening of its hotel to the public in April 2007.

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

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

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

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

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

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

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

Food, beverage and other revenue

2008 Compared with 2007

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

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

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

Food, beverage and other revenue at Argosy Casino Riverside increased by $5.2 million in 2008, primarily

due to the impact of its hotel.

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

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

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

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

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

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2007 Compared with 2006

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

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

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

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

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

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

Promotional allowances

2008 Compared with 2007

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

gaming revenue growth at Argosy Casino Riverside.

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

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

2007 Compared with 2006

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

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

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

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

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

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Operating Expenses

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

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

Year ended December 31,	2007	2006	Variance	Percentage Variance
Gaming	$1,155,062	$1,061,904	$ 93,158	8.8%

Food, beverage and other	247,576	224,673	22,903	10.2%
General and administrative	388,431	349,909	38,522	11.0%
Hurricane	—	(128,253)	128,253	100.0%
Impairment loss	—	34,522	(34,522)	(100.0)%
Depreciation and amortization	147,915	123,951	23,964	19.3%
Total operating expenses	$1,938,984	$1,666,706	$272,278	16.3%

Gaming expense

2008 Compared with 2007

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

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

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

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

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

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

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

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

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

Gaming expense at Hollywood Casino Tunica decreased by $5.9 million in 2008, primarily due to a

decrease in gaming taxes resulting from lower gaming revenue, decreased marketing expenses and lower payroll costs.

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

2007 Compared with 2006

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

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

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

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

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

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

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

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

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

Food, beverage and other expense

2008 Compared with 2007

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

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

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

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

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

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

2007 Compared with 2006

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

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

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

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

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

General and administrative expense

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

2008 Compared with 2007

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

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

General and administrative expense at Hollywood Casino at Penn National Race Course increased by

$11.2 million in 2008, as the casino opened on February 12, 2008.

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

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

2007 Compared with 2006

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

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

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

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

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

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

Hurricane

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

Impairment loss

As a result of a decline in our share price, an overall reduction in industry valuations, and property

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

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

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

Depreciation and amortization expense

2008 Compared with 2007

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

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

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

2007 Compared with 2006

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

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

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

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

were completed in mid-2006.

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

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

Other income (expenses)

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

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

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

Interest expense

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

Interest income

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

Merger termination settlement fees, net of related expenses

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

Other

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

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

Loss on early extinguishment of debt

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

Taxes

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

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

Discontinued operations

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

($280 million initial price, less $30 million payable pursuant to the Amendment and Release) of The Downs Racing, Inc. and its subsidiaries to the MTGA of $114.0 million (net of $84.9 million of income taxes) during the year ended December 31, 2006. In addition, we recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years. At December 31, 2008, the balance due to the MTGA equaled $14.2 million.

Liquidity and Capital Resources

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

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

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

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

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

We used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash

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

Capital Expenditures

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

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

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

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

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

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

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

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

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

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

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

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

Debt

Senior Secured Credit Facility

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

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

funding associated with the opening of the Hollywood Casino at Penn National Race Course, privilege

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

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

Redemption of 8 7/8% Senior Subordinated Notes

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

6 7/8% Senior Subordinated Notes

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

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

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

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

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

6 3/4% Senior Subordinated Notes

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

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

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

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

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

Other Long-Term Obligations

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

Covenants

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

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

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

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Outlook

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

Commitments and Contingencies

Contractual Cash Obligations

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

	Payments Due By Period				
	Total	2009	2010 - 2011	2012 - 2013	2014 and After
	(in thousands)				
Senior secured credit facility					
Principal	$1,959,784	$ 97,750	$ 698,784	$1,163,250	$ —
Interest	275,236	95,881	155,273	24,082	—
6 7/8% senior subordinated notes					
Principal	200,000	—	200,000	—	—
Interest	41,250	13,750	27,500	—	—
6 3/4% senior subordinated notes					
Principal	250,000	—	—	—	250,000
Interest	109,688	16,875	33,750	33,750	25,313
Other long-term obligations	14,201	5,511	8,690	—	—
Purchase obligations	31,003	21,765	5,867	2,276	1,095

Capital expenditure commitments	67,712	67,712	—	—	—
Capital leases	6,195	2,020	2,178	159	1,838
Operating leases	46,971	6,985	9,880	7,155	22,951
Other liabilities reflected in the Company's consolidated balance sheets	12,839	12,839	—	—	—
Total	$3,014,879	$341,088	$1,141,922	$1,230,672	$ 301,197

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Other Commercial Commitments

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

	Total Amounts Committed	2009	2010 □ 201 1	2012 □ 201 3	2014 and After
		(in thousands)			
Letters of Credit(1)	$ 27,472	$27,472	$ —	$ —	$ —
Guarantees of New Jersey Joint Venture Obligations(2)	6,117	500	1,000	4,617	—
Total	$ 33,589	$27,972	$ 1,000	$ 4,617	$ —

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

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

Interest Rate Swap Agreements

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value 12/31/08
				(in thousands)				
Long-term debt:								
Fixed rate	$ 5,511	$ 5,407	$203,283	$ —	$ —	$250,000	$ 464,201	$ 389,201
Average interest rate	7.00%	7.00%	6.88%	—	—	6.75%		
Variable rate	$ 97,750	$225,534	$473,250	$1,163,250	$ —	$ —	$1,959,784	$ 1,959,784
Average interest rate(1)	3.07%	3.31%	3.86%	4.11%	—	—		
Leases	$ 2,020	$ 1,051	$ 1,127	$ 76	$ 83	$ 1,838	$ 6,195	$ 6,195

Average interest rate	6.62%	5.68%	5.67%	7.72%	7.72%	7.72%		
Interest rate derivatives:								
Interest rate swaps								
Variable to fixed(2)	$974,000	$500,000	$ —	$ —	$ —	$ —	N/A	$ (63,185)
Average pay rate	4.15%	4.39%					N/A	
Average receive rate(3)	1.73%	2.03%					N/A	

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

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

(3) Estimated rate, reflective of forward LIBOR.

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

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

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

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

On December 19, 2007, we entered into three monthly interest rate swap contracts, each with notional

amounts of $146.25 million and fixed interest rates of 4.97% effective December 31, 2007, 4.47% effective January 31, 2008 and 4.40% effective February 29, 2008. The $146.25 million swap matured on March 31, 2008.

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors
Penn National Gaming, Inc. and subsidiaries

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

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

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

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

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

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 27, 2009

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

	December 31,	
	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 746,278	$ 174,372
Receivables, net of allowance for doubtful accounts of $3,797 and $3,241 at December 31, 2008 and 2007, respectively	43,574	56,427
Prepaid expenses and other current assets	95,386	52,825
Deferred income taxes	21,065	19,079
Total current assets	906,303	302,703
Property and equipment, net	1,812,131	1,688,393
Other assets		
Investment in and advances to unconsolidated affiliate	14,419	15,548
Goodwill	1,598,571	2,013,139
Other intangible assets	693,764	777,441
Deferred financing costs, net of accumulated amortization of $38,914 and $27,680 at December 31, 2008 and 2007, respectively	34,910	46,144
Other assets	129,578	123,664
Total other assets	2,471,242	2,975,936
Total assets	$ 5,189,676	$ 4,967,032
Liabilities		
Current liabilities		
Current maturities of long-term debt	$ 105,281	$ 93,452
Accounts payable	35,540	28,581
Accrued expenses	106,769	163,579
Accrued interest	80,190	56,631
Accrued salaries and wages	55,380	54,149
Gaming, pari-mutuel, property, and other taxes	44,503	43,621
Income taxes payable	—	3,642
Insurance financing	8,093	16,515
Other current liabilities	34,730	33,704
Total current liabilities	470,486	493,874
Long-term liabilities		

Long-term debt, net of current maturities	2,324,899	2,881,470
Deferred income taxes	265,610	385,089
Noncurrent tax liabilities	68,632	82,849
Other noncurrent liabilities	2,776	2,788
Total long-term liabilities	2,661,917	3,352,196
Shareholders' equity		
Preferred stock ($.01 par value, 1,000,000 shares authorized, 12,500 and 0 issued and outstanding at December 31, 2008 and 2007)	—	—
Common stock ($.01 par value, 200,000,000 shares authorized, 78,148,488 and 88,579,070 shares issued at December 31, 2008 and 2007, respectively)	782	887
Treasury stock (1,698,800 shares issued at December 31, 2007)	—	(2,379)
Additional paid-in capital	1,442,829	322,760
Retained earnings	662,355	815,678
Accumulated other comprehensive loss	(48,693)	(15,984)
Total shareholders' equity	2,057,273	1,120,962
Total liabilities and shareholders' equity	$ 5,189,676	$ 4,967,032

See accompanying notes to the consolidated financial statements.

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

Year ended December 31,	2008	2007	2006
Revenues			
Gaming	$2,206,500	$2,227,944	$2,057,617
Management service fee	16,725	17,273	18,146
Food, beverage and other	334,206	320,520	275,700
Gross revenues	2,557,431	2,565,737	2,351,463
Less promotional allowances	(134,378)	(128,944)	(106,916)
Net revenues	2,423,053	2,436,793	2,244,547
Operating expenses			
Gaming	1,163,458	1,155,062	1,061,904
Food, beverage and other	264,012	247,576	224,673
General and administrative	427,146	388,431	349,909
Hurricane	—	—	(128,253)
Impairment loss	481,333	—	34,522
Depreciation and amortization	173,545	147,915	123,951
Total operating expenses	2,509,494	1,938,984	1,666,706
(Loss) income from continuing operations	(86,441)	497,809	577,841
Other income (expenses)			
Interest expense	(169,827)	(198,059)	(196,328)
Interest income	8,362	4,016	3,525

Loss from joint venture	(1,526)	(99)	(788)
Merger termination settlement fees, net of related expenses	195,426	—	—
Other	6,421	(11,427)	(4,296)
Loss on early extinguishment of debt	—	—	(10,022)
Total other income (expenses)	38,856	(205,569)	(207,909)
(Loss) income from continuing operations before income taxes	(47,585)	292,240	369,932
Taxes on income	105,738	132,187	156,852
Net (loss) income from continuing operations	(153,323)	160,053	213,080
Gain on sale of discontinued operations, net of tax	—	—	114,008
Net (loss) income	$ (153,323)	$ 160,053	$ 327,088
(Loss) earnings per share-Basic			
(Loss) income from continuing operations	$ (1.81)	$ 1.87	$ 2.53
Discontinued operations, net of tax	—	—	1.35
Basic (loss) earnings per share	$ (1.81)	$ 1.87	$ 3.88
(Loss) earnings per share-Diluted			
(Loss) income from continuing operations	$ (1.81)	$ 1.81	$ 2.46
Discontinued operations, net of tax	—	—	1.32
Diluted (loss) earnings per share	$ (1.81)	$ 1.81	$ 3.78

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income
Balance, December 31, 2005	—	$ —	85,064,886	$ 850	$ (2,379)	$ 206,763	$340,469	$ 840	$ 546,543	
Stock option activity, including tax benefit of $12,435	—	—	1,310,113	14	—	43,397	—	—	43,411	$ —
Restricted stock	—	—	440,000	4	—	1,783	—	—	1,787	—
Change in fair value of interest rate swap contracts, net of income taxes of	—	—	—	—	—	—	—	2,380	2,380	2,380

$1,461										
Foreign currency translation adjustment	—	—	—	—	—	—	—	(46)	(46)	(46)
Net income	—	—	—	—	—	—	327,088	—	327,088	327,088
Balance, December 31, 2006	—	—	86,814,999	868	(2,379)	251,943	667,557	3,174	921,163	329,422
Stock option activity, including tax benefit of $20,460	—	—	1,824,071	19	—	68,851	—	—	68,870	—
Restricted stock	—	—	(60,000)	—	—	1,966	—	—	1,966	—
Change in fair value of interest rate swap contracts, net of income taxes of $11,203	—	—	—	—	—	—	—	(19,728)	(19,728)	(19,728)
Foreign currency translation adjustment	—	—	—	—	—	—	—	570	570	570
Cumulative effect of adoption of FIN 48	—	—	—	—	—	—	(11,932)	—	(11,932)	—
Net income	—	—	—	—	—	—	160,053	—	160,053	160,053
Balance, December 31, 2007	—	—	88,579,070	887	(2,379)	322,760	815,678	(15,984)	1,120,962	140,895
Issuance of Preferred stock	12,500	—	—	—	—	1,246,400	—	—	1,246,400	—
Stock option activity, including tax benefit of $1,060	—	—	203,202	2	—	26,305	—	—	26,307	—
Share activity	—	—	(10,633,784)	(107)	2,379	(154,633)	—	—	(152,361)	—
Restricted stock	—	—	—	—	—	1,997	—	—	1,997	—
Change in fair value of interest rate swap contracts, net of income taxes of $13,072	—	—	—	—	—	—	—	(23,216)	(23,216)	(23,216)
Change in fair value of corporate debt securities	—	—	—	—	—	—	—	(8,008)	(8,008)	(8,008)
Foreign currency translation adjustment	—	—	—	—	—	—	—	(1,485)	(1,485)	(1,485)
Net loss	—	—	—	—	—	—	(153,323)	—	(153,323)	(153,323)

Balance, December 31, 2008	12,500	$—	78,148,488	$ 782	$ —	$ 1,442,829	$662,355	$(48,693)	$ 2,057,273	$ (186,032)

See accompanying notes to the consolidated financial statements.

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

Year ended December 31,	2008	2007	2006
Operating activities			
Net (loss) income	$ (153,323)	$ 160,053	$ 327,088
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	173,545	147,915	123,951
Amortization of items charged to interest expense	12,625	13,011	11,361
Amortization of items charged to interest income	(912)	—	—
Loss on sale of fixed assets	1,610	1,637	1,383
Loss from joint venture	1,526	99	788
Loss relating to early extinguishment of debt	—	—	2,255
Deferred income taxes	(91,098)	18,265	14,394
Charge for stock compensation	26,857	25,465	20,562
Gain on sale of discontinued operations, net of tax	—	—	(114,008)
Gain on hurricane insurance, net of tax	—	—	(81,799)
Impairment loss	481,333	—	22,018
Decrease (increase), net of businesses acquired			
Accounts receivable	12,853	(2,168)	(6,197)
Insurance receivable	—	100,000	(23,048)
Prepaid expenses and other current assets	(27,722)	924	(26,933)
Other assets	25,747	(7,159)	13,536
(Decrease) increase, net of businesses acquired			
Accounts payable	(350)	(22,234)	12,379
Accrued expenses	(12,045)	(12,436)	4,155
Accrued interest	(12,729)	(1,594)	(1,974)
Accrued salaries and wages	1,231	(6,003)	5,585
Gaming, pari-mutuel, property and other taxes	882	(4,629)	(127)
Income taxes payable	(6,794)	(3,584)	(28,748)
Other current and noncurrent liabilities	1,014	9,470	5,176
Other noncurrent tax liabilities	(13,787)	14,187	—
Operating cash flows from discontinued operations	—	—	12
Net cash provided by operating activities	420,463	431,219	281,809
Investing activities			
Expenditures for property and equipment	(344,894)	(361,155)	(408,883)
Proceeds from hurricane	—	—	104,136

Proceeds from sale of property and equipment	1,066	15,020	2,406
Investment in corporate debt securities	(47,286)	—	—
Acquisition of businesses and licenses, net of cash acquired	(384)	(265,482)	—
Net cash used in investing activities	(391,498)	(611,617)	(302,341)
Financing activities			
Proceeds from exercise of options	2,397	24,911	12,201
Repurchases of common stock	(152,361)	—	—
Proceeds from issuance of long-term debt	447,833	426,065	195,678
Principal payments on long-term debt	(993,966)	(282,360)	(177,066)
Proceeds from issuance of preferred stock, net of related expenses	1,246,400	—	—
Proceeds from insurance financing	22,255	29,009	32,522
Payments on insurance financing	(30,677)	(31,830)	(19,301)
Increase in deferred financing cost	—	—	(42)
Tax benefit from stock options exercised	1,060	20,460	12,435
Net cash provided by financing activities	542,941	186,255	56,427
Net increase in cash and cash equivalents	571,906	5,857	35,895
Cash and cash equivalents at beginning of year	174,372	168,515	132,620
Cash and cash equivalents at end of year	$ 746,278	$ 174,372	$ 168,515
Supplemental disclosure			
Interest expense paid	$ 183,264	$ 199,425	$ 198,605
Income taxes paid	$ 190,287	$ 88,546	$ 127,787

See accompanying notes to consolidated financial statements.

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

1. Business and Basis of Presentation

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

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

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

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

2. Principles of Consolidation

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

3. Merger Announcement and Termination

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

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

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

On July 3, 2008, the Company entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, the Company agreed to receive a total of $1.475 billion, consisting of a nonrefundable $225 million cash termination fee (the "Cash Termination Fee") and a $1.25 billion, zero coupon, preferred equity investment (the

"Investment"). Pursuant to the terms of the preferred equity purchase agreement, the purchasers made a nonrefundable $475 million payment (the "Initial Investment") to the Company on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock. On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, the Company closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent.

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

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

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

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4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

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

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

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

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Investment in Corporate Debt Securities

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

Long-term Debt

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

Interest Rate Swap Contracts

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

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

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

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

Property and Equipment

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

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

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

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

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

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

prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining

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

Goodwill and Other Intangible Assets

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

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

properties (including the evaluation of operating personnel). In addition, the Company believes that an EBITDA multiple is the principal basis for the valuation of gaming companies. Changes in the estimated EBITDA multiple or forecasted operations can materially affect these estimates. Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because the Company's goodwill and indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that have a definite-life, including the management service contract for

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

Deferred Financing Costs

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

Comprehensive Income

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

Income Taxes

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

The realizability of the deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The factors used to assess the likelihood of realization are the forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is an interpretation of SFAS 109, on January 1, 2007. FIN 48 creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008 and 2007.

Accounting for Derivatives and Hedging Activities

The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Thus, uses of derivatives are limited to hedging and risk management purposes, in connection

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with managing interest rate exposures. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended, established accounting and reporting standards for derivative instruments and hedging activities.

The Company uses fixed and variable-rate debt to finance its operations. Both funding sources have associated risks and opportunities, and the Company's risk management policy permits the use of derivatives to manage these exposures. Acceptable derivatives for this purpose include interest rate swaps, futures, options, caps, and similar instruments. The Company's use of derivatives is strictly restricted to hedging (i.e., risk management) applications.

Currently, the Company has a number of interest rate swaps in place, where the swaps serve to mitigate the income volatility associated with a portion of its variable-rate funding. Swap coverage extends out through 2011. In effect, these swaps synthetically convert the portion of variable-rate debt being hedged to the equivalent of fixed-rate funding. Under the terms of the swaps, the Company receives cash flows from the swap counterparties to offset the benchmark interest rate component of variable interest payments on the hedged financings, in exchange for paying cash flows based on the swaps' fixed rates. These two respective obligations are net-settled, periodically. The Company accounts for these swaps as cash flow hedges, which requires determining a division of hedge results deemed effective and deemed ineffective. However, all of the Company's hedges were designed in such a way so as to perfectly offset specifically- defined interest payments, such that no ineffectiveness has occurred—nor is any ineffectiveness going to occur, as long as the forecasted cash flows of the designated hedged items and the associated swaps remain unchanged.

Under cash flow hedge accounting, effective derivative results are initially recorded in other comprehensive income and later reclassified to earnings, coinciding with the income recognition relating to the variable interest payments being hedged. During the years ended December 31, 2008 and 2007, the Company recorded a $23.6 million increase and $6.2 million decrease, respectively, in interest expense, which was previously reported in other comprehensive income. In the coming twelve months, the Company anticipates that approximately a $34.0 million loss will be reclassified from other comprehensive income to earnings, as part of interest expense. As this amount represents effective hedge results, a comparable offsetting amount of incrementally lower interest expense will be realized in connection with the variable funding being hedged.

Credit risk relating to derivative counterparties is mitigated by using multiple, highly rated counterparties, and the credit quality of each is monitored on an ongoing basis.

Under cash flow hedge accounting, derivatives are included in the consolidated balance sheets as assets or liabilities. Changes in the fair value of a derivative and settlements that are highly effective and qualifying as a cash flow hedge, to the extent that they are effective, are recorded in other comprehensive income and later reclassified to earnings coincidently with the earnings impacts of the hedged transaction (i.e., when the interest expense on the variable-rate liability is recorded in earnings). Any hedge ineffectiveness (which represents the amount by which hedge results exceed the variability in the cash flows of the forecasted transaction due to the risk being hedged) is recorded in current period earnings.

Revenue Recognition and Promotional Allowances

Gaming revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs, for chips and "ticket-in, ticket-out" coupons in the customers' possession, and for accruals related to the anticipated payout of progressive jackpots. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are charged to revenue as the amount of the jackpots increase.

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Revenue from the management service contract for Casino Rama is based upon contracted terms, and is recognized when services are performed.

Food, beverage and other revenue, including racing revenue, is recognized as services are performed. Racing revenue includes the Company's share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, its share of wagering from import and export simulcasting, and its share of wagering from its off-track wagering facilities ("OTWs").

Revenues are recognized net of certain sales incentives in accordance with the Emerging Issues Task Force ("EITF") consensus on Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EITF 01-9"). The consensus in EITF 01-9 requires that sales incentives and points earned in point-loyalty programs be recorded as a reduction of revenue. The Company recognizes incentives related to gaming play and points earned in point-loyalty programs as a direct reduction of gaming revenue.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is primarily included in food, beverage and other expense. The amounts included in promotional allowances for the years ended December 31, 2008, 2007 and 2006 are as follows:

Year ended December 31,	2008	2007	2006
		(in thousands)	
Rooms	$ 17,750	$ 15,518	$ 11,970
Food and beverage	103,038	101,040	85,884
Other	13,590	12,386	9,062

Total promotional allowances	$134,378	$128,944	$106,916

The estimated cost of providing such complimentary services for the years ended December 31, 2008, 2007 and 2006 are as follows:

Year ended December 31,	2008	2007	2006
		(in thousands)	
Rooms	$ 7,280	$ 6,538	$ 5,156
Food and beverage	73,565	71,922	60,762
Other	6,034	5,471	5,644
Total cost of complimentary services	$86,879	$83,931	$71,562

Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS 128"). Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities such as stock options.

Beginning in the fourth quarter of 2008, in conjunction with the issuance of 12,500 shares of Preferred Stock, the Company began to calculate EPS in accordance with SFAS 128, as clarified by EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128" ("EITF 03-6"). This was necessary as the Company determined that the Preferred Stock qualified as a participating security as defined in EITF 03-6. Under EITF 03-6, a security is considered a participating security if the security may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. In accordance with SFAS 128, a Company is required to use the two-class method when computing EPS when a Company has a security that qualifies as a "participating security." The two-class method is an earnings allocation

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formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. A participating security is included in the computation of basic EPS using the two-class method. Under the two-class method, basic EPS for the Company's Common Stock is computed by dividing net income applicable to Common Stock by the weighted-average common shares outstanding during the period. Diluted EPS for the Company's Common Stock is computed using the more dilutive of the two-class method or the if-converted method.

However, since the Company reported a loss from continuing operations for the year ended December 31, 2008, it was required by SFAS 128 to use basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding, when calculating diluted EPS for the year ended December 31, 2008. In addition, since the Company reported a loss from continuing operations for the year ended December 31, 2008, the Preferred Stock was not deemed to be a participating security for the year ended December 31, 2008, pursuant to EITF 03-6. The basic weighted-average common shares outstanding for the year ended December 31, 2008 was 84,535,877.

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the years ended December 31, 2007 and 2006.

Year ended December 31,	2007	2006
	(in thousands)	
Determination of shares:		
Weighted-average common shares outstanding	85,578	84,229
Assumed conversion of dilutive stock options	2,806	2,405
Diluted weighted-average common shares outstanding	88,384	86,634

Options to purchase 8,804,578 shares were outstanding during the year ended December 31, 2008, but were not included in the computation of diluted EPS because they are antidilutive since the Company reported a loss from continuing operations for the year ended December 31, 2008.

Options to purchase 1,395,610 and 1,966,880 shares were outstanding during the years ended December 31, 2007 and 2006, respectively, but were not included in the computation of diluted EPS because they are antidilutive.

The repurchase of up to $200 million of the Company's Common Stock over the twenty-four month period ending July 2010 was authorized by the Company's Board of Directors in July 2008. During the year ended December 31, 2008, the Company repurchased 8,934,984 shares of its Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

Stock-Based Compensation

The Company accounts for stock compensation under SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The risk-free interest rate was based on the U.S. Treasury spot rate with a remaining term equal to the expected life assumed at the date of grant. Expected volatility at December 31, 2008 was estimated based on the historical volatility of the Company's stock price over a period of 5.36 years, in order to match the expected life of the options at the grant date. There is no expected dividend yield since the Company has not paid any cash dividends on its Common Stock since its initial public offering in May 1994, and since the Company

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intends to retain all of its earnings to finance the development of its business for the foreseeable future. The weighted-average expected life was based on the contractual term of the stock option and expected employee exercise dates, which was based on the historical exercise behavior of the Company's employees. Forfeitures are estimated at the date of grant based on historical experience. Prior to the adoption of SFAS 123(R), the Company recorded forfeitures as they occurred for purposes of estimating pro forma compensation expense

under SFAS No. 123, "Accounting for Stock-Based Compensation". The following are the weighted-average assumptions used in the Black-Scholes option-pricing model at December 31, 2008, 2007 and 2006:

Year ended December 31,	2008	2007	2006
Risk-free interest rate	1.61%	4.24%	5.11%
Expected volatility	45.56%	37.68%	43.29%
Dividend yield	—	—	—
Weighted-average expected life (years)	5.36	4.73	4.26
Forfeiture rate	4.00%	4.00%	4.00%

Segment Information

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

Statements of Cash Flows

The Company has presented the consolidated statements of cash flows using the indirect method, which involves the reconciliation of net (loss) income to net cash flow from operating activities.

Acquisitions

The Company accounts for its acquisitions in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). The results of operations of acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by state gaming commissions. The loss of a license, in any jurisdiction in which the Company operates, could have a material adverse effect on future results of operations.

The Company is dependent on each gaming property's local market for a significant number of its patrons and revenues. If economic conditions in these areas deteriorate or additional gaming licenses are awarded in these markets, the Company's results of operations could be adversely affected.

The Company is dependent on the economy of the United States ("U.S.") in general, and any deterioration in the national economic, energy, credit and capital markets could have a material adverse effect on future results of operations.

The Company is dependent upon a stable gaming and admission tax structure in the locations that it operates in. Any change in the tax structure could have a material adverse affect on future results of operations.

5. New Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that

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are presented in conformity with GAAP (the GAAP hierarchy). Any effect of applying the provisions of SFAS 162 shall be reported as a change in accounting principle in accordance with SFAS No. 154, "Accounting Changes and Error Corrections." SFAS 162 is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company adopted SFAS 162 as of its effective date, as required. SFAS 162 did not have an impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the assets under SFAS No. 141 (revised), "Business Combinations" ("SFAS 141(R)"), and other GAAP. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption of the standard is prohibited. The Company adopted FSP FAS 142-3 as of January 1, 2009, as required. The Company does not expect that the adoption of FSP FAS 142-3 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133" ("SFAS 161"), which requires enhanced disclosures about an entity's derivative and hedging activities. Specifically, entities are required to provide enhanced disclosures about: a) how and why an entity uses derivative instruments; b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company adopted SFAS 161 as of January 1, 2009, as required. The Company does not expect that the adoption of SFAS 161 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) modifies the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141(R) as of January 1, 2009, as required. The Company expects that the adoption of SFAS 141(R) will have an impact on its consolidated financial statements, once the Company acquires companies in the future.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115" ("SFAS 159"), which permits an entity to

choose to measure many financial instruments and certain other items at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. The Company did not elect the fair value option for any financial assets or financial liabilities.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands the disclosure requirements about fair value measurements. In February 2008, the FASB amended SFAS 157 through the issuance of FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP FAS 157-1") and FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-1, which was effective upon the initial adoption of SFAS 157, amends SFAS 157 to exclude from its scope certain accounting pronouncements that address fair value measurements associated with leases. FSP FAS 157-2, which was effective upon issuance, delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"), which was effective upon issuance. FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted SFAS 157, as amended, and on a prospective basis, as of January 1, 2008. The January 1, 2008 adoption did not have a significant impact on the Company. The Company adopted SFAS 157, as amended, and on a prospective basis, as of January 1, 2009 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company does not expect that the adoption of SFAS 157, as amended, and on a prospective basis, to nonfinancial assets and nonfinancial liabilities, will have a material impact on its consolidated financial statements. See Note 20 to the Consolidated Financial Statements for further information regarding the adoption of SFAS 157.

6. Acquisitions

Sanford-Orlando Kennel Club

On October 17, 2007, pursuant to the Asset Purchase Agreement dated July 5, 2007, the Company completed the purchase of Sanford-Orlando Kennel Club in Longwood, Florida from Sanford-Orlando Kennel Club, Inc. and Collins and Collins. In connection with the purchase, the Company also secured a right of first refusal with respect to a majority stake in the Sarasota Kennel Club in Sarasota, Florida. The purchase price for the Sanford-Orlando Kennel Club provides for additional consideration to be paid by the Company based upon certain future regulatory developments. Located on approximately 26 acres in Longwood, Florida, the Sanford-Orlando Kennel Club features year-round greyhound racing, a simulcast wagering facility, a clubhouse lounge and two dining areas. The Company accounted for the acquisition in accordance with SFAS 141. The results of the Sanford-Orlando Kennel Club have been included in the Company's consolidated financial statements since the acquisition date.

Black Gold Casino at Zia Park

On April 16, 2007, pursuant to the Asset Purchase Agreement dated November 7, 2006 among Zia Partners, LLC ("Zia"), Zia Park LLC (the "Buyer"), a wholly-owned subsidiary of Penn, and (solely with respect to specified sections thereof which relate to the Company's guarantee of the Buyer's payment and performance) Penn, the Buyer completed the acquisition of Black Gold Casino at Zia Park and all related assets of Zia. Penn funded this purchase with additional borrowings under its existing $750 million revolving credit facility. The Company accounted for the acquisition in accordance with SFAS 141. As a result of the acquisition, goodwill of $144.2 million and other intangible assets of $3.5 million are included within the consolidated balance sheet at December 31, 2008. The results of the Black Gold Casino at Zia Park have been included in the Company's consolidated financial statements since the acquisition date.

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7. Hurricane Katrina

As a result of Hurricane Katrina's direct hit on the Mississippi Gulf Coast on August 29, 2005, two of the Company's casinos, Hollywood Casino Bay St. Louis and Boomtown Biloxi, were significantly damaged, many employees were displaced and operations ceased at the two properties. Boomtown Biloxi reopened on June 29, 2006 and Hollywood Casino Bay St. Louis reopened on August 31, 2006.

The Company had significant levels of insurance in place at the time of Hurricane Katrina to cover the losses resulting from the hurricane, including an "all risk" insurance policy covering "named windstorm" damage, flood damage, debris removal, preservation of property expense, demolition and increased cost of construction expense, and losses resulting from business interruption and extra expenses, all as defined in the policies. The comprehensive business interruption and property damage insurance policies had an overall limit of $400 million, and was subject to property damage deductibles for Hollywood Casino Bay St. Louis and Boomtown Biloxi of approximately $6.0 million and $3.5 million, respectively. The business interruption insurance component of this policy was subject to a five-day deductible.

During the year ended December 31, 2006, the Company's financial results benefited from a settlement agreement with its property and business interruption insurance providers for a total of $225 million for Hurricane Katrina-related losses at its Hollywood Casino Bay St. Louis and Boomtown Biloxi properties, as well as minor proceeds related to its National Flood Insurance coverage and auto insurance claims. Reflecting the settlement agreement, the Company recorded a pre-tax gain of $128.3 million ($81.8 million, net of taxes).

In June 2008, the Company entered into the second term of its first layer of property insurance coverage in the amount of $200 million. The $200 million coverage, which is effective from August 8, 2007 through December 31, 2010, is on an "all risk" basis, including, but not limited to, coverage for "named windstorms," floods and earthquakes. In June 2008, the Company also purchased an additional $100 million of "all risk" coverage including, but not limited to, coverage for "named windstorms," floods and earthquakes. The additional $100 million of "all risk" coverage excludes coverage for windstorms, "named windstorms," floods, and earthquakes, for Boomtown Biloxi and Hollywood Casino Bay St. Louis. An additional $300 million of "all risk" coverage was also purchased, which is subject to certain exclusions including, among others, exclusions for windstorms, "named windstorms," floods and earthquakes. The two additional coverage layers are effective from June 1, 2008 through June 1, 2009. There is a $25 million deductible for "named windstorm" events, and lesser deductibles as they apply to other perils. All three layers are subject to specific policy terms, conditions and exclusions.

8. Property and Equipment

Property and equipment, net, consists of the following:

December 31,	2008	2007
	(in thousands)	
Land and improvements	$ 216,834	$ 188,379
Building and improvements	1,298,513	998,910
Furniture, fixtures, and equipment	692,851	503,969
Leasehold improvements	17,128	16,145
Construction in progress	183,056	423,209
Total property and equipment	2,408,382	2,130,612
Less accumulated depreciation and amortization	(596,251)	(442,219)
Property and equipment, net	$1,812,131	$1,688,393

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Depreciation and amortization expense, for property and equipment, totaled $165.9 million, $140.3 million and $117.3 million in 2008, 2007, and 2006, respectively. Interest capitalized in connection with major construction projects was $13.8 million, $14.6 million and $8.0 million in 2008, 2007 and 2006, respectively. During the year ended December 31, 2008, the Company recorded a pre-tax impairment charge of $15.1 million ($10.0 million, net of taxes), as it determined that a portion of the value of its long-lived assets, primarily at its Bullwhackers property, was impaired.

9. Goodwill and Other Intangible Assets

The Company's goodwill and intangible assets had a gross carrying value of $2.3 billion and $2.8 billion at December 31, 2008 and 2007, respectively, and accumulated amortization of $34.7 million and $27.0 million at December 31, 2008 and 2007, respectively. The table below presents the gross carrying value, accumulated amortization, and net book value of each major class of goodwill and intangible assets at December 31, 2008 and 2007:

December 31,	2008			2007		
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
	(in thousands)					
Goodwill	$ 1,598,571	$ —	$1,598,571	$ 2,013,139	$ —	$2,013,139
Indefinite-life intangible assets	679,054	—	679,054	755,166	—	755,166
Other intangible assets	49,396	34,686	14,710	49,316	27,041	22,275
Total	$ 2,327,021	$ 34,686	$2,292,335	$ 2,817,621	$ 27,041	$2,790,580

Goodwill consists mainly of goodwill from the acquisitions of Hollywood Casino Corporation in March 2003, Argosy in October 2005 and Black Gold Casino at Zia Park in April 2007. Indefinite-life intangible assets

consist mainly of gaming licenses and trademark intangible assets from the acquisition of Argosy and the placement of slot machines at Hollywood Casino at Penn National Race Course.

During the year ended December 31, 2008, goodwill decreased by $414.6 million, primarily due to the Company recording a pre-tax impairment charge of $397.2 million ($338.5 million, net of taxes), as a portion of the value of the goodwill associated with the original purchase of Empress Casino Hotel, Argosy Casino Lawrenceburg, Hollywood Casino Aurora and Argosy Casino Alton, and all of the goodwill associated with the original purchase of Hollywood Slots Hotel and Raceway, was impaired. In addition, during the year ended December 31, 2008, indefinite-life intangible assets decreased by $76.1 million, primarily as the Company recorded a pre-tax impairment charge of $69.0 million ($44.1 million, net of taxes), as a portion of the value of the indefinite-life intangible assets associated with the original purchase of Argosy, and all of the indefinite-life intangible assets associated with the original purchase of Hollywood Slots Hotel and Raceway, was impaired.

During the year ended December 31, 2007, goodwill increased by $143.7 million, primarily due to goodwill recorded as part of the completion of the Black Gold Casino at Zia Park acquisition in April 2007 and the Sanford-Orlando Kennel Club acquisition in October 2007, offset by deferred tax adjustments relating to litigation accruals. In addition, gaming license, racing permit and trademark intangible assets increased by $54.7 million during the year ended December 31, 2007, due to the Black Gold Casino at Zia Park and Sanford-Orlando Kennel Club acquisitions and payment for the Category 1 slot machine license for the placement of slot machines at Hollywood Casino at Penn National Race Course.

The Company's intangible asset amortization expense was $7.7 million, $7.6 million and $6.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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The following table presents expected intangible asset amortization expense based on existing intangible assets at December 31, 2008 (in thousands):

2009	$ 6,642
2010	5,773
2011	2,096
2012	199
2013	—
Thereafter	—
Total	$ 14,710

10. Long-term Debt

Long-term debt, net of current maturities, is as follows:

December 31,	2008	2007
	(in thousands)	
Senior secured credit facility	$ 1,959,784	$ 2,496,625

$200 million 6 7/8% senior subordinated notes	200,000	200,000
$250 million 6 3/4% senior subordinated notes	250,000	250,000
Other long-term obligations	14,201	19,810
Capital leases	6,195	8,487
	2,430,180	2,974,922
Less current maturities of long-term debt	(105,281)	(93,452)
	$2,324,899	$2,881,470

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2008 (in thousands):

2009	$ 105,281
2010	231,992
2011	677,660
2012	1,163,326
2013	83
Thereafter	251,838
Total minimum payments	$2,430,180

At December 31, 2008, the Company was contingently obligated under letters of credit issued pursuant to the $2.725 billion senior secured credit facility with face amounts aggregating $27.5 million.

Senior Secured Credit Facility

On October 3, 2005, the Company entered into a $2.725 billion senior secured credit facility to fund the Company's acquisition of Argosy, including payment for all of Argosy's outstanding shares, the retirement of certain long-term debt of Argosy and its subsidiaries, the payment of related transaction costs, and to provide additional working capital. The $2.725 billion senior secured credit facility consists of three credit facilities comprised of a $750 million revolving credit facility (of which $123.7 million was drawn at December 31, 2008) that matures on October 3, 2010, a $325 million Term Loan A Facility that matures on October 3, 2011 and a $1.65 billion Term Loan B Facility that matures on October 3, 2012. The maturity dates for the Term Loan A Facility and the Term Loan B Facility may be accelerated to June 4, 2011 if the $200 million of 6 7/8% senior subordinated notes are not retired

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before that date. The $2.725 billion senior secured credit facility also allows the Company to raise an additional $300 million in senior secured credit for project development and property expansion.

During the year ended December 31, 2008, the Company's $2.725 billion senior secured credit facility amount outstanding decreased by $536.8 million, primarily due to principal payments on long-term debt, partially offset by the issuance of long-term debt for items such as payment for capital expenditures, funding associated with the opening of the Hollywood Casino at Penn National Race Course, privilege payments to the State of Kansas, payments for income taxes owed and lobbying efforts, primarily in Ohio, Maryland and Maine. During the year ended December 31, 2008, the Company used a portion of the net proceeds from the Investment

and the after-tax proceeds of the Cash Termination Fee for the repayment of some of its existing debt, repurchases of its Common Stock, lobbying expenses for efforts in Ohio and the investment in corporate debt securities, with the remainder being invested primarily in short-term securities.

The $2.725 billion senior secured credit facility is secured by substantially all of the assets of Penn and its restricted subsidiaries.

Interest Rate Swap Contracts

The Company has a policy designed to manage interest rate risk associated with its current and anticipated future borrowings. This policy enables the Company to use any combination of interest rate swaps, futures, options, caps and similar instruments. To the extent the Company employs such financial instruments pursuant to this policy, they are generally accounted for as hedging instruments. In order to qualify for hedge accounting, the underlying hedged item must expose the Company to risks associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce the Company's exposure to market fluctuations throughout the hedge period. If these criteria are not met, a change in the market value of the financial instrument and all associated settlements are recognized as gains or losses in the period of change. Net settlements pursuant to the financial instrument are included as interest expense in the period.

In accordance with the terms of its $2.725 billion senior secured credit facility, the Company was required to enter into fixed-rate debt or interest rate swap agreements in an amount equal to 50% of the Company's consolidated indebtedness, excluding the revolving credit facility, within 100 days of the closing date of the $2.725 billion senior secured credit facility.

On October 25, 2005, the Company entered into four interest rate swap contracts with terms from three to five years, notional amounts of $224 million, $274 million, $225 million, and $237 million, for a total of $960 million, and fixed interest rates ranging from 4.678% to 4.753%. The $224 million and $225 million swaps expired on October 27, 2008. The annual weighted-average interest rate of the two remaining contracts is 4.73%. Under these two remaining contracts, the Company pays a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31, 2008, the applicable 90-day LIBOR rate was 3.535% for the two remaining swaps.

On April 6, 2006, the Company entered into three interest rate swap contracts with a term of five years and notional amounts of $100 million each, for a total of $300 million and fixed interest rates ranging from 5.263% to 5.266%. The annual weighted-average interest rate of the three contracts is 5.26%. Under these contracts, the Company pays a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31, 2008, the applicable 90-day LIBOR rate was 2.388% for the $300 million swaps. The counterparty for one of the $100 million swaps is Lehman Brothers, which filed for Chapter 11 bankruptcy protection during the year ended December 31, 2008. The fair value of this $100 million swap was in a liability position at December 31, 2008.

On September 5, 2007, the Company entered into two interest rate swap contracts with terms of nine months and notional amounts of $197 million and $181 million, for a total of $378 million, and

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fixed interest rates of 5.01%. The $197 million swap expired on June 17, 2008, while the $181 million swap expired on July 18, 2008.

On December 19, 2007, the Company entered into three monthly interest rate swap contracts, each with notional amounts of $146.25 million and fixed interest rates of 4.97% effective December 31, 2007, 4.47% effective January 31, 2008 and 4.40% effective February 29, 2008. The $146.25 million swap matured on March 31, 2008.

On October 23, 2008, the Company entered into two interest rate swap contracts with terms of two and three years and notional amounts of $200 million each, for a total of $400 million and fixed interest rates ranging from 2.727% to 3.09%. The annual weighted-average interest rate of the two contracts is 2.91%. Under these contracts, the Company pays a fixed interest rate against a variable interest rate based on the one-month LIBOR rate. As of December 31, 2008, the applicable one-month LIBOR rate was 0.471% for the $400 million swaps.

Redemption of 8$^{7}/_{8}$% Senior Subordinated Notes

In February 2006, the Company called for the redemption of its $175 million 8$^{7}/_{8}$% senior subordinated notes. The redemption price was $1,044.38 per $1,000 principal amount, plus accrued and unpaid interest and was made on March 15, 2006. The Company recorded a $10.0 million loss on early extinguishment of debt during the year ended December 31, 2006 for the call premium and the write-off of the associated deferred financing fees. The Company funded the redemption of the $175 million 8$^{7}/_{8}$% senior subordinated notes from available cash and borrowings under its revolving credit facility.

6$^{7}/_{8}$% Senior Subordinated Notes

On December 4, 2003, the Company completed an offering of $200 million of 6$^{7}/_{8}$% senior subordinated notes that mature on December 1, 2011. Interest on the notes is payable on June 1 and December 1 of each year, beginning June 1, 2004.

The Company may redeem all or part of the 6$^{7}/_{8}$% senior subordinated notes at certain specified redemption prices.

The 6$^{7}/_{8}$% senior subordinated notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of the Company's current and future wholly-owned domestic subsidiaries. The 6$^{7}/_{8}$% senior subordinated notes rank equally with the Company's future senior subordinated debt and junior to its senior debt, including debt under the Company's $2.725 billion senior secured credit facility. In addition, the 6$^{7}/_{8}$% senior subordinated notes will be effectively junior to any indebtedness of Penn's non-U.S. unrestricted subsidiaries.

The 6$^{7}/_{8}$% senior subordinated notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended. On August 27, 2004, the Company completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act of 1933, as amended, having substantially identical terms.

On May 9, 2008, Merger Sub announced that it had commenced a cash tender offer and consent solicitation for any and all of the Company's $200 million 6$^{7}/_{8}$% senior subordinated notes. The tender offer and consent solicitation was being conducted in connection with the Merger Agreement and the obligation to accept for purchase and to pay for such notes was subject to the satisfaction or waiver of certain conditions, including the consummation of the Merger. In connection with the termination of the Merger Agreement, these offers were withdrawn.

6 3/4% Senior Subordinated Notes

On March 9, 2005, the Company completed an offering of $250 million of 6 3/4% senior subordinated notes that mature on March 1, 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005.

Effective March 2010, the Company may redeem all or part of the 6 3/4% senior subordinated notes at certain specified redemption prices.

The 6 3/4% senior subordinated notes are general unsecured obligations and are not guaranteed by the Company's subsidiaries.

The 6 3/4% senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended.

On May 9, 2008, Merger Sub announced that it had commenced a cash tender offer and consent solicitation for any and all of the Company's $250 million 6 3/4% senior subordinated notes. The tender offer and consent solicitation was being conducted in connection with the Merger Agreement and the obligation to accept for purchase and to pay for such notes was subject to the satisfaction or waiver of certain conditions, including the consummation of the Merger. In connection with the termination of the Merger Agreement, these offers were withdrawn.

Other Long-Term Obligations

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTWs located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Second Amendment to the Purchase Agreement and Release of Claims ("Amendment and Release") with the MTGA pertaining to the October 14, 2004 Purchase Agreement (the "Purchase Agreement"), and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. The Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years. At December 31, 2008, the balance due to the MTGA equaled $14.2 million.

Covenants

The Company's $2.725 billion senior secured credit facility, $200 million 6 7/8% and $250 million 6 3/4% senior subordinated notes require it, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, the Company's $2.725 billion senior secured credit facility, $200 million 6 7/8% and $250 million 6 3/4% senior subordinated notes restrict, among other things, the Company's ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments,

make acquisitions, engage in mergers or

consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

During the year ended December 31, 2008, the Company placed some of the funds received from the Investment into two unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds. The funds and activity maintained within the unrestricted subsidiaries are excluded from the Company's covenant calculations.

At December 31, 2008, the Company was in compliance with all required financial covenants.

11. Commitments and Contingencies

Litigation

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the normal course of business. The Company does not believe that the final outcome of these matters will have a material adverse effect on the Company's consolidated financial position or results of operations. In addition, the Company maintains what it believes is adequate insurance coverage to further mitigate the risks of such proceedings. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact the Company's consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

The following proceedings could result in costs, settlements, damages, or rulings that materially impact the Company's consolidated financial condition or operating results. In each instance, the Company believes that it has meritorious defenses, claims and/or counter-claims, and intends to vigorously defend itself or pursue its claim.

In conjunction with the Company's acquisition of Argosy in 2005, and subsequent disposition of the Argosy Casino Baton Rouge property, the Company became responsible for litigation initiated over eight years ago related to the Baton Rouge casino license formerly owned by Argosy. On November 26, 1997, Capitol House filed an amended petition in the Nineteenth Judicial District Court for East Baton Rouge Parish, State of Louisiana, amending its previously filed but unserved suit against Richard Perryman, the person selected by the Louisiana Gaming Division to evaluate and rank the applicants seeking a gaming license for East Baton Rouge Parish, and adding state law claims against Jazz Enterprises, Inc., the former Jazz Enterprises, Inc. shareholders, Argosy, Argosy of Louisiana, Inc. and Catfish Queen Partnership in Commendam, d/b/a the Belle of Baton Rouge Casino. This suit alleged that these parties violated the Louisiana Unfair Trade Practices Act in connection with obtaining the gaming license that was issued to Jazz Enterprises, Inc./Catfish Queen Partnership in Commendam. The plaintiff, an applicant for a gaming license whose application was denied by the Louisiana Gaming Division, sought to prove that the gaming license was invalidly issued and to recover lost gaming revenues that the plaintiff contended it could have earned if the gaming license had been properly issued to the plaintiff. On October 2, 2006, the Company prevailed on a partial summary judgment motion which limited plaintiff's damages to its out-of-pocket costs in seeking its gaming license, thereby eliminating

any recovery for potential lost gaming profits. On February 6, 2007, the jury returned a verdict of $3.8 million (exclusive of statutory interest and attorneys' fees) against Jazz Enterprises, Inc. and Argosy. After ruling on post-trial motions, on September 27, 2007, the trial court entered a judgment in the amount of $1.4 million, plus attorneys' fees, costs and interest. The Company has established an appropriate reserve and has bonded the judgment pending its appeal. Both the plaintiff and the Company have appealed the judgment to the First Circuit Court of Appeals in Louisiana and oral arguments took place on August 28, 2008. The Company has the right to seek indemnification from two of the former Jazz Enterprises, Inc. shareholders for any liability suffered as a result of such

cause of action, however, there can be no assurance that the former Jazz Enterprises, Inc. shareholders will have assets sufficient to satisfy any claim in excess of Argosy's recoupment rights.

In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including the Company's Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the pendency of the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Empress Casino Hotel and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court's ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the four casino plaintiffs filed a petition for certiorari, requesting the U.S. Supreme Court to hear the case. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the same four casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the four casinos filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois, asking the Court to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

In August 2007, a complaint was filed on behalf of a putative class of public shareholders of the Company, and derivatively on behalf of the Company, in the Court of Common Pleas of Berks County, Pennsylvania (the "Complaint"). The Complaint names the Company's Board of Directors as defendants and the Company as a nominal defendant. The Complaint alleges, among other things, that the Board of Directors breached their fiduciary duties by agreeing to the proposed transaction with Fortress and Centerbridge for inadequate consideration, that certain members of the Board of Directors have conflicts with regard to the Merger, and that the Company and its Board of Directors have failed to disclose certain material information with regard to the

Merger. The Complaint seeks, among other things, a court order determining that the action is properly maintained as a class action and a derivative action enjoining the Company and its Board of Directors from consummating the proposed Merger, and awarding the payment of attorneys' fees and expenses. The Company and the plaintiff had reached a tentative settlement in which the Company agreed to pay certain attorneys' fees and to make certain disclosures regarding the events leading up to the transaction with Fortress and Centerbridge in the proxy statement sent to shareholders in November 2007. Final settlement was contingent upon court approval and consummation of the transaction with Fortress and Centerbridge. Because the transaction with Fortress and Centerbridge was terminated as described in Note 3, the Company expects to move for a dismissal of the complaint.

On July 16, 2008, the Company was served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of the Company's Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that the Company's disclosure practices relative to the proposed transaction with Fortress and Centerbridge and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange

Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint has been amended, among other things, to add three new named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. The Company filed a motion to dismiss the complaint in November 2008, and oral arguments for the motion were heard by the court on February 23, 2009. Following oral arguments, the court granted the Company's motion and dismissed the complaint with prejudice. The Company anticipates that the plaintiffs will file a motion for reconsideration with the court.

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary of Penn created to pursue a development project in Cherokee County, Kansas) and the Company in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. Defendants are currently contesting the validity and scope of the attachment and intend to defend the merits of the case going forward.

On September 23, 2008, KPG filed an action against HV Properties of Kansas, LLC ("HV") in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the "Contract") that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against the Company claiming the Company is liable to HV for KPG's alleged breach based on a Guaranty Agreement signed by the Company. Both cases were consolidated. The Company has filed a motion to dismiss HV's claims against the Company. This motion has been fully briefed and is pending.

The following dispute was concluded in the fourth quarter of 2008:

In November 2005, Capital Seven, LLC and Shawn A. Scott (collectively, "Capital Seven"), the sellers of Bangor Historic Track, Inc. ("BHT"), filed a demand for arbitration with the American Arbitration Association seeking $30 million plus interest and other damages. Capital Seven alleged a breach of contract by the Company based on the Company's payment of a $51 million purchase price for the purchase of BHT instead of an alleged $81 million purchase price Capital Seven claimed was due under the purchase agreement. The parties had agreed that the purchase price of BHT would be determined, in part, by the applicable gaming taxes imposed by Maine on the Company's operations. The arbitrators issued their ruling in November 2008, stating that, under the applicable tax rate, the purchase price was $61 million. The panel awarded $10 million plus contractual interest to Capital Seven. Pursuant to the dispute resolution procedures, the Company had deposited the disputed $30 million in escrow, pending a resolution. This amount was included in other assets within the consolidated balance sheet at December 31, 2007. On December 1, 2008, the escrowed funds were released, with $13.1 million being paid to Capital Seven and the remainder being returned to the Company.

Operating Lease Commitments

The Company is liable under numerous operating leases for airplanes, automobiles, land for the property on which some of its casinos operate, other equipment and buildings, which expire at various

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dates through 2093. Total rental expense under these agreements was $30.7 million, $29.6 million and $28.1 million for the years ended December 31, 2008, 2007, and 2006, respectively.

The leases for land consist of annual base lease rent payments, plus, in some instances, a percentage rent based on a percent of adjusted gaming wins, as described in the respective leases.

The Company has an operating lease with the City of Bangor which covers the temporary facility and the permanent facility, which opened on July 1, 2008. Under the lease agreement, there is a fixed rent provision, as well as a revenue-sharing provision which is equal to 3% of gross slot revenue. The final term of the lease, which commenced with the opening of the permanent facility, is for an initial term of fifteen years, with three ten-year renewal options.

On March 23, 2007, BTN, Inc. ("BTN"), one of the Company's wholly-owned subsidiaries, entered into an amended and restated ground lease (the "Amended Lease") with Skrmetta MS, LLC. The lease amends the prior ground lease, dated October 19, 1993. The Amended Lease requires BTN to maintain a minimum gaming operation on the leased premises and to pay rent equal to 5% of adjusted gaming win after gaming taxes have been deducted. The term of the Amended Lease expires on January 1, 2093.

The future minimum lease commitments relating to the base lease rent portion of noncancelable operating leases at December 31, 2008 are as follows (in thousands):

Year ending December 31,	
2009	$ 6,985
2010	5,148
2011	4,732
2012	3,927

2013	3,228
Thereafter	22,951
Total	$46,971

Capital Expenditure Commitments

At December 31, 2008, the Company was contractually committed to spend approximately $67.7 million in capital expenditures for projects in progress.

Employee Benefit Plans

The Company maintains a profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended, which covers all eligible employees. The plan enables participating employees to defer a portion of their salary in a retirement fund to be administered by the Company. The Company makes a discretionary match contribution of 50% of employees' elective salary deferrals, up to a maximum of 6% of eligible employee compensation.

The Company also has a defined contribution plan, the Charles Town Races Future Service Retirement Plan, covering substantially all of its union employees at the Charles Town Entertainment Complex. The Company makes annual contributions to this plan for the eligible union employees and to the Penn National Gaming, Inc. 401(k) Plan for the eligible non-union employees for an amount equal to the amount accrued for retirement expense, which is calculated as 0.25% of the daily mutual handle and 1.0% up to a base of the net video lottery revenues and, after the base is met, it reverts to 0.5%.

The Company maintains a non-qualified deferred compensation plan that covers most management and other highly-compensated employees. This plan was effective March 1, 2001. The plan allows the

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participants to defer, on a pre-tax basis, a portion of their base annual salary and bonus, and earn tax-deferred earnings on these deferrals. The plan also provides for matching Company contributions that vest over a five-year period. The Company has established a Trust, and transfers to the Trust, on a periodic basis, an amount necessary to provide for its respective future liabilities with respect to participant deferral and Company contribution amounts. The Company's matching contributions in 2008, 2007 and 2006 were $1.7 million, $2.2 million and $1.5 million, respectively.

Agreements with Horsemen and Pari-Mutuel Clerks

The Company is required to have agreements with the horsemen at each of its racetracks to conduct its live racing and simulcasting activities, with the exception of the Company's tracks in Ohio and New Mexico. In addition, in order to operate gaming machines in West Virginia, the Company must maintain agreements with each of the Charles Town Horsemen, pari-mutuel clerks and breeders.

At the Charles Town Entertainment Complex, the Company has an agreement with the Charles Town Horsemen with an initial term expiring on December 31, 2011, and an agreement with the breeders that expires on June 30, 2009. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2010.

The Company's agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course expires on September 30, 2011. The Company has a collective bargaining agreement with Local 137 of the Sports Arena Employees (AFL-CIO) at Penn National Race Course with respect to pari-mutuel clerks, admissions and Telebet personnel which expires on December 31, 2011. The Company also has an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at the Company's OTWs, which will expire on September 30, 2009.

The Company's agreement with the Maine Harness Horsemen Association at Bangor Raceway expired at the end of the 2008 racing season. The parties are currently working cooperatively on a three-year extension, which is expected to be executed before the start of the 2009 racing season.

Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires in May 2009.

Throughout the Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately one thousand nine hundred of the Company's employees. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE") Local 1 represents approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2010. At certain of the Company's Argosy properties, the Seafarer International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO, the International Brotherhood of Electrical Workers, the Security Police and Fire Professionals of America, the American Maritime Officers Union, the International Brotherhood of Electrical Workers Local 176, and UNITE/HERE Local 10 represent certain of the Company's employees. The Company has collective bargaining agreements with these unions that expire at various times between July 2009 and October 2015. None of these unions individually represent more than fifty of the Company's employees.

If the Company fails to maintain agreements with the horsemen at a track, it will not be permitted to conduct live racing and export and import simulcasting at that track and where applicable, the OTWs. In West Virginia, the Company will not be permitted to operate its gaming machines if it fails to maintain agreements with the Charles Town Horsemen, pari-mutuel clerks and breeders. In addition, the simulcasting agreements are subject to the horsemen's approval. If the Company fails to maintain necessary agreements, this failure could have a material adverse effect on its business, financial condition and results of operations. Except for the closure of the facilities at Penn National Race

Course and its OTWs from February 16, 1999 to March 24, 1999 due to a horsemen's strike, and a few days at other times and locations, the Company has been able to maintain the necessary agreements. There can be no assurance that the Company will be able to maintain the required agreements.

New Jersey Joint Venture

On January 28, 1999, the Company, along with its joint venture partner, Greenwood Limited Jersey, Inc. ("Greenwood"), purchased certain assets and assumed certain liabilities of Freehold Racing Association, Garden State Racetrack and related entities, in a transaction accounted for as a purchase transaction.

In 1999, the Company made an $11.3 million loan to the joint venture and an equity investment of $0.3 million. In 2008, the balance of the loan was increased by $0.5 million to $11.8 million to substitute a

payment of interest on the loan. The loan is evidenced by a subordinated secured note, which is included in investment in and advances to unconsolidated affiliate within the consolidated balance sheets. The $11.3 million portion of the note bears interest at prime plus 2.25% or a minimum of 10.00% (at December 31, 2008, the interest rate was 10.00%). The $0.5 million portion of the note bears interest at the lesser of prime plus 2.00% or the 30-day LIBOR plus 3.00% (at December 31, 2008, the interest rate was 3.41%). The Company has recorded interest income within the consolidated statements of operations of $1.2 million, $1.2 million and $1.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The joint venture, through Freehold Racing Association, was part of a multi-employer pension plan. For collectively bargained, multi-employer pension plans, contributions were made in accordance with negotiated labor contracts and generally were based on days worked. With the passage of the Multi-Employer Pension Plan Amendments Act of 1980, the joint venture may, under certain circumstances, become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, these liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. In June 2006, Freehold Racing Association withdrew from the multi-employer pension plan, and thereby became subject to payment of a withdrawal liability to the multi-employer pension plan. In January 2008, the Company was informed that the multi-employer pension plan experienced a mass withdrawal termination as of December 25, 2007. At December 31, 2008, the joint venture withdrawal liability was approximately $3.5 million for Freehold Racing Association, which is payable through November 2028.

The Company and Greenwood entered into a Debt Service Maintenance Agreement with a bank in which each joint venture partner has guaranteed up to 50% of a $23.0 million term loan to the joint venture. The Debt Service Maintenance Agreement remains in effect for the life of the loan and was due to expire on September 30, 2009. In 2008, the joint venture borrowed an additional $1.75 million and the maturity date of the term loan was extended to September 30, 2013. At December 31, 2008, the outstanding balance on the loan to the joint venture amounted to $12.2 million, of which the Company's obligation under its guarantee of the term loan was limited to approximately $6.1 million. The Company's investment in the joint venture is accounted for under the equity method. The original investment was recorded at cost and has been adjusted by the Company's share of income (loss) of the joint venture and distributions received. The Company's 50% share of the income (loss) of the joint venture is included in other income (expenses) within the consolidated statements of operations.

12. Income Taxes

Deferred tax assets and liabilities are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated balance sheet. These temporary differences result in taxable or deductible amounts in future years.

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The components of the Company's deferred tax assets and liabilities are as follows:

Year ended December 31,	2008	2007
	(in thousands)	
Deferred tax assets:		
Stock-based compensation expense	$ 17,510	$ 11,111

Accrued expenses	21,973	18,945
Uncertain tax positions under FIN 48	12,751	9,458
State net operating losses	6,622	7,687
Accumulated other comprehensive loss	21,929	12,325
Gross deferred tax assets	80,785	59,526
Less valuation allowance	(3,860)	(6,632)
Net deferred tax assets	76,925	52,894
Deferred tax liabilities:		
Property, plant and equipment	(86,342)	(102,936)
Intangibles	(235,128)	(315,968)
Net deferred tax liabilities	(321,470)	(418,904)
Net:	$(244,545)	$(366,010)
Reflected on consolidated balance sheets:		
Current deferred tax assets, net	$ 21,065	$ 19,079
Noncurrent deferred tax liabilities, net	(265,610)	(385,089)
Net deferred taxes	$(244,545)	$(366,010)

For income tax reporting, the Company has state net operating loss carryforwards aggregating approximately $179.1 million available to reduce future state income taxes primarily for the Commonwealth of Pennsylvania and the State of Mississippi as of December 31, 2008. The tax benefit associated with these net operating loss carryforwards is approximately $6.7 million. Due to state tax statutes on annual net operating loss utilization limits, the availability of gaming tax credits, and income and loss projections in the applicable jurisdictions, a $3.9 million valuation allowance has been recorded to reflect the net operating losses which are not presently expected to be realized. If not used, substantially all of the carryforwards will expire at various dates from December 31, 2009 to December 31, 2028.

The $3.9 million valuation allowance represents the income tax effect of state net operating loss carryforwards of the Company, which are not presently expected to be utilized. In the event that the valuation allowance is ultimately unnecessary, the majority would be treated as a reduction of tax expense.

In addition, certain subsidiaries have accumulated state net operating loss carryforwards aggregating approximately $553.1 million for which no benefit has been recorded as they are attributable to uncertain tax positions. The unrecognized tax benefits as of December 31, 2008 attributable to these net operating losses was approximately $37.7 million. Due to the uncertain tax position, these net operating losses are not included as components of deferred tax assets as of December 31, 2008. In the event of any benefit from realization of these net operating losses, $8.3 million would be treated as an increase to equity, $0.5 million would be treated as a reduction to goodwill, and the remainder would be treated as a reduction of tax expense. If not used, substantially all the carryforwards will expire at various dates from December 31, 2009 to December 31, 2028.

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The provision for income taxes charged to operations was as follows:

Year ended December 31,	2008	2007	2006
		(in thousands)	
Current tax expense			
Federal	$157,043	$ 75,959	$108,958
State	35,461	28,536	33,067
Foreign	4,332	9,427	433
Total current	196,836	113,922	142,458
Deferred tax expense (benefit)			
Federal	(78,895)	16,223	16,260
State	(12,203)	2,042	(1,866)
Total deferred	(91,098)	18,265	14,394
Total provision	$105,738	$132,187	$156,852

The following table reconciles the statutory federal income tax rate to the actual effective income tax rate for 2008, 2007 and 2006:

Year ended December 31,	2008	2007	2006
Percent of pretax income			
Federal taxes	35.0%	35.0%	35.0%
State and local income taxes	(32.0)%	6.8%	5.5%
Permanent differences	(217.9)%	2.6%	1.8%
Foreign	(7.5)%	1.2%	0.1%
Other miscellaneous items	0.2%	(0.4)%	—
	(222.2)%	45.2%	42.4%

Year ended December 31,	2008	2007	2006
		(in thousands)	
Amount based upon pretax income			
Federal taxes	$ (16,655)	$102,284	$129,475
State and local income taxes	15,229	19,953	20,281
Permanent differences	103,707	7,460	6,742
Foreign	3,587	3,453	266
Other miscellaneous items	(130)	(963)	88
	$105,738	$132,187	$156,852

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a liability for unrecognized tax benefits of approximately $11.9 million, which was accounted for as a reduction to the January 1, 2007 retained earnings balance. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008 and 2007.

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A reconciliation of the beginning and ending amount for the liability for unrecognized tax benefits is as follows:

	Noncurrent tax liabilities
	(in thousands)
Balance at January 1, 2007	$ 56,960
Additions based on current year tax positions	3,122
Additions based on prior year tax positions	7,676
Currency translation adjustments	15,091
Balance at December 31, 2007	$ 82,849
Additions based on current year tax positions	10,702
Additions based on prior year tax positions	2,105
Decreases due to settlements and/or reduction in liabilities	(6,984)
Currency translation adjustments	(20,040)
Balance at December 31, 2008	$ 68,632

Included in the liability for unrecognized tax benefits at December 31, 2008 and 2007 were $31.7 million and $38.7 million, respectively, of tax positions that are indemnified by a third party. The indemnification stems from a transaction that the Company completed in 2001 with The Continental Companies and CHC International, Inc. (the "Seller"), whereby the Company acquired Casino Rouge in Baton Rouge, Louisiana and the management contract for Casino Rama in Orillia, Ontario, Canada. As part of the acquisition, Continental and the Company entered into an Indemnification Agreement, whereby Continental indemnified the Company for any tax liabilities to arise subsequent to the acquisition for taxation years in which Continental was the owner. The Canada Revenue Agency ("CRA") issued reassessments of CHC Canada's 1996 through 2000 taxation years. The Company and the Seller disagree with CRA's position, and the matter has been in Competent Authority since 2004. The Indemnification Agreement provides that the Company does not receive payment until "final determination" by a taxing authority. The Company believes that it is more likely than not that the matter in Competent Authority will be effectively settled within the next twelve months. Upon settlement, the Company will relieve its liability and reverse the indemnification receivable. For years after April 2001 where the Company has no indemnification, it has included an appropriate amount of tax reserves in the liability for unrecognized tax benefits, including accrued interest and penalties.

Included in the liability for unrecognized tax benefits at December 31, 2008 and 2007 were $(20.0) million and $15.1 million, respectively, of currency translation adjustments for foreign currency tax positions.

Included in the liability for unrecognized tax benefits at December 31, 2008 and 2007 were $36.6 million and $27.3 million, respectively, of tax positions that, if reversed, would affect the effective tax rate.

The Company is required under FIN 48 to disclose its accounting policy for classifying interest and penalties, the amount of interest and penalties charge to expense each period, as well as the cumulative amounts recorded in the consolidated balance sheets. The Company will continue to classify any tax-related penalties and interest accrued related to unrecognized tax benefits in taxes on income within the consolidated statements of operations.

During the years ended December 31, 2008 and 2007, the Company recognized approximately

$2.5 million and $3.7 million, respectively, of interest and penalties, net of deferred taxes. In addition, due to settlements and/or reductions in previously-recorded liabilities on uncertain tax positions, the Company had reductions in previously-accrued interest and penalties of $0.8 million, net of deferred taxes, and $1.1 million, which were charged off against goodwill. The Company has accrued

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approximately $39.2 million (gross) for the payment of interest and penalties at December 31, 2008. These accruals were included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008.

As of December 31, 2008, the Company is subject to U.S. Federal income tax examinations for the tax years 2005, 2006 and 2007. In addition, the Company is subject to state and local income tax examinations for various tax years in the taxing jurisdictions in which the Company operates.

13. Shareholders' Equity

Shareholder Rights Plan

On May 20, 1998, the Board of Directors of the Company authorized and declared a dividend distribution of one preferred stock purchase right (the "Right" or "Rights") for each outstanding share of the Company's Common Stock, par value $.01 per share, payable to shareholders of record at the close of business on March 19, 1999. In addition, a Right is issued for each share of Common Stock issued after March 19, 1999 and prior to the Rights' expiration. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction") of the Company's Series A Preferred Stock (or another series of preferred stock with substantially similar terms), or a combination of securities and assets of equivalent value, at a purchase price of $10.00 per Preferred Stock Fraction, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999, and amended on June 15, 2007, between the Company and Continental Stock Transfer and Trust Company as Rights Agent.

The Rights are attached to the shares of the Company's Common Stock until they become exercisable. Generally, the Rights will be exercisable beginning on a specified date after a person or group acquires 15% or more of the Company's Common Stock (the "Stock Acquisition Date"), commences a tender or exchange offer that will result in such person or group acquiring 20% or more of the outstanding Common Stock or a determination that a beneficial owner's ownership of a substantial amount of the Company's Common Stock (at least 10%) is intended to pressure the Company to take action not in the long-term best interests of the Company or may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company is entitled to redeem the Rights at a price of $.01 per Right (payable in cash or stock) at any time until 10 days following a Stock Acquisition Date or the date on which a person is determined to be an Adverse Person. Upon the occurrence of certain events described in the Rights Agreement, each holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding Common Stock or who is determined to be an Adverse Person, which Rights become void) will have the right to receive, upon exercise, Preferred Stock Fractions (or, in certain circumstances, the Company's Common Stock, the acquiring company's Common Stock, cash, property or other securities of the Company) having a market value of twice the exercise price of each Right. Following any such event, the Company may permit holders to surrender their Rights in exchange for Preferred Stock Fractions (or other property or securities, as the case may be) equal to half the value otherwise purchasable or exchange each Right for one Preferred Share

Fraction. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised, the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable until the distribution date, and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.

On June 15, 2007, immediately prior to the execution of the Merger Agreement, the Company and Continental Stock Transfer and Trust Company entered into Rights Agreement Amendment No. 1. The Company was required to enter into Rights Agreement Amendment No. 1 pursuant to Section 4.12 of the Merger Agreement in order to render the Rights Agreement inapplicable to the proposed Merger and other transactions contemplated under the Merger Agreement. Pursuant to Rights Agreement Amendment No. 1, none of Fortress, Centerbridge, PNG Holdings LLC ("Holdings" and, together with

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Fortress, Centerbridge, Parent and Merger Sub, the "Fortress/Centerbridge Entities"), Parent or Merger Sub will be an Acquiring Person or an Adverse Person (as such terms are defined in the Rights Agreement) to the extent any of the Fortress/Centerbridge Entities are beneficial owners of any Common Stock as a result of the approval, execution or delivery of the Merger Agreement or consummation of the Merger.

On July 3, 2008, the Company entered into Amendment No. 2 to the Rights Agreement between the Company and Continental Stock Transfer and Trust Company. Amendment No. 2 supplements and adds certain definitions in the Rights Agreement and provides, among other things, that neither Fortress nor Centerbridge will be deemed to be Acquiring Persons or Adverse Persons (as such terms are defined in the Rights Agreement) solely by virtue of the approval, execution or delivery of the agreement to purchase the Company's Preferred Stock, the purchase and ownership of Preferred Stock pursuant to the terms of such purchase agreement or the receipt and ownership of Common Stock upon a redemption of the Preferred Stock.

Issuance of the $1.25 billion, Zero Coupon Preferred Equity Investment

In connection with the termination of the Merger Agreement, the Company issued 12,500 of Preferred Stock for $1.25 billion. Pursuant to the terms of the preferred equity purchase agreement, the purchasers made the Initial Investment to the Company on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock. On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, the Company closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent.

The Investment is generally non-voting, but possesses voting rights with respect to certain extraordinary events. The Investment is entitled to vote with the Common Stock on an as-converted basis with respect to any change-in-control or other significant transaction if the consideration to be paid to shareholders is less than $45 per share (which amount is subject to adjustment in certain circumstances). In addition, the approval of holders of a majority of the Investment shares is required to authorize (i) special dividends to security holders of the Company; (ii) issuance by the Company of equity securities senior to or on a parity with the Investment; (iii) stock repurchases, including but not limited to, by means of a tender offer which is funded by an asset sale outside the ordinary course (other than repurchases in the open market and repurchases by tender offer at not greater than a 20% premium); and (iv) certain other amendments to the terms of the Investment. The Investment

has an aggregate liquidation preference equal to $1.25 billion, the aggregate purchase price paid for the Investment shares (the "Purchase Price"), subject to certain adjustments. In addition, the Investment terms provide that the Investment participates in any dividends paid on the Common Stock. To the extent that the Company pays a special dividend, such special dividend will reduce the amount to be paid to the holders of the Investment upon a liquidation or redemption.

The Company is required to redeem all of the outstanding shares of the Investment on June 30, 2015, unless a change-in-control transaction in which all holders of shares of the Common Stock receive consideration in the transaction has occurred prior to that time. In the event of such a change-in-control transaction, the holders of the Investment will receive cash and/or other consideration in such transaction (the same consideration as the holders of Common Stock receive) with a value equal to the net present value of the Purchase Price, subject to increase or decrease in the event that the value of the consideration paid to the holders of the Common Stock is greater than $67 per share or less than $45 per share, respectively, which thresholds are subject to adjustment in certain circumstances.

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The redemption price to be paid to the holders of the Investment on June 30, 2015 is equal to the Purchase Price, subject to increase or decrease in the event that the average trading price of the Common Stock (measured over the 20 consecutive trading days prior to May 26, 2015) is greater than $67 per share or less than $45 per share, respectively. There is no coupon payable with respect to the Investment. The Company shall redeem all of the Investment for cash, provided the Company may elect on or prior to June 1, 2015 to pay all or part of the redemption price in shares of the Common Stock. At December 31, 2008, the redemption price was $593.9 million (27.8 million shares of Common Stock if the Company elected to redeem through the issuance of Common Stock).

The holders of the Investment are subject to the Investor Rights Agreement, dated as of July 3, 2008, by and among the Company, FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (the "Investor Rights Agreement"), which, among other things, contains a voting agreement requiring certain Investment holders to vote all of their shares of Common Stock as directed by the Company and a standstill agreement restricting the activities of certain Investment holders. In addition, Investment holders who may receive 20% or more of the outstanding Common Stock upon redemption would be subject to Subchapter 25G of the Pennsylvania Business Corporation Law of 1988, as amended (the "Control Share Statute"). The Control Share Statute prohibits any person or group that acquires more than 20% of the voting power of the Company from voting any securities held by such person or group unless the shareholders vote to accord voting rights to such securities within 90 days of the time such threshold was exceeded. Under the Investment terms, unless such shareholder approval is obtained, the Investment holders shall execute and deliver a proxy in favor of an attorney-in-fact to be designated by the Board of Directors covering the number of shares of Common Stock necessary to avoid the application of the Control Share Statute.

The Investor Rights Agreement also provides that until Fortress and its affiliates own less than two-thirds of the shares of the Investment issued to them on October 30, 2008, Fortress and the Company must take all action in their power to appoint one designee of the purchasers (the "Purchaser Designee") as a Class II director on the Board of Directors and to use all commercially reasonable efforts to cause the election of the Purchaser Designee at every meeting thereafter at which a Class II director is to be elected. The initial Purchaser Designee is Wesley R. Edens. Mr. Edens is the founding principal, Chief Executive Officer and Chairman of the Board of

Directors of Fortress.

Under the terms of the Investor Rights Agreement, the Company has agreed to file a short-form registration statement with the U.S. Securities and Exchange Commission for the registration and sale of Investment shares and certain shares of Common Stock owned by the purchasers ("Registrable Securities"), which it filed on December 30, 2008. The Company is required to keep the shelf registration statement continuously effective under the Securities Act of 1933, as amended, until the earlier of (i) such time as all Registrable Securities have been sold and (ii) such time as the purchasers beneficially own (as defined in the Investor Rights Agreement) less than 2.5% of the Common Stock on a fully-diluted basis (including Common Shares issuable upon redemption of the Investment shares at maturity). The purchasers and any permitted transferees of Registrable Securities are also entitled to four demand registrations and unlimited piggyback registration during the term of the Investor Rights Agreement.

Pursuant to the Investor Rights Agreement, the Investment holders may not directly or indirectly sell, transfer, pledge, encumber, assign or otherwise dispose of any portion of any Investment shares to any person without the prior written consent of the Company prior to July 21, 2009. However, the Investment holders may sell, transfer, pledge, encumber, assign or otherwise dispose of their Investment shares prior to July 21, 2009 if such transaction is made: (i) to an affiliate of any such Investment holder which agrees to be bound by the terms of the Investor Rights Agreement; (ii) with the prior written consent of the Company's Board of Directors, to a person pursuant to a tender or exchange offer for Investment shares or Common Stock by such person or a merger, consolidation or reorganization of the Company with such person; (iii) if the Company acknowledges in writing that it is

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unable to pay its debts, commences a voluntary case in bankruptcy or a voluntary petition seeking reorganization or makes an assignment for the benefit of creditors; or (iv) if the Company consents to the entry of an order for relief against it seeking liquidation, reorganization or a creditor's arrangement of the Company.

Under the Investor Rights Agreement, each Investment holder has preemptive rights with respect to certain sales of Common Stock, stock options or securities convertible into Common Stock for so long as such holder beneficially owns at least two-thirds of the shares of the Investment issued to it on October 30, 2008.

14. Stock-Based Compensation

In April 1994, the Company's Board of Directors and shareholders adopted and approved the 1994 Stock Option Plan (the "1994 Plan"). The 1994 Plan permitted the grant of options to purchase up to 12,000,000 shares of Common Stock, subject to antidilution adjustments, at a price per share no less than 100% of the fair market value of the Common Stock on the date an option is granted with respect to incentive stock options only. The price would be no less than 110% of fair market value in the case of an incentive stock option granted to any individual who owns more than 10% of the total combined voting power of all classes of outstanding stock. The 1994 Plan provided for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified stock options, which do not so qualify. The options granted prior to the 2003 Plan remain outstanding.

On April 16, 2003, the Company's Board of Directors adopted and approved the 2003 Long Term Incentive Compensation Plan (the "2003 Plan"). On May 22, 2003, the Company's shareholders approved the

2003 Plan. The 2003 Plan was effective June 1, 2003 and permitted the grant of options to purchase Common Stock and other market-based and performance-based awards. Up to 12,000,000 shares of Common Stock were available for awards under the 2003 Plan. The 2003 Plan provided for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified stock options, which do not so qualify. The exercise price per share may be no less than (i) 100% of the fair market value of the Common Stock on the date an option is granted for incentive stock options and (ii) 85% of the fair market value of the Common Stock on the date an option is granted for nonqualified stock options. This plan will remain in place until it terminates in 2013. However the shares which remained available for issuance under such plan as of November 12, 2008 are no longer available for issuance and all future equity awards will be pursuant to the 2008 Plan described below.

On August 20, 2008, the Company's Board of Directors adopted and approved the 2008 Long Term Incentive Compensation Plan (the "2008 Plan"). On November 12, 2008, the Company's shareholders approved the 2008 Plan. The 2008 Plan permits the Company to issue stock options (incentive and/or non-qualified), stock appreciation rights, restricted stock, phantom stock units and other equity and cash awards to employees. Non-employee directors are eligible to receive all such awards, other than incentive stock options. The aggregate number of shares of Common Stock that may be issued under the 2008 Plan shall not exceed 6,900,000. Awards of stock options and stock appreciation rights will be counted against the 6,900,000 limit as one share of Common Stock for each share granted. However each share awarded in the form of restricted stock, phantom stock units or any other full value stock award will be counted as issuing 2.16 shares of Common Stock for purposes of determining the number of shares available for issuance under the plan. At December 31, 2008, there were 6,900,000 options available for future grants under the 2008 Plan.

Stock options that expire between November 1, 2009 and September 11, 2018 have been granted to officers, directors and employees to purchase Common Stock at prices ranging from $7.75 to $61.82 per share. All options were granted at the fair market value of the Common Stock on the date the options were granted.

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The following table contains information on stock options issued under the plans for the three-year period ended December 31, 2008:

	Number of Option Shares	Weighted-Average	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2005	7,733,814	$ 17.09	5.34	$ 122,844
Granted	1,784,400	33.34		
Exercised	(1,310,113)	9.31		
Canceled	(97,500)	22.16		
Outstanding at December 31, 2006	8,110,601	$ 21.87	4.97	$ 160,225
Granted	1,458,750	42.21		
Exercised	(1,824,071)	13.66		
Canceled	(495,375)	28.44		
Outstanding at December 31, 2007	7,249,905	$ 27.58	4.87	$ 231,837

Granted	1,834,000	29.56			
Exercised	(203,202)	11.80			
Canceled	(76,125)	37.00			
Outstanding at December 31, 2008	8,804,578	$ 28.27	6.30	$	17,677

Included in the above are Common Stock options that were issued in 2003 to the Company's Chairman outside of the 1994 Plan and the 2003 Plan. These options were issued at $7.95 per share, and are exercisable through February 6, 2013. At December 31, 2008 and 2007, the number of these Common Stock options that were outstanding was 23,750. In addition, the Company issued 160,000 restricted stock awards in 2004, which fully vest in May 2009, and issued 280,000 restricted stock awards in 2006, which fully vest by 2011. The restricted stock grants in 2004 and 2006 were made pursuant to the 2003 Plan. Due to the departure of one of the Company's senior executives, 60,000 of these awards were forfeited. On December 31, 2008, the Company modified the expiration date of certain of its stock options from the seventh anniversary of the date of grant to the tenth anniversary of the date of grant. This modification resulted in additional compensation costs related to stock-based compensation of $2.3 million pre-tax ($1.6 million after-tax) for the year ended December 31, 2008.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2008, 2007 and 2006 were $10.57, $16.08 and $14.58, respectively.

	Number of Option Shares	Weighted-Average Exercise Price
Exercisable at December 31,		
2008	4,608,441	$ 23.60
2007	3,080,480	19.74
2006	2,848,451	14.11

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2008, 2007 and 2006 was $4.1 million, $74.6 million and $37.4 million, respectively.

At December 31, 2008, there were 4,608,441 shares that were exercisable, with a weighted-average exercise price of $23.60, a weighted-average remaining contractual term of 4.78 years, and an aggregate intrinsic value of $17.6 million.

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The following table summarizes information about stock options outstanding at December 31, 2008:

	Exercise Price Range			Total
	$7.75 to $29.22	$29.34 to $33.12	$33.17 to $61.82	$7.75 to $61.82
Outstanding options				
Number outstanding	4,006,539	2,973,665	1,824,374	8,804,578
Weighted-average remaining contractual life (years)	4.33	8.33	7.35	6.30
Weighted-average exercise price	$ 20.64	$ 31.14	$ 40.35	$ 28.27

Exercisable options				
Number outstanding	3,426,539	613,915	567,987	4,608,441
Weighted-average exercise price	$ 19.35	$ 32.94	$ 39.16	$ 23.60

Compensation costs related to stock-based compensation for the years ended December 31, 2008, 2007, and 2006 totaled $26.9 million pre-tax ($19.8 million after-tax), $25.5 million pre-tax ($18.6 million after-tax), and $20.6 million pre-tax ($14.9 million after-tax), respectively, and are included within the consolidated statements of operations under general and administrative expense.

At December 31, 2008 and December 31, 2007, the total compensation cost related to nonvested awards not yet recognized equaled $67.0 million and $41.6 million, respectively, including $63.9 million and $36.3 million for stock options, respectively, and $3.1 million and $5.3 million for restricted stock, respectively. This cost is expected to be recognized over the remaining vesting periods, which will not exceed five years.

15. Segment Information

In accordance with SFAS 131, the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

16. Summarized Quarterly Data (Unaudited)

The following table summarizes the quarterly results of operations for the years ended December 31, 2008 and 2007:

	Fiscal Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
2008				
Net revenues	$613,494	$620,586	$617,887	$ 571,086
Income (loss) from operations	118,559	113,591	96,377	(414,968)
Net income (loss)	40,736	37,023	147,491	(378,573)
Basic earnings (loss) per common share	0.47	0.43	1.72	(4.77)
Diluted earnings (loss) per common share	0.46	0.42	1.69	(4.77)
2007				
Net revenues	$596,258	$625,244	$629,450	$ 585,841
Income from operations	124,780	128,420	133,879	110,730
Net income	42,941	38,299	46,590	32,223
Basic earnings per common share	0.51	0.45	0.54	0.37
Diluted earnings per common share	0.49	0.43	0.52	0.36

As a result of a decline in the Company's share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, the Company recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the fourth quarter of 2008, as it determined that a portion of the value of its goodwill, indefinite-life intangible assets and long-lived assets was

impaired.

17. Related Party Transactions

Executive Office Lease

The Company currently leases 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of its Chairman and CEO. Rent expense for the years ended December 31, 2008, 2007 and 2006 amounted to $0.8 million, $0.7 million and $0.6 million, respectively. The leases for the office space expire in March 2012, May 2012 and May 2013, and the lease for the warehouse space expires in July 2010. The future minimum lease commitments relating to these leases at December 31, 2008 equaled $2.9 million. The Company also paid $0.7 million, $3.7 million and $1.3 million in construction costs to these same affiliates for the years ended December 31, 2008, 2007 and 2006, respectively.

18. Subsidiary Guarantors

Under the terms of the $2.725 billion senior secured credit facility, most of Penn's subsidiaries are guarantors under the agreement, with the exception of several subsidiaries. Each of the subsidiary guarantors is 100% owned by Penn. In addition, the guarantees provided by Penn's subsidiaries under the terms of the $2.725 billion senior secured credit facility are full and unconditional, joint and several. There are no significant restrictions within the $2.725 billion senior secured credit facility on the Company's ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn's ability to obtain funds from its subsidiaries.

With regard to the $2.725 billion senior secured credit facility, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of operations and condensed consolidating statements of cash flows at, and for the years ended, December 31, 2007 and 2006, as Penn had no significant independent assets and no independent operations at, and for the years ended, December 31, 2007 and 2006. However during the year ended December 31, 2008, we placed some of the funds received from the Preferred Stock Investment into two unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds and this resulted in significant independent assets. Summarized financial information for the year ended December 31, 2008 for Penn, the subsidiary guarantors of the $2.725 billion senior secured credit facility and the subsidiary non-guarantors is presented below.

Under the terms of the $200 million 6$^{7}/_{8}$% senior subordinated notes, most of Penn's subsidiaries are guarantors under the agreement, with the exception of several subsidiaries. Each of the subsidiary guarantors is 100% owned by Penn. In addition, the guarantees provided by Penn's subsidiaries under the terms of the $200 million 6$^{7}/_{8}$% senior subordinated notes are full and unconditional, joint and several. There are no significant restrictions within the $200 million 6$^{7}/_{8}$% senior subordinated notes on the Company's ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn's ability to obtain funds from its subsidiaries.

With regard to the $200 million 6$^{7}/_{8}$% senior subordinated notes, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of operations and condensed consolidating statements of cash flows at, and for the years ended, December 31, 2007 and 2006, as Penn had no significant independent assets and no independent operations at, and for the

years ended, December 31, 2007 and 2006. However during the year ended December 31, 2008, we placed some of the funds received from the Preferred Stock Investment into two unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds and this resulted in significant independent assets. Summarized financial information for the year ended December 31, 2008 for Penn, the subsidiary guarantors of the $200 million 6 7/8% senior subordinated notes and the subsidiary non-guarantors is presented below.

	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
$2.725 Senior Credit Facility					
As of December 31, 2008					
Condensed Consolidating Balance Sheet					
Total current assets	$ 40,598	$ 235,862	$ 614,787	$ 15,056	$ 906,303
Property and equipment, net	17,707	1,781,982	12,442	—	1,812,131
Other assets	4,351,845	2,351,302	262,923	(4,494,828)	2,471,242
Total assets	$ 4,410,150	$ 4,369,146	$ 890,152	$ (4,479,772)	$ 5,189,676
Total current liabilities	$ 105,147	$ 332,812	$ 17,468	$ 15,059	$ 470,486
Total long-term liabilities	2,247,736	3,667,014	97,151	(3,349,984)	2,661,917
Total shareholders' equity	2,057,267	369,320	775,533	(1,144,847)	2,057,273
Total liabilities and shareholders' equity	$ 4,410,150	$ 4,369,146	$ 890,152	$ (4,479,772)	$ 5,189,676
Year Ended December 31, 2008					
Condensed Consolidating Statement of Operations					
Net revenues	$ —	$ 2,387,358	$ 35,695	$ —	$ 2,423,053
Total operating expenses	94,925	2,352,864	61,705	—	2,509,494
(Loss) income from continuing operations	(94,925)	34,494	(26,010)	—	(86,441)
Other income (expense)	239,920	(198,845)	(2,219)	—	38,856
Income (loss) before income taxes	144,995	(164,351)	(28,229)	—	(47,585)
Taxes on income	38,851	66,563	324	—	105,738
Net income (loss)	$ 106,144	$ (230,914)	$ (28,553)	$ —	$ (153,323)
Year Ended December 31, 2008					
Condensed Consolidating Statement of Cash Flows					
Net cash (used in) provided by operating activities	$ (544,759)	$ 360,012	$ 605,210	$ —	$ 420,463
Net cash used in investing activities	(2,085)	(388,361)	(1,052)	—	(391,498)
Net cash provided by (used in) financing activities	552,233	(2,292)	(7,000)	—	542,941
Net increase (decrease) in cash and cash equivalents	5,389	(30,641)	597,158	—	571,906
Cash and cash equivalents at beginning of year	(2,929)	172,745	4,556	—	174,372
Cash and cash equivalents at end of year	$ 2,460	$ 142,104	$ 601,714	$ —	$ 746,278
$200 million 6 7/8% Senior Subordinated Notes					
As of December 31, 2008					
Condensed Consolidating Balance Sheet					

Total current assets	$ 40,598	$ 236,431	$ 614,218	$ 15,056	$ 906,303
Property and equipment, net	17,707	1,794,424	—	—	1,812,131
Other assets	4,351,845	2,460,021	154,204	(4,494,828)	2,471,242
Total assets	$4,410,150	$ 4,490,876	$ 768,422	$(4,479,772)	$5,189,676
Total current liabilities	$ 105,147	$ 338,765	$ 11,515	$ 15,059	$ 470,486
Total long-term liabilities	2,247,736	3,681,006	83,159	(3,349,984)	2,661,917
Total shareholders' equity	2,057,267	471,105	673,748	(1,144,847)	2,057,273
Total liabilities and shareholders' equity	$4,410,150	$ 4,490,876	$ 768,422	$(4,479,772)	$5,189,676

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	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
Year Ended December 31, 2008 Condensed Consolidating Statement of Operations					
Net revenues	$ —	$ 2,406,328	$ 16,725	$ —	$2,423,053
Total operating expenses	94,925	2,376,103	38,466	—	2,509,494
(Loss) income from continuing operations	(94,925)	30,225	(21,741)	—	(86,441)
Other income (expense)	239,920	(201,134)	70	—	38,856
Income (loss) before income taxes	144,995	(170,909)	(21,671)	—	(47,585)
Taxes on income	38,851	66,102	785	—	105,738
Net income (loss)	$ 106,144	$ (237,011)	$ (22,456)	$ —	$ (153,323)
Year Ended December 31, 2008 Condensed Consolidating Statement of Cash Flows					
Net cash (used in) provided by operating activities	$(544,759)	$ 367,455	$ 597,767	$ —	$ 420,463
Net cash used in investing activities	(2,085)	(389,413)	—	—	(391,498)
Net cash provided by (used in) financing activities	552,233	(9,292)	—	—	542,941
Net increase (decrease) in cash and cash equivalents	5,389	(31,250)	597,767	—	571,906
Cash and cash equivalents at beginning of year	(2,929)	173,684	3,617	—	174,372
Cash and cash equivalents at end of year	$ 2,460	$ 142,434	$ 601,384	$ —	$ 746,278

19. Investment in Corporate Securities

During the year ended December 31, 2008, the Company made a $47.3 million investment in the corporate debt securities of other gaming companies. The investment, which the Company is treating as available-for-sale securities, is included in other assets within the consolidated balance sheet at December 31, 2008. During the year ended December 31, 2008, the Company recorded an $8.0 million unrealized loss in other comprehensive income for this investment.

The following is a schedule of the contractual maturities of the Company's investment in corporate securities at December 31, 2008 (in thousands):

Within one year	$ —
1 □ 3 years	—
3 □ 5 years	3,815
Over 5 years	36,375
Total	$40,190

20. Fair Value Measurements

Effective January 1, 2008, the Company adopted the provisions of SFAS 157 for certain balance sheet items. SFAS 157 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

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The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy. The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the consolidated balance sheet at December 31, 2008 (in thousands):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investment in corporate debt securities	$ 40,190	$ —	$ —	$40,190
Liabilities:				
Interest rate swap contracts	—	63,185	—	63,185

For the year ended December 31, 2008, the valuation technique used to measure the fair value of the investment in corporate debt securities and interest rate swap contracts was the market approach. The investment in corporate debt securities is included in other assets and the interest rate swap contracts are included in accrued interest within the consolidated balance sheet at December 31, 2008.

21. Discontinued Operations—Sale of The Downs Racing, Inc. and Subsidiaries

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the MTGA. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Amendment and Release with the MTGA pertaining to the Purchase Agreement, and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. As a result of the Amendment and Release, the Company recorded, in accordance with GAAP, a net book gain on the $250 million sale ($280 million initial price, less $30 million payable pursuant to the Amendment and Release) of The Downs Racing, Inc. and its subsidiaries to the MTGA of $114.0 million (net of $84.9 million of income taxes) during the year ended December 31, 2006. In addition, the Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years. At December 31, 2008, the balance due to the MTGA equaled $14.2 million.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial

reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting, and concluded that it was effective as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework.*

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report below.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited Penn National Gaming, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Penn National Gaming, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Penn National Gaming, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 27, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 27, 2009

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ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning directors is hereby incorporated by reference to the Company's definitive proxy statement for its 2009 Annual Meeting of Shareholders (the "2009 Proxy Statement"), to be filed with the U.S. Securities and Exchange Commission within 120 days after December 31, 2008, pursuant to Regulation 14A under the Securities Act. Information required by this item concerning executive officers is included in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED

STOCKHOLDERS MATTERS

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1 and 2. Financial Statements and Financial Statement Schedules. The following is a list of the Consolidated Financial Statements of the Company and its subsidiaries and supplementary data filed as part of Item 8 hereof:
Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets as of December 31, 2008 and 2007
Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006
All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits, Including Those Incorporated by Reference.
The exhibits to this Report are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of this annual report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PENN NATIONAL GAMING, INC.
By: /s/ PETER M. CARLINO

Peter M. Carlino
Chairman of the Board and Chief Executive Officer

Dated: March 2, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PETER M. CARLINO Peter M. Carlino	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2009
/s/ WILLIAM J. CLIFFORD William J. Clifford	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 2, 2009
/s/ HAROLD CRAMER Harold Cramer	Director	March 2, 2009
/s/ WESLEY R. EDENS Wesley R. Edens	Director	March 2, 2009
/s/ DAVID A. HANDLER David A. Handler	Director	March 2, 2009
/s/ JOHN M. JACQUEMIN John M. Jacquemin	Director	March 2, 2009
/s/ ROBERT P. LEVY Robert P. Levy	Director	March 2, 2009
/s/ BARBARA Z. SHATTUCK Barbara Z. Shattuck	Director	March 2, 2009

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EXHIBIT INDEX

Exhibit	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of August 7, 2002, by and among Hollywood Casino

Corporation, Penn National Gaming, Inc. and P Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, dated August 7, 2002).

2.2 Purchase Agreement by and among PNGI Pocono Corp., PNGI, LLC, and the Mohegan Tribal Gaming Authority, dated October 14, 2004. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed October 20, 2004).

2.2(a) Amendment No. 1 to Purchase Agreement, dated as of January 7, 2005, by and among PNGI Pocono Corp., PNGI, LLC, and The Mohegan Tribal Gaming Authority. (Incorporated by reference to Exhibit 2.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).

2.2(b) Second Amendment to Purchase Agreement and Release of Claims, dated as of August 7, 2006, between PNGI Pocono Inc. and The Mohegan Tribal Gaming Authority, and joined in by Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).

2.3 Agreement and Plan of Merger, dated as of November 3, 2004, among Penn National Gaming, Inc., Argosy Gaming Company and Thoroughbred Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed November 5, 2004).

2.4 Agreement to Execute Securities Purchase Agreement, dated June 20, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C. and Columbia Sussex Corporation. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed June 22, 2005).

2.4(a) Letter agreement, dated October 3, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C., Columbia Sussex Corporation and Wimar Tahoe Corporation amending Agreement to Execute Securities Purchase Agreement. (Incorporated by reference to Exhibit 10.3 to the Company's current report on Form 8-K, filed October 4, 2005).

2.5 Securities Purchase Agreement, dated October 3, 2005, among Argosy Gaming Company, Wimar Tahoe Corporation and CP Baton Rouge Casino, L.L.C. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K, filed October 4, 2005).

2.6 Asset Purchase Agreement, dated as of November 7, 2006, by and among Zia Partners, LLC, Zia Park, LLC and (solely with respect to Section 2.6 and Articles VI and XII thereof) Penn National Gaming, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed November 9, 2006).

2.6(a) First Amendment to Asset Purchase Agreement, dated as of April 13, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's current report on Form 8-K filed on April 18, 2007).

2.6(b) Second Amendment to Asset Purchase Agreement, dated as of April 16, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.3 to the Company's current report on Form 8-K filed on April 18, 2007).

2.7 Agreement and Plan of Merger, dated as of June 15, 2007, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc. and PNG Merger Sub Inc. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K filed on June 15, 2007).

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Exhibit	Description of Exhibit

3.1 Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on October 15, 1996. (Incorporated by reference to Exhibit 3.1 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).

3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on November 13, 1996. (Incorporated by reference to Exhibit 3.2 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).

3.3	Statement with respect to shares of Series A Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on March 16, 1999. (Incorporated by reference to Exhibit 3.3 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 23, 2001. (Incorporated by reference to Exhibit 3.4 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
3.5	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on December 28, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K, filed on January 2, 2008).
3.6	Second Amended and Restated Bylaws of Penn National Gaming, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K filed on November 18, 2008).
3.7	Statement with Respect to Shares of Series B Redeemable Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 9, 2008. (Incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on July 9, 2008).
4.1	Specimen copy of Common Stock Certificate (Incorporated by reference to Exhibit 3.6 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003).
4.2	Rights Agreement dated as of March 2, 1999, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 1 to the Company's current report on Form 8-K, dated March 17, 1999).
4.2(a)	Amendment No. 1 to Rights Agreement, dated June 15, 2007, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 4.2(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007).
4.2(b)	Amendment No. 2 to Rights Agreement, dated June 15, 2007, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 4.3 to the Company's current report on Form 8-K filed on July 9, 2008).
4.3	Indenture dated as of December 4, 2003 by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6$^{7}/_{8}$% Senior Subordinated Notes due 2011 (Incorporated by reference to Exhibit 4.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).
4.4	Form of Penn National Gaming, Inc. 6$^{7}/_{8}$% Senior Subordinated Note due 2011. (Included as Exhibit A to Exhibit 4.3).

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Exhibit	Description of Exhibit
4.5	Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6$^{7}/_{8}$% Senior Subordinated Notes due 2011. (Included as Exhibit F to Exhibit 4.3).
4.6	Indenture dated as of March 9, 2005 by and among Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6$^{3}/_{4}$% Senior Subordinated Notes due 2015. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed March 15, 2005).
4.6(a)	First Supplemental Indenture dated as of July 5, 2005 between Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6$^{3}/_{4}$% Senior Subordinated Notes due 2015. (Incorporated by reference to exhibit 10.37 to the Company's registration statement on Form S-4, filed July 7, 2005 (File #333-125274)).
4.7	Form of Penn National Gaming, Inc. 6$^{3}/_{4}$% Senior Subordinated Note due 2015. (Included as Exhibit A to Exhibit 4.6).
4.8*	Specimen copy of Series B Redeemable Preferred Stock Certificate.

4.9	Investor Rights Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on July 9, 2008).
9.1	Form of Trust Agreement of Peter D. Carlino, Peter M. Carlino, Richard J. Carlino, David E. Carlino, Susan F. Harrington, Anne de Lourdes Irwin, Robert M. Carlino, Stephen P. Carlino and Rosina E. Carlino Gilbert. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.1#	Penn National Gaming, Inc. 1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.2#	Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Appendix A of the Company's Proxy Statement dated April 22, 2003 filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended).
10.2(a)#	Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.2(b)#	Form of Incentive Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.2(c)#	Form of Restricted Stock Award for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(c) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.3#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Peter M. Carlino.
10.4#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and William Clifford.
10.5#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Jordan B. Savitch.
10.6#	Separation Agreement and General Release in the form attached as Exhibit A to the Employment Agreement dated July 31, 2006 between Penn National Gaming, Inc. and Leonard DeAngelo. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on August 2, 2006).

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Exhibit	Description of Exhibit
10.7#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Robert S. Ippolito.
10.8	Form of Change in Control Payment Acknowledgement and Agreement between Penn National Gaming, Inc. and Certain Executive Officers of Penn National Gaming, Inc. (Incorporated by reference to Exhibit 10.1 the Company's current report on Form 8-K, filed on January 2, 2008).
10.8(a)	Schedule of executive officers entering into Change in Control Payment Acknowledgement and Agreement. (Incorporated by reference to Exhibit 10.8(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007).
10.9	Consulting Agreement dated August 29, 1994, between Penn National Gaming, Inc. and Peter D. Carlino. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1994).
10.10	Amended and Restated Lease dated April 5, 2005 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by

reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on April 8, 2005).

10.11 Lease dated January 25, 2002 between Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.11(a) Commencement Agreement, dated May 21, 2002, in connection with Lease dated January 25, 2002 Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.11(b) First Lease Amendment, dated December 4, 2002, to Lease dated January 25, 2002 Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.12 Lease dated April 5, 2005 between Wyomissing Professional Center, Inc. and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on April 8, 2005).

10.13 Letter Agreement for the Construction of Certain Improvements, dated April 5, 2005, in connection with the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.3 to the Company's current report on Form 8-K, filed on April 8, 2005).

10.14 Lease dated August 22, 2003 between The Corporate Campus at Spring Ridge 1250, L.P. and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.13 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.15 Agreement dated April 7, 2006 by and between PNGI Charles Town Gaming Limited Liability Company and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL—CIO. (Incorporated by reference to exhibit 10.1 to the Company's current report on Form 8-K, filed on April 24, 2006).

10.16* Agreement dated February 20, 2009 between PNGI Charles Town Gaming Limited Liability Company and Charles Town HBPA, Inc.

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Exhibit	Description of Exhibit
10.17	Credit Agreement, dated October 3, 2005 by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed October 4, 2005).
10.17(a)	Amendment, dated September 18, 2006, to the Credit Agreement by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on September 21, 2006).

10.18	Ground Lease dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant. (Incorporated by reference to Exhibit 10.4 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.19	Letter Agreement dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant (relating to Ground Lease). (Incorporated by reference to Exhibit 10.5 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.20	Assignment of Lease and Assumption Agreement dated as of May 31, 1994 between SRCT and STP (relating to Ground Lease). (Incorporated by reference to Exhibit 10.7 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.21#	Penn National Gaming, Inc. Nonqualified Stock Option granted to Peter M. Carlino, dated February 6, 2003. (Incorporated by reference to Exhibit 10.26 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).
10.22	Ground Lease, dated March 23, 2007, between Skrmetta MS, LLC as Landlord and BTN, Inc., a wholly-owned subsidiary of Penn National Gaming, Inc., as Tenant. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2007).
10.23	Penn-Argosy Merger Approval Agreement between the Illinois Gaming Board and Penn National Gaming, Inc., effective September 29, 2005. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2005).
10.23(a)	First Amendment to the September 29, 2005 Penn-Argosy Merger Approval Agreement, dated April 25, 2006, between Penn National Gaming, Inc. and the Illinois Gaming Board. (Incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2006).

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Exhibit	Description of Exhibit
10.24	Riverboat Gaming Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company, L.P. dated as of April 13, 1994, as amended by Amendment Number One to Riverboat Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company L.P., dated as of December 28, 1995 (Incorporated by reference to Argosy Gaming Company's annual report on Form 10-K for the fiscal year ended December 31, 1995 (File #00-21122)).
10.24(a)	Second Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated August 20, 1996. (Incorporated by reference to Exhibit 10.23(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.24(b)	Third Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated June 24, 2004. (Incorporated by reference to Exhibit 10.2 of Argosy Gaming Company's quarterly report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-11853)).
10.25	Claim Settlement Agreement among Penn National Gaming, Inc. and the insurance providers severally underwriting share of the Company's all-risk property insurance program, completed January 22, 2007. (Incorporated by reference to exhibit 10.24 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006).
10.26#	Compensatory Arrangements with Certain Executive Officers. (Incorporated by reference to Exhibit 10.26 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007)
10.27#	Penn National Gaming, Inc. Deferred Compensation Plan, as amended. (Incorporated by reference to

	Exhibit 10.27 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006).
10.28#	Description of Penn National Gaming, Inc. Annual Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on June 12, 2007).
10.29#	Employment Agreement by and between Penn National Gaming, Inc. and Tim Wilmott dated December 31, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on January 7, 2009).
10.30	Stock Purchase Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on July 9, 2008).
10.31	Termination and Settlement Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc., PNG Merger Sub Inc., PNG Holdings LLC, FIG PNG Holdings LLC, Fortress Investment Fund V (Fund A) L.P., Fortress Investment Fund V (Fund D) L.P., Fortress Investment Fund V (Fund E) L.P., Fortress Investment Fund V (Fund B) L.P., Fortress Investment Fund V (Fund C) L.P., Fortress Investment Fund V (Fund F) L.P., CB PNG Holdings LLC, Centerbridge Capital Partners, L.P., Centerbridge Capital Partners Strategic, L.P., Centerbridge Capital Partners SBS, L.P., DB Investment Partners, Inc., Wachovia Investment Holdings, LLC, Deutsche Bank Securities Inc., Deutsche Bank AG New York Branch, Wachovia Capital Markets, LLC, Wachovia Bank, National Association and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on July 9, 2008).
10.32*	Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan.
10.33*	Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan.

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Exhibit	Description of Exhibit
10.34*	Form of Restricted Stock Award for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan.
10.35#*	Employment Agreement by and between Penn National Gaming, Inc. and John Finamore dated December 31, 2008.
14.1	Penn National Gaming, Inc. Code of Business Conduct. (Incorporated by reference to Exhibit 14.1 to the Company's current report on Form 8-K, filed on April 24, 2006).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
99.1*	Description of Governmental Regulation.

Compensation plans and arrangements for executives and others.

* Filed herewith.

Exhibit 4.8

SPECIMEN PREFERRED STOCK CERTIFICATE

SEE LEGENDS ON REVERSE SIDE

PENN NATIONAL GAMING, INC

Incorporated under the laws of the Commonwealth of Pennsylvania

12,500 Shares Series B Redeemable Preferred Stock

Par Value $0.01 Per Share

This Certifies that is the registered holder of Shares of the Series B Redeemable Preferred Stock of Penn National Gaming, Inc., fully paid and non-assessable, transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and its Corporate Seal to be hereunto affixed

this day of A.D. 20 .

/s/ /s/

Secretary Chairman

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF A REGISTRATION STATEMENT WHICH IS EFFECTIVE UNDER THAT ACT AS TO SAID SECURITIES OR AN OPINION, IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY AND GIVEN BY COUNSEL SATISFACTORY TO THE COMPANY TO THE EFFECT THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND CERTAIN OTHER LIMITATIONS SET FORTH IN A CERTAIN INVESTOR RIGHTS AGREEMENT DATED AS OF JULY 3, 2008, AMONG THE COMPANY AND THE PURCHASERS NAMED THEREIN, AS THE SAME MAY BE AMENDED FROM TIME TO TIME (THE "AGREEMENT"), COPIES OF WHICH AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF A STATEMENT WITH RESPECT TO SHARES, FILED WITH THE DEPARTMENT OF STATE OF THE COMMONWEALTH OF PENNSYLVANIA ON JULY 9, 2008, WHICH SETS FORTH THE VOTING RIGHTS, PREFERENCES, LIMITATIONS AND SPECIAL RIGHTS, IF ANY, OF THE SHARES OF THIS SERIES (THE "STATEMENT WITH RESPECT TO SHARES"). THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH SHAREHOLDER UPON WRITTEN REQUEST A COPY OF THE FULL TEXT OF THE STATEMENT WITH RESPECT TO SHARES AND ANY AMENDMENTS THERETO AND AMENDMENTS AND RESTATEMENTS THEREOF FILED WITH THE DEPARTMENT

OF STATE OF THE COMMONWEALTH OF PENNSYLVANIA.

IF AT ANY TIME A GAMING AUTHORITY IN A JURISDICTION IN WHICH THE COMPANY OPERATES FINDS THAT AN OWNER OF THIS SECURITY IS UNSUITABLE TO CONTINUE TO HAVE ANY INVOLVEMENT IN GAMING IN SUCH JURISDICTION, SUCH OWNER MUST DISPOSE OF SUCH SECURITY AS PROVIDED BY THE LAWS OF SUCH JURISDICTION AND THE REGULATIONS OF SUCH

GAMING AUTHORITY THEREUNDER. SUCH LAWS AND REGULATIONS MAY RESTRICT THE RIGHT UNDER CERTAIN CIRCUMSTANCES: (A) TO PAY OR RECEIVE ANY DIVIDEND OR INTEREST UPON SUCH SECURITY; (B) TO EXERCISE, DIRECTLY OR THROUGH ANY TRUSTEE OR NOMINEE, ANY VOTING RIGHT CONFERRED BY SUCH SECURITY; OR (C) TO RECEIVE ANY REMUNERATION IN ANY FORM FROM THE COMPANY FOR SERVICES RENDERED OR OTHERWISE.

For Value Received, hereby sell, assign and transfer unto Shares represented by the within Certificate, and do hereby irrevocably constitute and appoint Attorney to transfer the said Shares on the books of the within named Corporation with full power of substitution in the premises.

Dated 20

In presence of .

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATEVER.

Exhibit 10.3

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and Peter M. Carlino, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated May 26, 2004 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Chairman of the Board and Chief Executive Officer of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on May 26, 2009 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7.

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, (including Carlino Development Group and its Affiliates) and the Carlino Family Trust and its Affiliates, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least One Million Five Hundred Sixty Thousand Dollars ($1,560,000), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a

different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

2.7. Automobile. During the term of this Agreement, the Company shall provide Executive with an automobile of such make and model consistent with the Company's policy for its provision of automobiles to Peer Executives. The Company shall reimburse Executive for all expenses arising from or related to the maintenance, repair and daily operation of such automobile in carrying out Executive's duties hereunder, including but not limited to, fuel, service and insurance costs, provided that Executive presents vouchers evidencing such expenses as required by the Company.

2.8. Perquisites. The Company shall continue to reimburse Executive for annual membership fees and assessments for a country club of Executive's choice. The Company shall pay the premiums for a life insurance policy in an amount to be determined by the Company and Executive.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(d) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(e) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination). The Company and Executive, however, recognize and agree that they mutually agreed upon the term of this Agreement and that Executive is expected to complete fully the Employment Term.

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 36 months (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with

medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided, however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(d) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

CONFIDENTIAL

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the

Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities

Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the

calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842
Attention: President

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all

other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

EXECUTIVE

/s/ Peter M. Carlino
Peter M. Carlino

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and

intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with,

the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other

or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the

Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this

Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters,

negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days

within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER EMPLOYEE

By:

Date: Date:

Exhibit 10.4

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and William J. Clifford, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated June 10, 2005 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Senior Vice President and Chief Financial Officer of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Chief Executive Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on June 10, 2011 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Seven Hundred Twenty Eight Thousand Dollars ($728,000), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets

the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(a) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(b) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 24 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided, however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(d) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction

Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within

the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the

event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates

Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax

counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements

made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper

forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842
Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such

party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ William J. Clifford
William J. Clifford

CONFIDENTIAL

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or

persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by

signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that, except as specifically provided in this Agreement

and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about

the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any

reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall

be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before

signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER EMPLOYEE

By:

Date: Date:

Exhibit 10.5

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and Jordan B. Savitch, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated June 10, 2005 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Senior Vice President and General Counsel of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Chief Executive Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on June 10, 2011 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Four Hundred Twenty One Thousand Two Hundred Dollars ($421,200), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets

the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(d) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(e) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 18 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided, however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(d) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction

Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within

the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the

event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates

Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax

counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of

Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements

made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this

Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842
Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino

Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ Jordan B. Savitch
Jordan B. Savitch

CONFIDENTIAL

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he

(on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the

Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that,

except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading,

defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is

determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the

Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days

within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER EMPLOYEE

By:

Date: Date:

Exhibit 10.7

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and Robert S. Ippolito, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated June 10, 2005 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Vice President, Secretary and Treasurer of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Chief Executive Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on June 10, 2011 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7.

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Two Hundred Eighty Nine Thousand Two Hundred Twenty Four Dollars ($289,224), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a

different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

2.7. Automobile. During the term of this Agreement, the Company shall provide Executive with an automobile of such make and model consistent with the Company's policy for its provision of automobiles to Peer Executives. The Company shall reimburse Executive for all expenses arising from or related to the maintenance, repair and daily operation of such automobile in carrying out Executive's duties hereunder, including but not limited to, fuel, service and insurance costs, provided that Executive presents vouchers evidencing such expenses as required by the Company.

2.8. Perquisites. The Company shall also continue to pay the premiums for all split dollar life insurance policies issued as of the date hereof and held by that certain irrevocable trust created by Executive.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(a) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(b) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term

hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 18 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(i) (ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(ii) (iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first

day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iii) (iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided , however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(c) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer

lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder

of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial

obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the

Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this

Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's

separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar

year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842

Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any

such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days

after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ Robert S. Ippolito
Robert S. Ippolito

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance,

contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment

Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and

his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not

limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment

compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the

Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and

shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its

terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be

valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER EMPLOYEE

By:

Date: Date:

CONFIDENTIAL

Exhibit 10.16

AGREEMENT

THIS AGREEMENT, made and entered into this 20th day of February, 2009, by and between **PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY,** a West Virginia Limited Liability Company (hereinafter "Charles Town Races"), and **CHARLES TOWN HBPA, INC.,** a West Virginia not-for-profit corporation (hereinafter "HBPA").

W I T N E S S E T H:

WHEREAS, Charles Town Races is licensed by the West Virginia Racing Commission, pursuant to Chapter 19, Article 23-1, et seq., of the West Virginia Code, to conduct live thoroughbred horse racing with pari-mutuel wagering and, in accordance with that licensure, Charles Town Races owns and operates a thoroughbred racing facility under the trade name Charles Town Races (hereinafter the physical facility will be referred to as the "Racetrack"); and

WHEREAS, the HBPA is an Association comprised of owners, trainers and owner-trainers (the "members") of thoroughbred racing horses; and

WHEREAS, the HBPA provides benevolent programs and other services for its members and their employees who are engaged in live thoroughbred racing at the Racetrack; and

WHEREAS, Charles Town Races and the HBPA validly extended the prior Agreement between the parties through February 28, 2009 and cooperatively worked toward a new agreement; and

WHEREAS, the parties desire to reaffirm their mutual interest in the promotion, preservation, and enhancement of live thoroughbred racing at the Racetrack; and

WHEREAS, the parties hereto reaffirm their support for quality live thoroughbred racing activities and reaffirm their desire for the promotion of such activities in the State of West Virginia; and

WHEREAS, Charles Town Races acknowledges that the HBPA is the exclusive bargaining agent and representative of its members, as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representatives of the Horsemen as certified by the West Virginia Racing Commission during the term of this Agreement and any amendments thereto or any Agreement which shall supersede this Agreement for the provision of services in connection with live thoroughbred racing activities, safety and back stretch conditions; and

WHEREAS, the parties hereto desire to memorialize and set forth in writing the contractual agreements by and between Charles Town Races and the HBPA concerning live thoroughbred racing at the Racetrack.

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein, the parties desire to be legally bound, do agree as follows:

1. **Term of Agreement.** This Agreement shall become effective as of March 1, 2009, and shall remain in full force and effect until December 31, 2011 (the " Initial Term"). At the end of the Initial Term, the term of this Agreement shall automatically be extended under the same terms and conditions for a period of one (1) year (hereinafter the "First Extension Term") unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2011. At the end of the First Extension Term, the term of the Agreement shall automatically be extended under the same terms and conditions for a period of an additional one (1) year (hereinafter the

"Second Extension Term"), unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2012.

Notwithstanding the term of this Agreement or anything else in this Agreement to the contrary, in the event of a cessation of Video Lottery activity at Charles Town Races for any reason, the obligations of the parties under this Agreement are suspended for such period of inactivity. For clarity, neither Charles Town Races nor any of its affiliates shall be responsible for any expenses or lost profits of the HBPA or its members during any such period of inactivity.

2. **Exclusive Representation.** The HBPA is currently recognized by the West Virginia Racing Commission as the duly qualified and exclusive representative of the owners, trainers, and owner-trainers of live thoroughbred horse racing at the Racetrack as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representative of the Horsemen as certified by the West Virginia Racing Commission. Any negotiation or discussion of the terms and provisions of this Agreement, or any amendment thereto, or any Agreement which shall supersede the terms and provisions of this Agreement with any person, entity or representative of an entity that is not the exclusive bargaining agent and representative of the Horsemen, as certified by the West Virginia Racing Commission, shall constitute a breach of this Agreement.

Charles Town Races agrees that it shall negotiate with and conduct any and all business which is the subject of this Agreement and any matters reasonably related to any provision of this Agreement with the duly elected officers of the HBPA or their duly designated representatives.

The HBPA agrees that it shall provide to Charles Town Races, in writing, on an annual basis, the name and address of each and every duly elected member of the Board of Directors, the name and address of each duly elected officer of the HBPA who shall have the authority to negotiate with the Charles Town Races, and the name and address of each representative duly designated by the Board of Directors of the HBPA to negotiate on its behalf.

3. **Racing Schedule.** During the term of this Agreement, Charles Town Races shall request a license each year from the West Virginia Racing Commission to conduct racing, and in fact conduct racing, for not less than the minimum number of days required by the West Virginia Code, which is currently two hundred twenty (220) days per year. Charles Town Races shall provide a copy of its Annual License Application filed with the West Virginia Racing Commission to the HBPA within three (3) days of the date of its filing. Notwithstanding the first sentence of this paragraph, it is understood and agreed that, subject to receiving approval from the West Virginia Racing Commission, Charles Town Races shall schedule a total of 235 racing days, with not less than 9 races per racing day, during each year of this Agreement. Any reduction in race days below 235 shall be subject to the prior approval of the HBPA, which shall not be unreasonably withheld or unduly delayed, and the West Virginia Racing Commission In the event racing days are cancelled due to weather, track conditions, unavailability of horses or any other reason beyond the reasonable control of Charles Town Races, any such cancellation and the fact that 235 racing days are not held, shall not be considered a breach of this Agreement.

Charles Town Races shall reschedule such race day and provide notice to the HBPA of the rescheduled date as soon as practicable.

Charles Town Races agrees that it will not discontinue racing for a period of more than one (1) three (3) week period in any calendar year, unless agreed upon by the HBPA, except in the event of an act of God or other catastrophe, or conditions beyond the reasonable control of Charles Town Races.

4. Minimum Purse and Purse Scheduling.

A. **Minimum Daily Purses.** With respect to the daily minimum purse distribution, Charles Town Races shall make reasonable efforts to maintain a ratio of the then current minimum daily purse schedule for a given month to the then current amount generated for daily purses for that month that is equal to the historical ratio of One Hundred Twenty-Five Thousand Dollars ($125,000) to the average daily amount generated for purses between January 1, 2005 and December 31, 2008.

It is mutually agreed that, as far as possible and consistent with the foregoing, the principle of "better purse for better horses" shall be followed in establishing the purse payable for any one race. Charles Town Races further agrees that, if necessary, better purses will be reduced to maintain minimum purse schedules.

Notwithstanding anything in this Agreement to the contrary, it is understood and agreed that the funding of purses shall be solely in accordance with applicable provisions of W.Va. Code §19-23-1, et seq., Horse and Dog Racing; W.Va. Code §29-22-A-1, et seq., The Racetrack Video Lottery Act; W.Va. Code 29-22C-1, West Virginia Lottery Table Games Act, and any such further legislation that may be enacted which provides for the payment of monies into the purse fund as more fully provided for in Section 7 of this Agreement, and that Charles Town Races shall not be required to otherwise fund the payment of purses.

Except as provided below with respect to Stake Races, Charles Town agrees to pay one hundred dollars ($100.00) to the owner's account for horses finishing in places seven through ten which shall be paid from the purse fund.

B. **Purse Schedule Distribution.** Charles Town Races and HBPA will establish and publish a purse schedule distribution, which shall show the purse distribution planned for various classes of horses at various distances. Such schedule shall be updated as necessary. Said schedule with any amendments thereto shall be posted in the Racing Secretary's office and the Condition Book. In the event of a purse schedule distribution decrease, the purses for bottom claiming races shall not be reduced unless the purses for all races are also reduced (though not necessarily by the same percentage).

C. **Stakes Schedule.** Each year purses for Stake races shall not exceed, in the aggregate, eight percent (8%) of the total purses paid, from the purse account, in the immediately preceding calendar year excluding the amounts paid for stake races and amounts received for sponsorship of races unless otherwise authorized by the HBPA. Charles Town Races shall determine the number of and purses for stake races and submit the stakes schedule to HBPA for written comment prior to submission of the stakes schedule to the West Virginia Racing Commission.

D. Charles Town Races agrees to pay purses for Stakes Races back through not less than five (5) places.

E. It is understood by both parties that purse schedules shall not be in conflict with the rules of racing of the West Virginia Racing Commission as presently constituted or as may be reconstituted..

F. **West Virginia Accredited Races.** Charles Town Races shall include in its Condition Book a minimum of two (2) races on every live racing day devoted exclusively for

West Virginia accredited horses unless sufficient horses and purse funds are not available therefore, in accordance with the requirements of the West Virginia Racing Commission pursuant to the provisions of §19-23-13(b) of the West Virginia Code. Races devoted exclusively for West Virginia accredited horses shall be run if no less than seven (7) betting interests have been entered therein.

5. **Purse Funds.**

A. During the term of this Agreement, Charles Town Races shall allocate and pay purse moneys as required by applicable state law

B. In the event any Underpayment Money exists in the purse account at the end of any calendar year, then said Underpayment Money shall be added to the sum available for the payment of purses for the next year.

C. This is the Agreement regarding the proceeds from video lottery terminals as provided in West Virginia Code §29-22A-7(a) (6).

6. **Simulcasting.** Charles Town Races shall conduct simulcasting, both import and export, in accordance with applicable provisions of State and Federal Law, including the West Virginia Horse Racing Statute, §19-23-1 et seq, and the Interstate Horseracing Act of 1978, as amended, 15 U.S.C. §3001, et seq.

With respect to obtaining the approval of the HBPA of each simulcast contract, Charles Town Races shall make commercially reasonable efforts to get either the proposed contract or a summary of the principal terms of the contract, including the name and location of the entity, any secondary recipients of said entity for exports, commission rates charged to, for exports, or from, for imports, the simulcast entity and the term of the contract to the HBPA for its review and approval not less than fifteen

(15) days prior to the commencement date of the contract. The HBPA shall have seventy-two (72) hours from receipt of the proposed contracts to either approve or disapprove. The HBPA agrees not to unreasonably withhold or unduly delay its approval of simulcast contracts and, in the event it elects to disapprove a contract, to promptly support its disapproval with the detailed written reasons therefore. Charles Town Races shall provide the HBPA with copies of any contract for which it has provided the HBPA a summary of contract terms, within two days of receipt.

To enable the HBPA to verify receipts for simulcasting, commissions retained or deducted, costs of transmission, taxes paid and payments into the purse fund, Charles Town Races shall provide the HBPA with copies of any and all documentation within its possession or under its control or which it is able to obtain by written request, reflecting such payments and expenses.

7. **Revenue from Off-Track Betting, Telephone Wagering, Table Gaming, or any other form of Gaming.** In the event additional revenue or payments from telephone wagering, off-track betting, table gaming, or any other form of gaming of any kind or nature is available as a result of legislation, the percentage distribution as set forth in the legislation shall determine the party's interest in such additional revenue. In the event there is no division of revenue in the statutory legislation, the parties agree to negotiate in good faith whether a division of revenue is to occur and if so, the amount thereof.

8. **Condition Book.** The HBPA shall create a condition book committee which shall be comprised of not less than three nor more than five individuals, being trainers and owners who are actively racing a cross section of thoroughbred horses at Charles Town Races ("the HBPA Condition Book Committee"). Charles Town Races

will provide the HBPA Condition Book Committee with a draft copy of each Condition Book not less than five days prior to the printing date and the HBPA Condition Book Committee shall have three days from receipt to review and provide its recommendations to the Charles Town Races Racing Secretary for inclusion in the Charles Town Races Condition Book. Charles Town Races promises to give good faith consideration and not unreasonably refuse the recommendations of the HBPA Condition Book Committee. However, the decision of Charles Town Races with respect to the contents of the Condition Books shall be final and unappealable.

9. **Horsemen's Bookkeeper.** A Horsemen's Bookkeeper shall be employed by Charles Town Races and shall be subject to the policies generally applicable to Charles Town Races' employees. The Horsemen's Bookkeeper shall perform those functions set forth from time to time by statute and the West Virginia Rules of Racing, and Charles Town Races shall provide such equipment as shall be reasonably necessary for the performance of the Horsemen's Bookkeeper's statutory duties.

10. **Segregated Bank Accounts.** The following bank accounts shall be maintained by Charles Town Races in a bank approved by the West Virginia Racing Commission. Currently, the approved bank is United Bank.

A. **Purse Account.** Charles Town Races shall establish and maintain a separate overnight investment account and a separate checking account into which all monies received for the future payment of purses are to be deposited. All disbursements from these accounts shall be solely for the payment of earned purses and such other disbursements as may be authorized by law or as otherwise directed by the West Virginia Racing Commission. All interest earned on this Purse Account shall be added to the funds available for the payment of purses. These accounts shall be subject to inspection and

audit by the Racing Commission at any time. The HBPA shall also be permitted to review these accounts upon request during normal business hours.

B. **Horsemen's Trust Accounts.** Charles Town Races shall establish and maintain a separate investment account (the "Horsemen's Investment Account") and a separate checking account (the "Horsemen's Daily Account") (collectively hereafter the "Horsemen's Trust Accounts") into which the Horsemen's Bookkeeper shall receive, maintain and disburse the purses of each race and all stakes, entrance money, jockey fees, purchase money in claiming races, along with all applicable taxes and other monies that properly come into the Horsemen's Bookkeepers' possession in accordance with the provisions of the Racing Commission Rules.

All of the funds in Horsemen's Trust Accounts are recognized as being trust funds held for the benefit of all of the respective account owners, as reflected by the records maintained by the Horsemen's Bookkeeper.

Charles Town Races agrees to transfer from the Purse Account and deposit into the Horsemen's Daily Account the full amount of daily earned purses within two (2) business days. Purse winnings will be posted within two (2) business days and made available to the earners thereof when the race results are declared official, i.e. once drug test results have been received; provided further, however, that in the event of any dispute as to the result of a race due to a drug test or other regulatory inquiry, the purse money shall not be made available to the earners thereof until there has been a final non-appealable resolution thereof by the Charles Town Races Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction, as the case may be.

The Horsemen's Bookkeeper will deduct from the owner ledger accounts, jockey fees, pony fees, track lasix fees, nomination fees, entry fees, starting fees, photographs,

veterinary lasix charges, and sales tax on claiming amounts. No other deductions shall be made by the Horsemen's Bookkeeper unless requested in writing by the person, persons or entities to whom such monies are payable, or to his, her or its duly authorized representative, or as required by order of the Charles Town Races Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction. Notwithstanding the preceding clause, nothing herein shall be construed as requiring the Horsemen's Bookkeeper to provide personal accounting services to any horseman and/or the payment of any expenses of any horsemen not contemplated by the provision of this paragraph, even if authorized in writing.

The Horsemen's Trust Accounts shall be subject to inspection by the Racing Commission at any time and may be examined by the President of the HBPA or his or her duly designated representative at the offices of Charles Town Races at such reasonable time or times as shall be determined upon the mutual agreement of Charles Town Races and the HBPA. Such consent shall not be unreasonably withheld.

The interest earned on monies invested in the Horsemen's Investment Account will be transferred to the Horsemen's Daily Account and paid to a joint account to be set up by the HBPA Welfare Benefit Trust and the HBPA as more fully set forth in a written agreement between the HBPA and the Charles Town Welfare Benefit Trust , a copy of which will be provided to Charles Town Races. The HBPA and the HBPA Welfare Benefit Trust shall jointly establish a bank account dedicated to the receipt of the funds paid by Charles Town Races pursuant to this section and divide the money between them pursuant to that agreement..

11. **Racing Committee.**

Charles Town Races and the HBPA shall organize and maintain a joint committee (hereinafter the "Racing Committee") to address issues related to and associated with live thoroughbred racing at the Racetrack. The HBPA and Charles Town shall each appoint three (3) representatives to the Racing Committee. This Committee shall meet at the request of any member of the Racing Committee. The Racing Committee shall have no authority to alter the terms and conditions of this Agreement.

12. **Stalls.**

A. Charles Town Races shall make available a minimum of 1,148 stalls, free of charge, to Horsemen each race meeting. It is recognized by both parties that effective stall utilization is important to Charles Town Races management and that equitable allocation is essential to the livelihood of Horsemen. During the Initial Term of this Agreement, Charles Town Races agrees that it will not tear down or demolish the existing Charles Town stalls unless required to do so as a result of governmental order or an act of God beyond the reasonable control of Charles Town Races.

B. Charles Town Races shall not discriminate in the allocation of stalls by reason of HBPA membership or activity or condone its representatives or employees discriminating in the allocation of stalls. Subject to this limitation, the allocation of stalls shall be in the discretion of Charles Town Races.

C. Charles Town Races shall establish a cut-off date for stall applications. Charles Town Races shall make every effort to provide Horsemen with five (5) days prior notice of the acceptance or rejection of stall applications and may demand immediate confirmation from the Horsemen of their intent to use allotted stalls.

D. The terms and conditions for all stall applications shall be determined by and set forth in an application by Charles Town Races. Charles Town Races shall send to the

HBPA, not later than ten (10) days prior to the first day of each Race Meeting, a copy of its current Stall Application Agreement.

E. Charles Town Races agrees to provide the stall and shed row area with proper fill within a reasonable time period, upon written request of HBPA.

13. **Barn Area.**

A. The Barn area will be available to Horsemen at all times and the Racetrack will be available to Horsemen during scheduled training times (including scheduled training times during the period racing is discontinued).

B. The HBPA recognizes an obligation of Horsemen and backside personnel to maintain the stable area in a sanitary condition, free from litter and other foreign objects. HBPA will use its best efforts to ensure that Horsemen and their employees fulfill their obligations in this regard. Horse washing will only be permitted in certain areas designated by Charles Town Races for such purposes, which is consistent with the Rules of the West Virginia Department of Environment Protection. Charles Town Races retains its right to discipline (including removal) Horsemen or their employees who fail to obey Charles Town Races' published rules and regulations.

C. Charles Town Races shall maintain all barn area restroom facilities in a safe and healthy environment.

D. During winter months, Charles Town Races agrees to maintain both main roads leading to and from the Racetrack, between all barns and all Horsemen parking lots, for both training and racing purposes. Charles Town Races further agrees to make necessary repairs to the backside and stall areas as Charles Town Races considers appropriate giving consideration to any input provided by the HBPA.

E. Charles Town Races agrees to remove all manure from the barn area at no cost to the Horsemen.

F. Charles Town Races, in conjunction with the HBPA, shall establish Barn Area Rules and Regulations for the purpose of promoting safety and security on the backstretch, which shall remain in full force and effect and shall be binding upon the parties pursuant to their own terms and provisions during the term or terms of these agreements. Charles Town Races agrees to provide a copy of barn area rules to the HBPA and post the rules in the Track kitchen.

14. **Racing Surfaces.**

A. The Track Surface Committee, consisting of two Horsemen, two jockeys (appointed by their respective associations), the Charles Town Races' Superintendent, at least one steward, and a representative of Charles Town Races, shall meet pursuant to a published schedule to assess track surface conditions. Charles Town Races shall maintain the Racetrack as it determines to be appropriate giving consideration to input provided by the Track Surface Committee.

B. Trainers shall have the right to enter onto the Racetrack for the purpose of determining the safety of the racing surface.

15. **Racetrack Facilities.** The racing strip, the barns, and related backside facilities at the Racetrack (collectively known as the "backside facilities") necessary for training purposes shall be made available by Charles Town Races without charge to Horsemen who have horses training for the immediate upcoming live race meet. Charles Town Races will, at its own expense, make water, hot water, tack room heating, and electricity available to each barn in use and keep the racing surface harrowed and watered.

The racing strip, barns, tack rooms and other facilities of Charles Town Races useful for training purposes, shall be made available for Horsemen without charge. Charles Town Races agrees that these facilities shall be made available to Horsemen during reasonable hours for training purposes, subject to weather conditions.

At least thirty (30) days written notice shall be given to the HBPA of any intended shut-down of the Racetrack. Included with such notice shall be the date of closing, the date of re-opening, and any plans concerning the availability of stalls in the stable area during the shutdown. The notice period shall be calculated from the last scheduled race meeting day of the then current race meeting.

16. **Training Facility.** The track surface of the Training Facility shall be the same as the track surface on the Charles Town track. There shall be a chute with a small starting gate together with a necessary crew of not less than three (3) individuals for training purposes only as well as a warning system for loose horses. An outrider during training hours, a general shack for trainers and proper guards to manage the facility shall likewise be provided. Charles Town agrees to provide the HBPA's consultant with a copy of the design plans for review.

17. **Training Track Gate.** Charles Town Races agrees to allow ingress and egress to the training track, main track and barn area of horses on foot through a gate to be constructed on the Northwest side of 5th Avenue ("the Training Track Gate"), subject to the following conditions:

a) the HBPA will reimburse Charles Town Races its actual cost of constructing and installing the gate and constructing and outfitting a guard shack at the Training Track Gate. Charles Town Races will provide the HBPA with a detailed accounting of its costs associated with the construction and outfitting of the guard shack

and the HBPA will reimburse Charles Town Races within fifteen (15) days of receipt of such accounting;

b) the HBPA shall reimburse Charles Town Races each calendar quarter its costs of operating the Training Track Gate including, but not limited to, Charles Town Races labor costs to man the Training Track Gate, and for maintenance, repair and replacement of the guard shack and equipment. Charles Town Races will provide the HBPA with a detailed accounting of all operating costs for which it seeks reimbursement;

c) ingress and egress through the Training Track Gate may only take place during training hours and such other times as may be specified by Charles Town Races;

d) ingress and egress shall be subject to reasonable policies and procedures established by Charles Town Races and provided to the HBPA in writing which are designed to ensure the biosecurity of the track, enforce the health certificate and Coggins rules of the State of West Virginia, and

e) initial and continuing approval of the West Virginia Department of Agriculture and/or any other governmental agency having jurisdiction over Charles Town Races, of the use of the Training Track Gate and the policies and procedures in place. In the event the West Virginia Department of Agriculture and/or any other governmental agency having jurisdiction over Charles Town Races, disapproves of the use of the Training Track Gate, the parties shall use their reasonable efforts to promptly obtain such approval and shall implement such procedures as may be required to keep the training gate open during the approval process.

18. **Racetrack Kitchen.** Charles Town Races has constructed a new Racetrack kitchen which has received the approval of the HBPA and which includes a seating area, for use by the Horsemen. Charles Town Races shall continue to provide and not reduce the size of the Racetrack kitchen during the Term of this Agreement. The Racetrack kitchen shall continue to be equipped with customary fixtures and equipment for the operation of a food service operation of its type. It is understood and agreed that the space provided for the Racetrack kitchen and the fixtures and equipment shall be provided by Charles Town Races at no cost to the HBPA or the operator of the kitchen. The HBPA shall be permitted to select an operator of its choice to provide provisions and prepare food, subject to the approval of Charles Town Races which shall not be unreasonably withheld or unduly delayed. The Racetrack kitchen must be operated in compliance with all health, sanitation and regulatory requirements for the legal and safe operation of the Racetrack kitchen. The operator selected by the HBPA shall be required to have general liability and personal injury insurance coverage in amounts customarily required of similarly situated vendors conducting business on Charles Town Races' property. Evidence of such coverage shall be provided and the operator shall be required to name Charles Town Races and the HBPA as an additional insured on such policy(ies).

19 **Paddock Blacksmith.** Charles Town Races shall provide a paddock blacksmith to be available in the paddock for each and every race day.

20. **HBPA Amenities.**

A. Charles Town Races shall provide one (1) grandstand box with twelve (12) seats available to Horsemen on each racing day.

B. Charles Town Races shall provide parking consisting of seventy-five (75) spaces designated for trainers only.

C. Charles Town Races shall provide seventy-five (75) parking spaces for owners.

D. Charles Town Races shall provide the HBPA with at least two hundred (200) programs each racing day during the week and three hundred (300) programs on each racing day that falls on a Saturday, Sunday, or holiday at an agreed upon location.

21. **Other Agreements.** The parties shall also use their best efforts to address and resolve in a timely and expeditious manner the following matters of mutual concern to the parties:

A. Rodent and pest control and eradication.

B. Uniform rules and regulations concerning the operation of all vending or concession enterprises in the stable area.

C. Creation and continuing maintenance of a common fund for the payment of rewards for information leading to a conviction for theft, conversion, or malicious destruction of personal property belonging to Horsemen or their employees, Charles Town Races or its employees, and the general public.

22 **Racing Officials.** Charles Town Races shall mail the President of the HBPA a written list of the persons appointed by Charles Town Races to serve as racing officials during any race meeting on the same date that it submits said list to the West Virginia Racing Commission in accordance with the provisions of the West Virginia Rules of Racing.

23. **HBPA Administrative Fund.** In accordance with Chapter 19, Article 23, Section 9(b) (1) of the West Virginia Code, Charles Town Races agrees to pay to HBPA during the term of this Agreement an amount equal to two percent (2%) of regular purses actually paid during the preceding month from the special fund required by this section, i.e.,

"purse account", (excluding, however, all purses funded from sources other than the purse account, including by way of example and not limitation accredited stakes races and other sponsored races, and as may be otherwise excluded by applicable law) to be divided between the HBPA Welfare Benefit Trust for backstretch personnel and the HBPA for administrative fees, as more fully set forth in a written agreement between the HBPA and the HBPA Welfare benefit Trust, a copy of which will be provided to Charles Town Races. The HBPA and the HBPA Welfare Benefit Trust shall jointly establish a bank account dedicated to the receipt of the funds paid by Charles Town Races pursuant to this section which shall be promptly paid after the end of each month.

24. **Indemnification.** The HBPA shall indemnify and save harmless Charles Town Races, its agents, representatives, employees, officers, directors and shareholders, and their respective successors and assigns, and all persons acting by, through, under or in concert with any of them, from any and all loss, costs or expenses (including reasonable attorneys' fees), arising out of any claim of a person or entity pertaining to the Charles Town Race's performance, excluding Charles Town Race's negligence or willful misconduct, under paragraph 23 of this Agreement relating to contributions to the HBPA,

25. **No Monopoly on Goods and Services.** Charles Town Races shall not establish or impose upon Horsemen a monopoly, restriction or requirement regarding the use of blacksmiths, feed men, track suppliers, veterinarians or other services customarily used by Horsemen. Charles Town Races will permit any supplier of commodities or services to enter the stable area; provided, however, that such supplier of services or commodities has received a clearance from management and the West Virginia Racing Commission, which will authorize admission to the stable area. Charles Town Races

agrees not to unreasonably withhold said clearance. Any owner or trainer stabled on grounds will be permitted at any time to haul in hay or grain for his own use only.

26. **Security.** Charles Town Races agrees to provide and maintain reasonable security at its main gate and such other gates providing ingress and egress to its stable areas.

27. **Starting Gate.**

A. Charles Town Races agrees to provide a minimum of ten (10) assistant starters for the safety of jockeys and horses for each and every race and on each and every race day.

B. Unless prohibited by applicable law, Charles Town Races agrees to double load horses into the starting gate for each and every race.

28. **Daily Meeting Figures.** The pari-mutuel handle and purse distribution figures as well as the percentage figures which represent the relationship between purses and the total of pari-mutuel handle, shall be provided to the HBPA office each day of a race meet in progress.

29. **Valuable Property Right.** Charles Town Races recognizes that the horses and participants in races and related events occurring prior or subsequent to the running of a race are valuable property rights belonging to the owners and trainers, and Charles Town Races will not produce or exhibit still or motion pictures, videotapes, radio or television programs, or authorize or license others to make or exhibit motion pictures or television programs of any of said events without prior consultation and written agreement of the HBPA. Notwithstanding the preceding sentence, it is understood and agreed that Charles Town Races shall have the right to use pictures, still or moving, of the horses and

participants to advertise and/or promote the Racetrack facility at no cost and without prior consultation and written agreement of the HBPA.

30. **HBPA Fire and Hazard Insurance.** Charles Town Races agrees to pay to HBPA's national office on or before May 15th of each year during the term of this Agreement, its proportional share of the total annual premium as determined annually by the National HBPA for a national policy of fire and other hazards insurance covering horses and tack belonging to HBPA members stabled at Charles Town Races or at locations covered by such HBPA policy. It is understood, however, by and between the parties, that the limits and types of coverage and the annual premium amount will not be increased without the prior written consent of Charles Town Races.

31. **Dead Horse Removal.** The cost of removing dead horses from the racing strip shall be paid by Charles Town Races. The cost of removing dead horses from the Racetrack facility generally shall be paid one-half by the HBPA and one-half by Charles Town Races.

32. **Arbitration.** Any all disputes between the parties arising out of this Agreement or the alleged breach thereof, which the parties are unable to amicably resolve on their own, shall, upon the written demand of either party, be submitted to arbitration by the American Arbitration Association ("AAA"). The arbitration shall be conducted in accordance with rules and guidelines of the AAA, with each party selecting an arbitrator from the list of qualified arbitrators provided by the AAA. The two chosen arbitrators shall select a third arbitrator from the same list. If they cannot agree to a selection, the AAA shall make the selection for them. Each party shall bear the costs of its arbitrator and shall share equally the costs of the third arbitrator and the arbitration process. A decision agreed to by two of the arbitrators shall be binding and

enforceable by a court of competent of competent jurisdiction. The locale for all arbitration proceedings shall be Charles Town, West Virginia, unless otherwise agreed to by the parties.

By execution of this Agreement, the parties acknowledge that arbitration is intended to be the exclusive means of resolving grievances, disputes and disagreements between the parties arising out of this Agreement, except that this provision shall not foreclose a party from obtaining initial equitable relief from a court of compentent jurisdiction pending outcome of arbitration.

33. **Right to Terminate.** Each party may terminate this Agreement upon the other party's failure to substantially perform its duties and obligations as required under the terms and provisions of this Agreement, and such failure continues for thirty (30) days following the date in which written notice of default is mailed in accordance with paragraph 36, Notices, of this Agreement. Such termination shall not constitute an election of remedy, nor shall it constitute a waiver of a party's other

remedies at law or in equity.

34. **Further Assurances.** The HBPA and Charles Town Races shall execute such instruments and documents, and give such further assurances as may be necessary to accomplish the purposes and intent of this Agreement.

35. **Counter-part Originals.** This Agreement may be executed in two or more counter-part originals, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

36. **Notices.** All notices, requests, demands or other communications which may be required by this Agreement shall be in writing, and if mailed, shall be mailed by certified mail, return receipt requested, and shall be deemed to have been given when received by

personal delivery or otherwise. A courtesy copy of such communication shall also be sent via facsimile to the last known facsimile number of the other party. Current addresses of the persons to whom communications are to be sent are as follows:

Charles Town RACES: General Manager
Charles Town Races
U. S. Route 340
P. O. Box 551
Charles Town, WV 25414

Copy to: President
Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Blvd., Suite 203
Wyomissing, PA 19610

Copy to: VP/Deputy General Counsel
Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Blvd., Suite 203
Wyomissing, PA 19610

Copy to: VP/Legal Affairs
Charles Town Races
P. O. Box 551
Charles Town, WV 25414

HBPA: President
Charles Town HBPA, Inc.
P. O. Box 581
Charles Town, WV 25414

Copy to: Clarence E. Martin, Esq.
Martin & Seibert
P. O. Box 1286
Martinsburg, WV 25402

37. **Waivers.** No waiver of any breach of this Agreement or any term hereof shall be effective unless such waiver is in writing. No waiver of any breach shall be deemed a waiver of any other or subsequent breach.

38. **Applicable Law.** This Agreement shall be executed and delivered by the parties hereto in the State

of West Virginia, and shall be interpreted, construed and enforced in accordance with the laws of the State of West Virginia. Nothing in this Agreement is intended to or has the effect of contradicting, superseding or construing the provision of Article 23, Chapter 19 (§§19-23-1 et seq.), Horse and Dog Racing,Article 29, Chapter 22A (§§22-A-1 et seq.) The Racetrack Video Lottery Act, and/or Article 29, Chapter 22C (§§29-22C-1, et seq.) Reference in this Agreement to the West Virginia Racing Commission will refer to the present Commission or to any successor regulatory body having jurisdiction over thoroughbred racing at Charles Town Races.

39. **Severability.** If any provision of this Agreement is declared invalid by any Court of competent jurisdiction, or becomes invalid or inoperative by the operation of law, the remaining provisions of this Agreement shall not be affected thereby and shall remain in full force and effect.

40. **Entire Agreement; Modification.** This Agreement contains the entire agreement between the parties and, as of the date of this Agreement, supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject hereof. No modification, variation or amendment of this Agreement shall be effective unless such modification, variation or amendment shall be in writing and has been signed by all parties to this Agreement.

41. **Binding Effect.** This Agreement shall be binding upon the parties, their successors and assigns.

WITNESS the following signatures:

SIGNATURE PAGES FOLLOW

CHARLES TOWN H.B.P.A., INC.

By: /s/ Raymond J. Funkhouser
Raymond J. Funkhouser
President

STATE OF WEST VIRGINIA

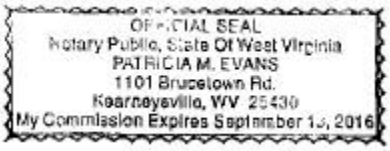
COUNTY OF JEFFERSON, to wit:

I, Patricia M. Evans, a notary public for the County and State aforesaid, certify that **Raymond J. Funkhouser,** whose name is signed to the foregoing Agreement by and between PNGI Charles Town Gaming, Limited Liability Company and Charles Town H.B.P.A., Inc. as the President of the Charles Town H.B.P.A., Inc., a West Virginia not-for-profit Corporation, dated the 20th day of February, 2009, acknowledged the same on behalf of the Corporation before me in the County aforesaid.

Given under my hand and official seal this 20th day of February, 2009.

Patricia M. Evans
Notary Public

My commission expires on September 18, 2016.



PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: /s/ Albert Britton
Albert Britton
General Manager

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to wit:

I, Margaret A Fineagan, a notary public for the County and State aforesaid, certify that **Albert Britton,** whose name is signed to the foregoing Agreement by and between PNGI Charles Town Gaming, Limited Liability Company and the Charles Town HBPA, Inc. as the General Manager of PNGI Charles Town Gaming, Limited Liability Company, a West Virginia Limited Liability Company, dated the 20th day of February 2009, acknowledged the same on behalf of the Limited Liability Company before me in the County aforesaid.

Given under my hand and official seal this 20th day of February, 2009.

Margaret A Fineagan
Notary Public

My commission expires on June 21, 2012.

Exhibit 10.32

PENN NATIONAL GAMING, INC.

2008 LONG TERM INCENTIVE COMPENSATION PLAN

(Effective November 12, 2008)

Table of Contents

PENN NATIONAL GAMING, INC.
2008 LONG TERM INCENTIVE COMPENSATION PLAN

ARTICLE I PURPOSE

The 2008 Long Term Incentive Compensation Plan is intended to advance the interests of Penn National Gaming, Inc., a Pennsylvania corporation, and its shareholders by providing a means by which the Company and its subsidiaries and affiliates shall be able to motivate directors and selected key employees (including officers) to direct their efforts to those activities that will contribute materially to the Company's success. The Plan is also intended to serve the best interests of the shareholders by linking remunerative benefits paid to employees who have substantial responsibility for the successful operation, administration and management of the Company and/or its subsidiaries and affiliates with the enhancement of shareholder value while such key employees increase their proprietary interest in the Company. Finally, the Plan is intended to enable the Company to attract and retain in its service highly qualified persons for the successful conduct of its business.

ARTICLE II DEFINITIONS AND CONSTRUCTION

Section 2.1 Definitions

The following words and phrases when used in the Plan with an initial capital letter, unless their context clearly indicates to the contrary, shall have the respective meanings set forth below in this Section 2.1:

Act. The Securities Exchange Act of 1934, as now in effect or as hereafter amended from time to time. References to any Section or Subsection of the Act are to such Section or Subsection as the same may from time to time be amended or renumbered and/or any comparable or succeeding provisions of any legislation that amends, supplements or replaces such Section or Subsection.

Award. A grant of one of the following under the Plan: "Stock Option Award"; "Stock Appreciation Right Award"; "Restricted Stock Award"; "Phantom Stock Unit Award"; and "Other Award"; all as further defined herein.

Award Agreement. The written instrument delivered by the Company to a Grantee evidencing an Award, and setting forth such terms and conditions of the Award as may be deemed appropriate by the Grantor. The Award Agreement shall be in a form approved by the Grantor, and once executed, shall be amended from time to time to include such additional or amended terms and conditions as the Grantor may specify after the execution in the exercise of his or its, as the case may be, powers under the Plan.

Beneficiary. Any individual, estate or trust who or which by designation of the a Holder pursuant to Section 12.3 or operation of law succeeds to the rights and obligations of the Holder under the Plan and one or more Award Agreements.

Board. The Board of Directors of the Company, as it may be constituted from time to time.

Cause. Fraud, embezzlement, theft or dishonesty against the Company, conviction of a felony, willful misconduct, being found unsuitable by a regulatory authority having jurisdiction over the Company, willful and wrongful disclosure of confidential information, engagement in competition with the Company and any other conduct defined as cause in any agreement between a Grantee and the Company or any Subsidiary, in each case during employment with the Company and all Subsidiaries or service as a Director, as the case may be.

Chairman. The Chairman of the Board of the Company or his designee(s).

Change of Control.

(a) With respect to Awards that are not "deferred compensation" under Section 409A of the Code, any of the following events shall constitute a Change of Control for purposes of this Plan:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of fifty percent (50%) or more of either (A) the then outstanding shares of the Company (the "Outstanding Company Shares") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Subsection (i), the following acquisitions shall not constitute a Change of Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition pursuant to a transaction which complies with clauses (A), (B) and (C) of Subsection (iii) below; or

(ii) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or

(iii) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of

another entity (each, a "Corporate Transaction"), in each case, unless, following such Corporate Transaction, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Shares and Outstanding Company Voting Securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation or other entity resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through

one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction of the Outstanding Company Shares and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan or related trust of the Company or such corporation resulting from such Corporate Transaction) beneficially owns, directly or indirectly, twenty percent (20%) or more of, respectively, the then outstanding shares of the corporation resulting from such Corporate Transaction or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership of the Company existed prior to the Corporate Transaction and (C) at least a majority of the members of the board of directors of the corporation (or other governing board of a non-corporate entity) resulting from such Corporate Transaction were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Corporate Transaction; or

(iv) individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds (2/3) of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

(b) With respect to Awards that are "deferred compensation" under Section 409A of the Code, each of the foregoing events shall only be deemed to be a Change of Control for purposes of the Plan to the extent such event qualifies as a "change in control event" for purposes of Section 409A of the Code. The Grantor shall be entitled to amend or interpret the terms of any Award to the extent necessary to avoid adverse Federal income tax consequences to a Grantee under Section 409A of the Code.

Code. The Internal Revenue Code of 1986, amended from time to time, and any successor thereto, the Treasury Regulations thereunder and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor provision of the Code.

Committee. The Compensation Committee of the Board.

Common Stock. Common stock of the Company, par value $.01.

Company. Penn National Gaming, Inc., a Pennsylvania corporation, and its successors and assigns.

Date of Grant. The date as of which the Grantor grants an Award.

Director. A member of the Board who is not also an employee of the Company or any Subsidiary.

Disability. A physical or mental impairment sufficient to make the Grantee who is an Employee eligible for benefits under the Company's or Subsidiary's long-term disability plan in which the Grantee is a participant. A Grantee who is a Director shall be treated as having a Disability if a physical or mental impairment would have made the Director eligible for benefits under the Company's long-term disability plan had the Director been an Employee.

Effective Date. November 12, 2008, the date on which the shareholders of the Company approved the Plan.

Employee. An employee of the Company or any Subsidiary or "parent corporation" within the meaning of Section 424(e) of the Code.

Fair Market Value. With respect to the Common Stock on any day, (i) the closing sales price on the immediately preceding business day of a share of Common Stock as reported on the principal securities exchange on which shares of Common Stock are then listed or admitted to trading, or (ii) if the Common Stock is not listed or admitted to trading on a securities exchange, as determined in a manner specified by the Committee determined in accordance with Section 409A of the Code. A "business day" is any day on which the relevant market is open for trading.

Grantee. An Employee or former Employee of the Company or any Subsidiary to whom an Award is or has been granted. With respect to an Award, other than an Incentive Stock Option, a Director to whom an Award is or has been granted is also a Grantee.

Grantor. With respect to an Award granted to an Employee, the Committee or the Chairman, as the case may be, that grants the Award. With respect to an Award granted to a Director, the Board or Committee is the Grantor.

Holder. The individual who holds an Award, who shall be the Grantee or a Beneficiary.

Incentive Stock Option or ISO. An Option that is intended to meet, and structured with a view to satisfying, the requirements of Section 422 of the Code and is designated by the Grantor as an Incentive Stock Option.

Non-Qualified Stock Option. An Option that is not designated by the Grantor as an Incentive Stock Option, or an Option that is designated by the Grantor as an Incentive Stock Option if it does not satisfy the requirements of Section 422 of the Code.

Nonreporting Person. A Grantee who is not subject to Section 16 of the Act.

Option or Stock Option. A right granted pursuant to Article V.

Option Period. The period beginning on the Date of Grant of an Option and ending on the date the Option terminates.

Option Price. The per share price at which shares of Common Stock may be purchased upon exercise of a particular Option.

Other Award. Awards granted pursuant to Article IX.

Performance Goals. One or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or related company, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to a previous year's results or to a designated comparison group, in each case as specified by the Grantor in the Award: free cash flow, EBITDA, sales, revenue, revenue growth, income, operating income, net income, net earnings, earnings per share, return on total capital, return on equity, cash flow, operating profit and margin rate, gross margins, debt leverage (debt to capital), market capitalization, total enterprise value (market capitalization plus debt), total shareholder return and stock price. With respect to any Award that is intended to be "performance-based compensation" under Section 162 of the Code, (i) the outcome of the Performance Goals must be substantially uncertain at the time the Grantor establishes the Performance Goals, and (ii) to the extent consistent with Section 162 of the Code, the Grantor shall appropriately adjust any Performance Goal to take into account the impact of any of the following events on the Company that occurs during the period to which such Performance Goal is applied: asset write-downs; litigation, claims, judgments, settlements; currency fluctuations and other non-cash charges; changes in applicable law, rule or regulation or accounting principles; accruals for reorganization and restructuring programs; costs incurred in the pursuit of acquisition opportunities; strikes, delays or similar disruptions by organized labor, guilds or horsemen's organizations; national macroeconomic conditions; terrorism and other international hostilities; significant regional weather events; and any other extraordinary, unusual or non-recurring as described in Accounting Principles Board Opinion No. 30 and/or management's discussion and analysis of financial condition and results of operations appearing in the Company's securities filings. Any Award may be granted subject to the attainment of such Performance Goals as determined by the Grantor.

Phantom Stock Unit. A right granted under Article VIII.

Phantom Stock Unit Award. An Award of Phantom Stock Units under Article VIII.

Plan. Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as set forth herein and as amended from time to time.

Reporting Person. A Grantee who is subject to Section 16 of the Act.

Restricted Period. The period of time beginning with the Date of Grant of a Restricted Stock Award or Phantom Stock Unit Award and ending when the Restricted Stock or Phantom Stock Unit is forfeited or when all conditions for vesting are satisfied.

Restricted Stock. Shares of Common Stock issued pursuant to a Restricted Stock Award.

Restricted Stock Award. An Award of Restricted Stock under Article VII.

Retirement. Termination of service by the Grantee on or after the normal retirement date under a plan

maintained by the Company or a Subsidiary in which the Grantee is a participant or under an applicable Company policy or procedure or as otherwise agreed to by the Company.

Rule 16b-3. Rule 16b-3 of the General Rules and Regulations under the Act, or any law, rule, regulation or other provision that may hereafter replace such Rule.

SAR Base Amount. An amount set forth in the Award Agreement for a SAR.

Stock Appreciation Right or SAR. A right granted under Article VI.

Stock Appreciation Right Award. An Award of Stock Appreciation Rights under Article VI.

Stock Option Award. An Award of Options under Article V.

Subsidiary. Any corporation, partnership, joint venture or other entity in which the Committee has determined that the Company had made, directly or indirectly through one or more intermediaries, a substantial investment or commitment, including, without limit, through the purchase of equity or debt or the entering into of a management agreement or joint operating agreement. In the case of Incentive Stock Options, Subsidiary shall mean any entity that qualifies as a "subsidiary corporation" of the Company under Section 424(f) of the Code.

Ten Percent Shareholder. A person owning shares possessing more than 10% of the total combined voting power of all classes of shares of the Company, any subsidiary corporation (within the meaning of Section 424(f) of the Code) or parent corporation (within the meaning of Section 424(e) of the Code).

Section 2.2 Construction

Whenever any words are used herein in the masculine gender, they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply. Headings of Sections and Subsections of the Plan are inserted for convenience of reference, are not a part of the Plan, and are not to be considered in the construction hereof. The words "hereof", "herein", "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Plan, and not to any particular provision or Section. The words "includes", "including" and other similar compounds of the word "include" shall mean and refer to including without limitation. All references herein to specific Articles, Sections or Subsections shall mean Articles, Sections or Subsections of this document unless otherwise qualified.

ARTICLE III STOCK AVAILABLE FOR AWARDS

Section 3.1 Common Stock

Shares of Common Stock may be delivered under the Plan, such shares to be made available from authorized but unissued shares or from shares reacquired by the Company, including shares purchased in the open market.

Section 3.2 Number of Shares Deliverable

Subject to adjustments as provided in Section 11.2, no more than 6,900,000 shares of Common Stock may be issued under the Plan. Any shares of Common Stock issued under Options or Stock Appreciation Rights shall be counted against this limit as one (1) share of Common Stock. Any shares of Common Stock issued under Awards other than Options or Stock Appreciation Rights shall be counted against this limit as two and sixteen one hundredths (2.16) shares of Common Stock. Any Awards that are not settled in shares of Common Stock shall not count against this limit.

Section 3.3 Reusable Shares

Shares of Common Stock subject to an Award that are forfeited to the Company shall again be available for issuance under the Plan.

ARTICLE IV AWARDS AND AWARD AGREEMENTS

Section 4.1 General

4.1.1 Subject to the provisions of the Plan, the Committee may at any time and from time to time (i) determine and designate those Reporting Persons who are Employees to whom Awards are to be granted; (ii) determine the time or times when Awards to Reporting Persons who are Employees shall be granted; (iii) determine the form or forms of Awards to be granted to any Reporting Person who is an Employee; (iv) determine the number of shares of Common Stock or dollar amounts subject to or denominated by each Award to be granted to any Reporting Person who is an Employee; (v) determine the terms and conditions of each Award to a Reporting Person who is an Employee; (vi) determine the maximum aggregate number of shares or, for purposes of Other Awards payable in cash, the aggregate amount of cash subject to Awards to be granted to Nonreporting Persons, as a group, who are Employees; and (vii) determine the general form or forms of Awards to be granted to Nonreporting Persons who are Employees.

4.1.2 The Committee or the Chairman, subject to the provisions of the Plan and authorization by the Committee, may, at any time and from time to time, (i) determine and designate at any time and from time to time those Nonreporting Persons who are Employees to whom Awards are to be granted; (ii) determine the time or times when Awards to Nonreporting Persons who are Employees shall be granted; (iii) determine the form or forms of Award to be granted to any Nonreporting Person who is an Employee, from among the form or forms

approved by the Committee; (iv) determine the number of shares of Common Stock or dollar amounts subject to or denominated by each Award to be granted to any Nonreporting Person who is an Employee; and (v) determine the terms and conditions of each Award to a Nonreporting Person who is an Employee.

4.1.3 Subject to the provisions of the Plan, the Board or Committee may, at any time and from time to time, (i) determine and designate at any time and from time to time those Directors to whom Awards, other than Incentive Stock Options, are to be granted; (ii) determine the time or times when Awards to Directors shall be granted; (iii) determine the form or forms of Awards to be granted to any Director; (iv) determine the number of shares of Common Stock or dollar amounts subject to or denominated by each Award to be granted to a Director; and (v) determine the terms and condition of each Award to a Director.

4.1.4 Awards may be granted singly, in combination or in tandem and may be made in combination or in tandem with or in replacement of, or as alternatives to awards or grants under any other employee plan maintained by the Company or its Subsidiaries. No Awards shall be granted under the Plan after the tenth anniversary of the Effective Date.

Section 4.2 Eligibility

Any Director or Employee, including any officer who is an Employee and any director who is an Employee, and, except with respect to Stock Options and SARs, an individual who has accepted the Company's or a Subsidiary's offer of employment but who has not commenced performing services for the Company or a Subsidiary, shall be eligible to receive Awards under the Plan.

Section 4.3 Terms and Conditions; Award Agreements

4.3.1 *Terms and Conditions.* Each Award granted pursuant to the Plan shall be subject to all of the terms, conditions and restrictions provided in the Plan and such other terms, conditions and restrictions, if any, as may be specified by the Grantor with respect to the Award at the time of the making of the Award or as may be amended or specified thereafter by the Grantor in the exercise of its or his, as the case may be, powers under the Plan. Without limiting the foregoing, it is understood that the Grantor may, at any time and from time to time after the granting of an Award hereunder, specify such amended or additional terms, conditions and restrictions with respect to such Award as may be deemed necessary or appropriate to ensure compliance with any and all applicable laws, including, but not limited to, compliance with Federal and state securities laws, compliance with Federal and state gaming or racing laws, compliance with Federal and state tax laws that would otherwise result in adverse and unintended tax consequences for a Grantee, the Company or any Subsidiary and methods of withholding or providing for the payment of required taxes. The terms, conditions and restrictions with respect to any Award, Grantee or Award Agreement need not be identical with the terms, conditions and restrictions with respect to any other Award, Grantee or Award Agreement.

4.3.2 *Award Agreements.* Except as otherwise provided in the Plan, each Award granted pursuant to the Plan shall be evidenced by an Award Agreement and shall comply with, and be subject to, the provisions of the Plan.

ARTICLE V OPTIONS

Section 5.1 Award of Options

5.1.1 *Grants.* From time to time, the Committee may grant Stock Option Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Stock Option Awards in such number as the Committee or the Chairman may determine to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided, however,* each and all such grants shall be subject to any maximum aggregate amount of Awards in general and Options in particular (if any) established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Options to such Directors as the Board or Committee may select in its sole discretion. The Grantor shall determine the number of shares of Common Stock to which each Option relates. A Stock Option entitles the holder thereof to purchase full shares of Common Stock at a stated price for a specified period of time.

5.1.2 *Types of Options*

5.1.2.1 *Employees.* Options granted to Employees pursuant to the Plan may be either in the form of Incentive Stock Options or in the form of Non-Qualified Stock Options.

5.1.2.2 *Directors.* Options granted to Directors pursuant to the Plan will be in the form of Non-Qualified Stock Options.

5.1.3 *Maximum Award To An Individual.* No individual shall be granted in any calendar year Options to purchase more than 1,000,000 shares of Common Stock.

5.1.4 *Internal Revenue Code Limits.* Options designated as Incentive Stock Options shall not be eligible for treatment under the Code as "incentive stock options" (and will be deemed to be Non-Qualified Stock Options) to the extent that either (1) the aggregate Fair Market Value of Shares (determined as of the time of grant) with respect to which such Options are exercisable for the first time by the Grantee during any calendar year (under all plans of the Company and any Subsidiary) exceeds $100,000, taking Options into account in the order in which they were granted or (2) such Options otherwise remain exercisable but are not exercised within three (3) months of termination of employment (or such other period of time provided in Section 422 of the Code).

Section 5.2 Option Price

The Option Price of Common Stock covered by each Option shall be determined by the Grantor, but shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant, *provided*, *however*, in the case of an Incentive Stock Option granted to Ten

Percent Shareholder, the Option Price shall be no less than 110% of the Fair Market Value of the of a share of Common Stock on the Date of Grant.

Section 5.3 Option Periods

The Grantor shall, from time to time, determine the term of each Option which shall be reflected in the Award Agreement. No Option may be exercised after the expiration of its term. Subject to earlier termination as provided in the Plan, the term shall not exceed seven (7) years from the Date of Grant; *provided*, that the term of an Incentive Stock Option granted to a Ten Percent Shareholder shall not exceed 5 years.

Section 5.4 Exercisability

5.4.1 Subject to Article X and XIII, each Option shall be exercisable at any time or times during the term of the Option and in such amount or amounts and subject to such conditions, including, without limitation, attainment of one or more Performance Goals, as the Grantor may prescribe in the applicable Award Agreement.

5.4.2 Except as provided in Article X, or as otherwise provided in an Award Agreement, an Option may be exercised only during the Grantee's employment with the Company or any of its Subsidiaries or service as a Director. No Option may be exercised for a fractional share.

5.4.3 *Method of Exercise.* A Holder may exercise an Option, in whole or from time to time in part, by giving notice of exercise to the Company, in a form and manner acceptable to the Company.

Section 5.5 Time and Method of Payment for Options

5.5.1 *Form of Payment.* The Holder shall pay the Option Price in cash (including a personal check) or, with the Grantor's permission and according to such rules as it may prescribe, by delivering shares of Common Stock already owned by the Holder having a Fair Market Value on the date of exercise equal to the Option Price, or a combination of cash and such shares. The Grantor may also permit payment in accordance with a cashless exercise program under which, if so instructed by the Holder, shares of Common Stock may be issued directly to the Holder's broker or dealer who in turn will sell the shares and pay the Option Price in cash to the Company from the sale proceeds. Finally, the Grantor may permit payment by reducing the number of shares of Common Stock delivered upon exercise by an amount equal to the largest number of whole shares of Common Stock with a Fair Market Value that does not exceed the Option Price, with the remainder of the Option Price being payable in cash.

5.5.2 *Time of Payment.* Except in the case where exercise is conditioned on a simultaneous sale of the Option shares pursuant to a cashless exercise, the Holder shall pay the Option Price before an Option is exercised.

5.5.3 *Methods for Tendering Shares.* The Grantor shall determine acceptable methods for tendering shares of Common Stock as payment upon exercise of an Option and may impose

such limitations and restrictions on the use of shares of Common stock to exercise an Option as it or he, as the case may be, deems appropriate.

Section 5.6 Delivery of Shares Pursuant to Exercise of Option

No shares of Common Stock shall be delivered pursuant to the exercise, in whole or in part, of any Option, unless and until (i) payment in full of the Option Price for such shares is received by the Company and (ii) compliance with all applicable requirements and conditions of the Plan, the Award Agreement and such rules and regulations as may be established by the Grantor, that are preconditions to delivery. Following exercise of the Option and payment in full of the Option Price and compliance with the conditions described in the preceding sentence, the Company shall promptly effect the issuance to the Grantee of such number of shares of Common Stock as are subject to the Option exercise.

ARTICLE VI STOCK APPRECIATION RIGHTS

Section 6.1 Award of SARs

6.1.1 *Grants.* From time to time the Committee may grant Stock Appreciation Rights Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Stock Appreciation Rights Awards in such number as the Committee or the Chairman may determine to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided, however,* each and all such grants shall be subject to any maximum aggregate amount of Awards in general and SARs in particular (if any) established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Stock Appreciation Rights to such Directors as the Board or Committee may select in its sole discretion. The Grantor shall determine the number of shares of Common Stock to which each SAR relates.

6.1.2 *Maximum Award To An Individual.* No individual shall be granted in any calendar year SARs to purchase more than 1,000,000 shares of Common Stock.

6.1.3 *SAR Base Amount.* The SAR Base Amount with respect to each SAR shall be determined by the Grantor, but shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant.

Section 6.2 SAR Periods

The Grantor shall, from time to time, determine the term of each SAR. No SAR may be exercised after the expiration of its term. Subject to earlier termination as provided in the Plan, the term shall not exceed seven (7) years from the Date of Grant.

Section 6.3 Exercisability

6.3.1 Subject to Articles X and XIII, each SAR shall be exercisable at any time or times during the term of the SAR and in such amount or amounts and subject to such conditions, including, without limitation, attainment of one or more Performance Goals, as the Grantor may, from time to time, prescribe in the applicable Award Agreement.

6.3.2 Except as provided in Article X, or as otherwise provided in an Award Agreement, a SAR may be exercised only during the Grantee's employment with the Company or any of its Subsidiaries or service as a Director.

Section 6.4 Method of Exercise

A Holder may exercise a SAR, in whole or from time to time in part, by giving notice of exercise to the Company, in a form and manner acceptable to the Company.

Section 6.5 Payment Amount, Time and Method of Payment With Respect to SARs

6.5.1 A SAR entitles the Holder thereof, upon the Holder's exercise of the SAR, to receive an amount equal to the product of (i) the amount by which the Fair Market Value on the exercise date of one share of Common Stock exceeds the SAR Base Amount for such SAR, and (ii) the number of shares covered by the SAR, or portion thereof, that is exercised.

6.5.2 Any payment which may become due from the Company by reason of a Grantee's exercise of a SAR may be paid to the Grantee all in cash, all in shares of Common Stock or partly in shares and partly in cash, as determined by the Grantor and as provided in the Award Agreement.

6.5.3 In the event that all or a portion of the payment is made in shares of Common Stock, the number of shares of Common Stock received shall be determined by dividing the amount of the payment by the Fair Market Value of a share of Common Stock on the exercise date of the SAR. Cash will be paid in lieu of any fractional share of Common Stock.

6.5.4 Amounts payable in connection with a SAR shall be paid to the Holder, as determined by the Grantor and as set forth in the applicable Award Agreement or in accordance with such rules, regulations and procedures as may be adopted by the Committee or Grantor.

Section 6.6 Nature of SARs

SARs shall be used solely as a device for the measurement and determination of the amount to be paid on behalf of Grantees as provided in the Plan. SARs shall not constitute or be treated as property or as a trust fund of any kind. All amounts at any time attributable to the SARs shall be and remain the sole property of the Company and all Grantees' rights hereunder are limited to the rights to receive cash and shares of Common Stock as provided in the Plan.

ARTICLE VII RESTRICTED STOCK AWARDS

Section 7.1 Grants

From time to time, the Committee may grant Restricted Stock Awards in such number as it may determine to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant in such number as the Committee or the Chairman may determine Restricted Stock Awards to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided, however,* each and all such grants shall be subject to any maximum aggregate number of Awards in general and shares of Restricted Stock in particular established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Restricted Stock Awards to such Directors as the Board or Committee may select in its sole discretion. A Restricted Stock Award is a grant of shares of Common Stock subject to those conditions, if any, set forth in the Plan and the Award Agreement.

Section 7.2 Maximum Award to An Individual

No individual shall be granted or receive in any calendar year a Restricted Stock Award of more than 1,000,000 shares of Common Stock.

Section 7.3 Restricted Period

The Grantor may, from time to time, establish any condition or conditions on which the Restricted Stock Award will vest and no longer be subject to forfeiture. Such conditions may include, without limitation, continued employment by the Grantee or service as a Director, as the case may be, for a period of time specified in the Award Agreement or the attainment of one or more Performance Goals within a time period specified in the Award Agreement. A Restricted Stock Award may, if the Grantor in its sole discretion decides, provide for an unconditioned grant.

Section 7.4 Restrictions and Forfeiture

Except as otherwise provided in the Plan or the applicable Award Agreement, the Restricted Stock shall be subject to the following restrictions until the expiration or termination of the Restricted Period: (i) a Holder shall not be entitled to delivery of a certificate evidencing the shares of Restricted Stock until the end of the Restricted Period and the satisfaction of any and all other conditions specified in the Award Agreement applicable to such Restricted Stock and (ii) none of the Restricted Stock may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period, and until the satisfaction of any and all other conditions specified in the Award Agreement applicable to such Restricted Stock. Upon the forfeiture of any Restricted Stock, such forfeited shares shall be transferred to the Company without further acts

by the Holder.

Section 7.5 Issuance of Stock and Stock Certificate(s)

7.5.1 *Issuance.* As soon as practicable after the Date of Grant of a Restricted Stock Award, the Company shall cause to be issued in the name of the Grantee (and held by the Company, if applicable, under Section 7.4) such number of shares of Common Stock as constitutes the Restricted Stock awarded under the Restricted Stock Award. Each such issuance

shall be subject throughout the Restricted Period to the terms, conditions and restrictions contained in the Plan and/or the Award Agreement.

7.5.2 *Custody and Registration.* Any issuance of Restricted Stock may be evidenced in such manner as the Grantor may deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Restricted Stock, such certificate shall be registered in the name of the Grantee and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

Section 7.6 Shareholder Rights

Following registration in the Grantee's name, during the Restricted Period, the Grantee shall have the entire beneficial interest in, and all rights and privileges of a shareholder as to, such shares of Common Stock covered by the Restricted Stock Award, including, but not limited to, the right to vote such shares and the right to receive dividends, subject to the restrictions and forfeitures set forth herein. Any shares of Common Stock distributed as a dividend or otherwise with respect to any shares of Restricted Stock as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock shares.

Section 7.7 Delivery of Shares

Upon the expiration (without a forfeiture) or earlier termination of the Restricted Period or at such earlier time as provided under the Plan, all shares of Restricted Stock shall be released from all restrictions and forfeiture provisions hereunder, any similar restrictions and forfeiture provisions under the Award Agreement applicable to such shares and all other restrictions and forfeiture provisions of the Plan or such Award Agreement. No payment will be required from the Holder upon the delivery of any shares of Restricted Stock, except that any amount necessary to satisfy applicable Federal, state or local tax requirements shall be paid by the Holder in accordance with the requirements of the Plan.

ARTICLE VIII PHANTOM STOCK UNIT AWARDS

Section 8.1 Grants

From time to time, the Committee may grant Phantom Stock Unit Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Phantom Stock Unit Awards in such number as the Committee or the Chairman may determine to such Nonreporting Persons as the Committee or the Chairman may select in its or his, as the case May be, sole discretion who are Employees; *provided, however,* each and all such grants shall be subject to any

maximum aggregate number of Awards in general and Phantom Stock Unit Awards in particular established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Phantom Stock Unit Awards to such Directors as the Board or Committee may select in its sole discretion. A Phantom Stock Unit represents the right to receive, without payment to the Company, shares of

Common Stock, an amount of cash equal to the value of a share of Common Stock on a future date or any combination thereof, as determined by the Grantor.

Section 8.2 Maximum Award to An Individual

No individual shall be granted or receive in any calendar year a combination of Phantom Stock Unit Awards representing more than 1,000,000 shares of Common Stock.

Section 8.3 Vesting of Phantom Stock Unit Awards

Phantom Stock Units shall become vested as determined by the Grantor, from time to time, and as set forth in the applicable Award Agreement, unless otherwise described in the Plan.

Section 8.4 Cash Value of Phantom Stock Unit Payments

The amount payable with respect to each vested Phantom Stock Unit payable in cash shall be an amount determined by multiplying the number of Phantom Stock Units by the Fair Market Value of one share of Common Stock as of the date of payment.

Section 8.5 Time of Payment

Amounts payable in connection with a Phantom Stock Unit shall be paid to the Holder, as determined by the Grantor and as set forth in the applicable Award Agreement or in accordance with such rules, regulations and procedures as may be adopted by the Grantor but in no event later than two and one-half months following the end of the calendar year in which a restriction lapses or a vesting condition is met.

Section 8.6 Nature of Phantom Stock Units

Phantom Stock Units shall be used solely as a device for the measurement and determination of the amount to be paid on behalf of Grantees as provided in the Plan. Phantom Stock Units shall not constitute or be treated as property or as a trust fund of any kind. All amounts at any time attributable to the Phantom Stock Units shall be and remain the sole property of the Company and all Grantees' rights hereunder are limited to the rights to receive cash or shares of Common Stock as provided in the Plan.

ARTICLE IX OTHER AWARDS

Section 9.1 Grants

From time to time, the Committee may grant Other Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Other Awards to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided, however,* each and all such grants shall be subject to any maximum aggregate amount of Awards in general and Other Awards in particular

(if any) established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a

group. From time to time, the Board or Committee may grant Other Awards to such Directors as the Board or Committee may select in its sole discretion. An Other Award may or may not be evidenced by an Award Agreement.

Section 9.2 Maximum Award to An Individual

9.2.1 *Awards Denominated or Payable with Reference to Common Stock.* No individual shall be granted or receive in any calendar year Other Awards denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of Common Stock (including, without limitation, securities convertible into shares of Common Stock) representing more than 1,000,000 shares of Common Stock.

9.2.2 *Awards Denominated or Payable with Reference to Cash.* No individual shall be granted or receive in any calendar year Other Awards denominated by or payable in cash representing more than $6,000,000.

Section 9.3 Description of Other Awards

An Other Award may be a grant of a type of equity-based, equity-related, or cash based Award not otherwise described by the terms of the Plan in such amounts and subject to such terms and conditions as determined by the Grantor, from time to time, under the Plan, including but not limited to being subject to Performance Goals. Such Awards may provide for the payment of shares of Common Stock or cash or any combination thereof to a Grantee. The value of a cash-based Other Award shall be determined by the Grantor.

ARTICLE X TERMINATION OF EMPLOYMENT OR CESSATION OF BOARD SERVICE

Section 10.1 Stock Options and SARs

If a Grantee who was an Employee or Director, as the case may be, when the Grantee received the Options or SARs ceases to be an Employee or Director of the Company and all Subsidiaries for any reason, then the Grantee's Options and SARs that are exercisable as of the termination or cessation date shall be cancelled and forfeited at the end of the 120th day after such date and all Options and SARs that are not exercisable as of the termination or cessation date shall be forfeited and cancelled as of such date except in cases of where such termination of employment or cessation of service is a result of (i) the Grantee's death or Disability, in which case the Grantee's Options or SARs that are not then exercisable shall thereupon become exercisable and all Options and SARs shall remain exercisable for the balance of their respective terms, (ii) resignation (other than for Retirement) by the Employee or Director, in which case the Grantee's Options or SARs that are exercisable as of such termination or cessation date shall be cancelled and forfeited at the end of the 30th day after such date and (iii) termination for Cause by the Company, a Subsidiary, or the Board, in which case all of the Grantee's Options and SARs, whether or not then exercisable, shall be cancelled and forfeited as of such termination date.

Section 10.2 Restricted Stock and Phantom Stock Units

If a Grantee who was an Employee or Director, as the case may be, when the Grantee received the Restricted Stock or Phantom Stock Units ceases to (i) be employed by the Company and all Subsidiaries or (ii) serve as a Director, then all of the Grantee's Restricted Stock and Phantom Stock Units that remain subject to restriction or vesting at such time shall be cancelled and forfeited except in cases of such Grantee's death or Disability, in which case any remaining restriction or vesting shall thereupon lapse.

Section 10.3 Date of Termination of Employment

Termination of employment of a Grantee for any of the reasons enumerated in this Article X shall, for purposes of the Plan, be deemed to have occurred as of the date which is recorded in the ordinary course in the Company's or a Subsidiary's books and records in accordance with the then-prevailing procedures and practices of the Company or the Subsidiary or, if earlier with respect to Awards that are "deferred compensation" under Section 409A of the Code, when a Grantee has a "separation from service" as defined in the regulations promulgated under Section 409A of the Code.

Section 10.4 Specified Employee Restriction

Notwithstanding anything in this Plan to the contrary, with respect to any Award that constitutes "nonqualified deferred compensation" subject to Section 409A of the Code, any payments (whether in cash, shares of Common Stock or other property) to be made with respect to such Award upon the Holder's termination of employment or service shall be delayed until the first day of the seventh month following his "separation from service" as defined under Section 409A of the Code, if the Holder is a "specified employee" within the meaning of Section 409A of the Code (as determined in accordance with the uniform policy adopted by the Committee with respect to all of the arrangements subject to Section 409A of the Code maintained by the Company and its Subsidiaries).

Section 10.5 Immediate Forfeiture; Acceleration

Except as otherwise provided in this Article X or in an Award Agreement or as otherwise determined by the Grantor, once a Grantee's employment terminates or Board service ceases, as the case may be, any Award that is not then exercisable or vested or as to which any restrictions have not lapsed shall be cancelled and forfeited to the Company; provided, however, that the Grantor may, subject to the provisions of Sections 5.3 and 6.2, extend the periods during which Awards may be exercised or provide for acceleration or continuation of the exercise or vesting date or the lapse of restrictions of such Awards to such extent and under such terms and conditions as such Grantor deems appropriate.

Section 10.6 Terms of Award Agreement

The terms of any Award Agreement may address any of the issues provided for in this Article. In the event of a discrepancy between such terms and the terms of this Article, the terms of the Award Agreement shall apply.

ARTICLE XI CERTAIN TERMS APPLICABLE TO ALL AWARDS

Section 11.1 Withholding Taxes

The Company and any Subsidiary shall be authorized to withhold from any Award granted or any payment due or transfer made under any Award or under the Plan the amount (in cash, shares of Common Stock, other securities, or other Awards) of withholding taxes due in respect of an Award, its exercise, or any payment or transfer under such Award or under the Plan and to take such other action as may be necessary in the opinion of the Company or a Subsidiary to satisfy statutory withholding obligations for the payment of such taxes.

Section 11.2 Adjustments to Reflect Capital Changes

11.2.1 *Recapitalization, etc.* In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, shares of Common Stock or other securities), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares of Common Stock, other securities of the Company, issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company, or other similar corporate transaction or event constitutes an equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), or otherwise affects the shares of Common Stock, then the Committee shall adjust the following in a manner that is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan:

11.2.1.1 the number and type of shares of Common Stock or other securities which thereafter may be made the subject of Awards, including the aggregate and individual limits specified in the Plan (other than the individual limits set forth in Sections 5.1.3, 6.1.2, 7.2, 8.2 and 9.2.1, which shall not be subject to adjustment unless such adjustment can be made in a manner that satisfies the requirements of Section 162(m) of the Code);

11.2.1.2 the number and type of shares of Common Stock or other securities subject to outstanding Awards;

11.2.1.3 the grant, purchase, SAR Base Amount or Option Price with respect to any Award, or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; and

11.2.1.4 other value determinations applicable to outstanding Awards.

11.2.2 *Sale or Reorganization.* After any reorganization, merger or consolidation whether or not the Company is the surviving corporation and unless there is a provision in the sale or reorganization agreement to the contrary, each Grantee shall, at no additional cost, be entitled upon any exercise of an Option or receipt of other Award to receive (subject to any required action by shareholders), in lieu of the number of shares of Common Stock receivable or exercisable pursuant to such Award, the number and class of shares of stock or other securities to which such Grantee would have been entitled pursuant to the terms of the reorganization, merger or consolidation if, at the time of such reorganization, merger or consolidation, such Grantee had been the holder of record of a number of shares of stock equal to the number of shares receivable

or exercisable pursuant to such Award. Comparable rights shall accrue to each Grantee in the event of successive reorganizations, mergers or consolidations of the character described above.

11.2.3 *Options to Purchase Stock of Acquired Companies.* After any reorganization, merger or

consolidation in which the Company or a Subsidiary shall be a surviving corporation, the Committee may grant substituted options under the provisions of the Plan, pursuant to Section 424 of the Code, replacing old options granted under a plan of another party to the reorganization, merger or consolidation whose stock subject to the old options may no longer be issued following such merger or consolidation. The foregoing adjustments and manner of application of the foregoing provisions shall be determined by the Committee in its sole discretion. Any such adjustments may provide for the elimination of any fractional shares which might otherwise become subject to any Options.

Section 11.3 Failure to Comply with Terms and Conditions

Notwithstanding any other provision of the Plan, any outstanding Awards, including, without limit, any rights of payment or delivery or any other rights of a Holder with respect to any Award shall, unless otherwise determined by the Grantor, be immediately forfeited and cancelled if the Holder:

(i) breaches any term, restriction and/or condition of the Plan, any Award Agreement or any employment, separation or other agreement between the Holder and the Company or its Subsidiaries; or

(ii) while serving as a Director or an Employee, is employed by or serves as a director of a competitor of the Company or its Subsidiaries, or shall be engaged in any activity in competition with the Company or its Subsidiaries; or

(iii) within one (1) year of the Grantee's termination of employment or cessation of Board service with the Company and its Subsidiaries, solicits or assists in soliciting, directly or in any manner, any person employed by the Company or a Subsidiary to leave such employment or recruit, make an offer of employment to, or hire any such person; or

(iv) divulges at any time any confidential information belonging to the Company or any Subsidiary.

The determination of the Grantor as to the occurrence of any of the events specified in this Section 11.3 shall be conclusive and binding upon all persons for all purposes.

Section 11.4 Regulatory Approvals and Listing

The Company shall not be required to issue any certificate or certificates for shares of Common Stock under the Plan prior to (i) obtaining any approval from any governmental agency which the Company shall, in its discretion, determine to be necessary or advisable, (ii) the admission of such shares to listing on any national securities exchange on which the Company's Common Stock may be listed, and (iii) the completion of any registration or other qualification of such shares of Common Stock under any state or Federal law or ruling or regulations of any

governmental body which the Company shall, in its discretion, determine to be necessary or advisable.

Section 11.5 Restrictions Upon Resale of Stock

If the shares of Common Stock that have been issued to a Holder pursuant to the terms of the Plan are not registered under the Securities Act of 1933, as amended ("Securities Act"), pursuant to an effective registration statement, such Holder, if the Committee shall deem it advisable, may be required to represent and agree in writing (i) that any such shares acquired by such Holder pursuant to the Plan will not be sold except pursuant to an effective registration statement under the Securities Act, or pursuant to an exemption from registration under the Securities Act and, (ii) that such Holder is acquiring such shares for his own account and not with a view to the distribution thereof.

Section 11.6 Reporting Person Limitation

Notwithstanding any other provision of the Plan, to the extent required to qualify for the exemption provided by Rule 16b-3 under the Act and any successor provision, any Common Stock or other equity security offered under the Plan to a Reporting Person may not be sold for at least six (6) months after the earlier of acquisition of the security or the date of grant of the derivative security, if any, pursuant to which the Common Stock or other equity security was acquired.

ARTICLE XII ADMINISTRATION OF THE PLAN

Section 12.1 Committee

The Plan shall be administered by or under the direction of the Committee.

Section 12.2 Committee Actions

Except for matters required by the terms of the Plan to be decided by the Board or the Chairman, the Committee shall have full power and authority to interpret and construe the Plan, to prescribe, amend and rescind rules, regulations, policies and practices, to impose such conditions and restrictions on Awards as it deems appropriate and to make all other determinations necessary or desirable in connection with the administration of, or the performance of its responsibilities under, the Plan.

Section 12.3 Designation of Beneficiary

Each Holder may file with the Company a written designation of one or more persons as the Beneficiary who shall be entitled to receive the Award, if any, payable under the Plan upon his death. A Holder may from time to time revoke or change his Beneficiary designation without the consent of any prior Beneficiary by filing a new designation with the Company. The last such designation received by the Company shall be controlling; *provided, however,* that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Holder's death, and in no event shall it be effective as of a date prior to such receipt.

If no such Beneficiary designation is in effect at the time of a Holder's death, or if no designated Beneficiary survives the Holder or if such designation conflicts with law, the Holder's estate shall be entitled to receive the Award, if any, payable under the Plan upon his death. If the Committee is in doubt as to the right of any person to receive such Award, the Company may retain such Award, without liability for any interest thereon, until the Committee determines the rights thereto, or the Company may pay such Award into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Company therefore.

Section 12.4 No Right to an Award or to Continued Employment

No Grantee or other person shall have any claim or right to be granted an Award under the Plan. Neither the action of the Company in establishing the Plan, nor any provisions hereof, nor any action taken by the Company, any Subsidiary, the Board, the Committee or the Chairman pursuant to such provisions shall be construed as creating in any employee or class of employees any right with respect to continuation of employment by the Company or any of its Subsidiaries, and they shall not be deemed to interfere in any way with the Company's or any Subsidiary's right to employ, discipline, discharge, terminate, lay off or retire any

Grantee, with or without cause, to discipline any employee, or to otherwise affect the Company's or a Subsidiary's right to make employment decisions with respect to any Grantee.

Section 12.5 Discretion of the Grantor

Whenever the terms of the Plan provide for or permit a decision to be made or an action to be taken by a Grantor, such decision may be made or such action taken in the sole and absolute discretion of such Grantor and shall be final, conclusive and binding on all persons for all purposes; provided, however, that the Board may review any decision or action of the Grantor and it may reverse or modify such Award, decision or act as it deems appropriate. The Grantor's determinations under the Plan, including, without limitation the determination of any person to receive awards and the amount of such awards, need not be uniform.

Section 12.6 Indemnification and Exculpation

12.6.1 *Indemnification.* Each person who is or shall have been a member of the Board or the Committee and each director, officer or employee of the Company or any Subsidiary to whom any duty or power related to the administration or interpretation of the Plan may be delegated (each, an "Indemnified Person"), shall be indemnified and held harmless by the Company against and from any and all loss, cost, liability or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit or proceeding to which he may be or become a party or in which he may be or become involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof (with the Company's written approval) or paid by him in satisfaction of a judgment in any such action, suit or proceeding, except a judgment in favor of the Company based upon a finding of his bad faith; subject, however, to the condition that upon the institution of any claim, action, suit or proceeding against him, he shall in writing give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of, and shall be in addition to, any other right to which such person may be

entitled under the Company's charter or bylaws, as a matter of law or otherwise, or any power that the Company may have to indemnify him or hold him harmless.

12.6.2 *Exculpation.* No Indemnified Person shall be personally liable by reason of any contract or other instrument executed by him or on his behalf in his capacity as an Indemnified Person hereunder, nor for any mistake of judgment made in good faith, unless otherwise provided by law. Each Indemnified Person shall be fully justified in relying or acting upon in good faith any information furnished in connection with the administration of the Plan by any appropriate person or persons other than himself. In no event shall any Indemnified Person be liable for any determination made or other action taken or any omission to act in reliance upon such report or information, for any action (including the furnishing of information) taken or any failure to act, if in good faith.

Section 12.7 Unfunded Plan

The Plan is intended to constitute an unfunded, long-term incentive compensation plan for certain selected employees. No special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts. The Company may, but shall not be obligated to, acquire shares of its Common Stock from time to time in anticipation of its obligations under the Plan, but no Grantee shall have any right in or against any shares of stock so acquired. All such stock shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. No

obligation or liability of the Company to any Grantee with respect to any right to receive a distribution or payment under the Plan shall be deemed to be secured by any pledge or other encumbrance on any property of the Company.

Section 12.8 Inalienability of Rights and Interests

The rights and interests of a Holder under the Plan are personal to the Holder and to any person or persons who may become entitled to distribution or payments under the Plan by reason of death of the Holder, and the rights and interests of the Holder or any such person (including, without limitation, any Award distributable or payable under the Plan) shall not be subject in any manner to alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such attempted action shall be void and no such benefit or interest shall be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of any Holder, provided that transfers pursuant to a qualified domestic relations order shall be allowable. If any Holder shall attempt to alienate, sell, transfer, assign, pledge, encumber or charge any of his rights or interests under the Plan, (including without limitation, any Award payable under the Plan) then the Committee may hold or apply such benefit or any part thereof to or for the benefit of such Holder in such manner and in such proportions as the Committee may consider proper. Notwithstanding the foregoing, the Holder, subject to the approval of the Company may elect to irrevocably transfer some or all of an Award to a family member. For this purpose, a family member shall refer to one or more of the Holder's spouse, children or grandchildren, or to a trust established solely for the benefit of, or to a partnership whose partners are, the Holder's spouse, children and grandchildren; provided, however, that:

(i) the Award, once transferred, may not again be transferred except by will or by the laws of descent and distribution;

(ii) the Award, once transferred, shall remain subject to the same terms and conditions of the Award in effect before the transfer and the transferee of the Award (the "Transferee") must comply with all other provisions of the Award; and

(iii) the Holder receives no consideration for such transfer. No transferred Award shall be exercisable following a transfer, as provided for herein, unless the Committee receives written notice from the Holder in a form and manner satisfactory to the Committee, in its sole discretion, to the effect that a transfer of the Award has occurred and the notice identifies the Award transferred, the identity of the Transferee and his relationship to the Holder.

Section 12.9 Awards Not Includable for Benefit Purposes

Except as otherwise set forth in any applicable 401(k) plan, payments received by a Grantee pursuant to the provisions of the Plan shall not be included in the determination of benefits under any pension, group insurance or other benefit plan applicable to the Grantee which are maintained by the Company or any of its Subsidiaries, except as may be determined by the Committee.

Section 12.10 No Issuance of Fractional Shares

The Company shall not be required to deliver any fractional share of Common Stock but, as determined by the Committee, may pay a cash amount to the Holder in lieu thereof, except as otherwise provided in the Plan, equal to the Fair Market Value (determined as of an appropriate date determined by the Committee) of such fractional share.

Section 12.11 Modification for International Grantees

Notwithstanding any provision to the contrary, the Committee may incorporate such provisions, or make

such modifications or amendments in Award Agreements of Grantees who reside or are employed outside of the United States of America, or who are citizens of a country other than the United States of America, as the Committee deems necessary or appropriate to accomplish the purposes of the Plan with respect to such Grantee in light of differences in applicable law, tax policies or customs, and to ascertain compliance with all applicable laws.

Section 12.12 Leaves of Absence

The Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under the Plan in respect of any leave of absence taken by the recipient of any Award. Without limiting the generality of the foregoing, the Grantor shall be entitled to determine (a) whether or not any such leave of absence shall constitute a termination of employment within the meaning of the Plan and, (b) the impact, if any, of any such leave of absence on awards under the Plan theretofore made to any recipient who takes such leave of absence. Notwithstanding the foregoing, with respect to Awards that are "deferred compensation" under Section 409A of the Code, any leave of absence taken by the recipient shall

constitute a termination of employment within the meaning of the Plan when the recipient has a "separation from service" as defined in the regulations promulgated under Section 409A of the Code.

Section 12.13 Communications

12.13.1 *Communications by the Grantor.* All notices, statements, reports and other communications made, delivered or transmitted to a Holder or other person under the Plan shall be deemed to have been duly given, made or transmitted, when sent electronically to a Company or Subsidiary e-mail address, when delivered to, or when mailed by first-class mail, postage prepaid and addressed to, such Holder or other person at his address last appearing on the records of the Company.

12.13.2 *Communications by the Directors, Employees, and Others.* All elections, designations, requests, notices, instructions and other communications made, delivered or transmitted by the Company, a Subsidiary, Grantee, Beneficiary or other person to the Committee required or permitted under the Plan shall be transmitted by any means authorized by the Committee or shall be mailed by first-class mail or delivered to the Company's principal office to the attention of the Company's Secretary or such other location as may be specified by the Committee, and shall be deemed to have been given and delivered only upon actual receipt thereof by the Committee at such location.

Section 12.14 Parties in Interest

The provisions of the Plan and the terms and conditions of any Award shall, in accordance with their terms, be binding upon, and inure to the benefit of, all successors of each Grantee, including, without limitation, such Grantee's estate and the executors, administrators, or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such Grantee. The obligations of the Company under the Plan shall be binding upon the Company and its successors and assigns.

Section 12.15 Severability

Whenever possible, each provision in the Plan and every Award at any time granted under the Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Plan or any Award at any time granted under the Plan shall be held to be prohibited by or invalid under applicable law, then (a) such provision shall be deemed amended to accomplish the objectives of the provision as

originally written to the fullest extent permitted by law, and (b) all other provisions of the Plan and every other Award at any time granted under the Plan shall remain in full force and effect.

Section 12.16 Compliance with Laws

The Plan and the grant of Awards shall be subject to all applicable Federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. It is intended that the Plan be applied and administered in compliance with Rule 16b-3. If any provision of the Plan would be in violation of Rule 16b-3 if applied as written, such provision shall not have effect as written and shall be given effect so as to comply with

Rule 16b-3, as determined by the Committee. The Board is authorized to amend the Plan and to make any such modifications to Award Agreements to comply with Rule 16b-3, and to make any such other amendments or modifications as it deems necessary or appropriate to better accomplish the purposes of the Plan in light of any amendments made to Rule 16b-3.

Section 12.17 No Strict Construction

No rule of strict construction shall be implied against the Company, the Committee, the Chairman or any other person in the interpretation of any of the terms of the Plan, any Award granted under the Plan or any rule or procedure established by the Committee or the Board.

Section 12.18 Modification

This document contains all of the provisions of the Plan and no provisions may be waived, modified or otherwise altered except in a writing adopted by the Board.

Section 12.19 Governing Law

All questions pertaining to validity, construction and administration of the Plan and the rights of all persons hereunder shall be determined with reference to, and the provisions of the Plan shall be governed by and shall be construed in conformity with, the internal laws of the Commonwealth of Pennsylvania without regard to any of its conflict of laws principles.

ARTICLE XIII CHANGE OF CONTROL

Section 13.1 Options and SARS

In the event of a Change of Control, all Options and SARs outstanding on the date of such Change of Control shall become immediately and fully exercisable, provided that in the case of any outstanding Options or SARs subject to a performance-based vesting schedule, performance shall be deemed to have been achieved at the target level or, if greater, the actual level of achievement as of the date of the Change of Control, annualized for the entire performance period, if appropriate, and, in the case of SARs, if payable in cash, shall be paid within thirty (30) days after a Change of Control to all Grantees who have been granted such Award. In all other respects not inconsistent with such acceleration, the Options and SARs shall continue to be governed by the terms of their Award Agreements and the Plan.

Section 13.2 Restricted Stock Awards and Phantom Stock Unit Awards

In the event of a Change of Control, all restrictions with respect to Restricted Stock Awards and Phantom Stock Unit Awards shall immediately lapse, provided that in the case of any outstanding Restricted Stock Awards or Phantom Stock Unit Awards with restrictions subject to the achievement of certain performance-based goals, performance shall be deemed to have been achieved at the target level or, if greater, the actual level of achievement as of the date of the Change of Control, annualized for the entire performance period, if appropriate, and, if payable in cash, shall be paid within thirty (30) days after a Change of Control to all Grantees who have been granted such Award.

ARTICLE XIV AMENDMENT AND TERMINATION

Section 14.1 Amendment; No Repricing

The Board with respect to the Plan, and the Grantor with respect to any Award Agreement, reserve the right at any time or times to modify, alter or amend, in whole or in part, any or all of the provisions of the Plan or any Award Agreement to any extent and in any manner that it or he, as the case may be, may deem advisable, and no consent or approval by the shareholders of the Company, by any Grantee or Beneficiary, or by any other person, committee or entity of any kind shall be required to make any modification, alteration or amendment; *provided, however,* that the Board shall not, without the requisite affirmative approval of the shareholders of the Company, make any modification, alteration or amendment that requires shareholders' approval under any applicable law, the Code or stock exchange requirements. No modification, alteration or amendment of the Plan or any Award Agreement may, without the consent of the Grantee (or the Grantee's Beneficiaries in case of the Grantee's death) to whom any Award shall theretofore have been granted under the Plan, adversely affect any right of such Grantee under such Award, except in accordance with the provisions of the Plan and/or any Award Agreement applicable to any such Award. Subject to the provisions of this Section 14.1, any modification, alteration or amendment of any provisions of the Plan may be made retroactively. Except as otherwise provided in Section 11.2 hereof, neither the Committee nor the Board shall reduce the SAR Base Amount or Option Price, as applicable, of Stock Options or SARS previously awarded to any Grantee, whether through amendment, cancellation or replacement grant, or any other means, without the requisite prior affirmative approval of the shareholders of the Company.

Section 14.2 Suspension or Termination

The Board reserves the right at any time to suspend or terminate, in whole or in part, any or all of the provisions of the Plan for any reason and without the consent of or approval by the shareholders of the Company, any Holder or any other person, committee or entity of any kind; *provided, however,* that no such suspension or termination shall adversely affect any right or obligation with respect to any Award theretofore made except as herein otherwise provided.

ARTICLE XV SECTION 409A

It is the intention of the Company that no Award shall constitute a "nonqualified deferred compensation plan" subject to Section 409A of the Code, unless and to the extent that the Grantor specifically determines otherwise as provided in the immediately following sentence, and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. The terms and conditions governing any Awards that the Grantor determines will be subject to Section 409A of the Code, including any rules for elective or mandatory deferral

of the delivery of cash or shares pursuant thereto and any rules regarding treatment of such Awards in the event of a Change of Control, shall be set forth in the applicable Award Agreement, and shall comply in all respects with Section 409A of the Code.

ARTICLE XVI EFFECTIVE DATE AND TERM OF THE PLAN

The Plan shall become effective on the Effective Date if it is approved by the shareholders of the Company. No Award shall be granted under the Plan after the date specified in Section 4.1.4. The Plan will continue in effect for existing Awards as long as any such Awards are outstanding.

Exhibit 10.33

PENN NATIONAL GAMING, INC.

NON-QUALIFIED STOCK OPTION CERTIFICATE

This certifies that an option to purchase shares of Common Stock of Penn National Gaming, Inc. has been granted pursuant to the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as follows:

Name and Address of Optionee:	
Date of Grant:	, 20
Type of Option:	Non-Qualified Stock Option
Number of shares subject to Option:	
Option Price:	$
Vesting Date(s):	shares on , 20
	shares on , 20
	shares on , 20
	shares on , 20
Expiration Date:	, 20

The option is subject to all the terms and conditions of the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, a copy of which is available upon request.

Date: PENN NATIONAL GAMING, INC.

By: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

PENN NATIONAL GAMING, INC.
STOCK OPTION TERMS

All Stock Options are subject to the provisions of the 2008 Long Term Incentive Compensation Plan (the "Plan") and any rules and regulations established by the Compensation Committee of the Board of Directors of Penn National Gaming, Inc. ("PNG"). A copy of the Plan is available upon request. Words used herein with initial capitalized letters are defined in the attached Non-Qualified Stock Option Certificate or the Plan.

The terms provided here are applicable to the Stock Option specified in the attached certificate. Different terms may apply to any prior or future stock option grants.

I. OPTION PERIOD

You may exercise your Stock Options during the Option Period, which begins on the Vesting Dates and ends on the Expiration Date. The Stock Options vest in 25% installments on each Vesting Date. The Vesting Dates are the first, second, third and fourth anniversaries of the Date of Grant. Thus, you may exercise up to 25% of your Stock Options on the first Vesting Date, up to another 25% of your Stock Options on the second Vesting Date, and so on. The Expiration Date is seven (7) years from the Date of Grant. However, the Option Period may end sooner if your employment is terminated under certain circumstances.

II. TERMINATION OF EMPLOYMENT

If you cease to be an Employee or Director of the Company and all Subsidiaries, as the case may be, for any reason (other than as specified in clauses (i), (ii) or (iii) below), then your Stock Options that are exercisable as of the termination or cessation date shall be cancelled and forfeited at the end of the 120th day after such date and all Stock Options that are not exercisable as of the termination or cessation date shall be forfeited and cancelled as of such date; except that, in cases of where such termination of employment or cessation of service is a result of (i) death or Disability, in which case the Stock Options that are not then exercisable shall thereupon become exercisable and all Stock Options shall remain exercisable for the balance of their respective terms, (ii) resignation (other than for Retirement), in which case the Stock Options that are exercisable as of such termination or cessation date shall be cancelled and forfeited at the end of the 30th day after such date, and (iii) termination for Cause by the Company, a Subsidiary, or the Board, in which case all of the Stock Options, whether or not then exercisable, shall be cancelled and forfeited as of such termination date.

III. TRANSFERABILITY

In general, Stock Options may be exercised during your lifetime only by you and may not be assigned or otherwise transferred to anyone else; provided, however, that Options are transferable to family members, subject to certain restrictions and with certain tax implications. Options are transferable upon your death by will or the laws of distribution and descent.

IV. PAYMENT

When you exercise your Stock Options, you may pay the Option Price in cash, by check, with previously issued shares of PNG Common Stock (under certain circumstances), in accordance with a "cashless exercise program" or with a combination of the foregoing.

Penn National Gaming, Inc. Understanding How Non-Qualified Stock Options Work

Congratulations on receiving a Penn National Gaming, Inc. ("PNG") Non-Qualified Stock Option. These Stock Options are designed so that you may share in the Company's success.

How Do Stock Options Work?

A stock option is the right, subject to certain conditions, to purchase shares of PNG Common Stock at a fixed price. The per share price at which Shares of Common Stock may be purchased when the Stock Option is exercised is referred to as the Option Price. The Option Price is fixed on the Date of Grant and does not change for the life of the Stock Option. However, the market price of PNG stock changes and will ultimately determine the gain, if any, from your Stock Option. If the value of PNG stock increases, you will be able to buy PNG stock below the market price at the time of exercise. For example, if you have been granted Stock Options to purchase 100 shares, at an Option Price of $25 and the price of PNG stock has grown to $40 on the date you choose to exercise, you would be able to purchase shares that are worth $4,000 for only $2,500, a pre-tax gain of $15 per share. You will be subject to Federal income tax with respect to the Stock Option when you exercise your Stock Option. **THE TAX RULES APPLICABLE TO NON-QUALIFIED STOCK OPTIONS ARE COMPLEX. YOU SHOULD CONSULT WITH YOUR FINANCIAL ADVISOR FOR MORE INFORMATION.**

Stock Option Basics

The ***Option Price*** is set at the closing sales price of a share of Common Stock of PNG stock on the immediately preceding business day of the date the Stock Option is awarded.

The ***vesting period*** is the waiting period from the ***Date of Grant*** to the ***Vesting Date*** during which you cannot exercise your Stock Option.

The ***Option Period*** is the time from the ***Vesting Date*** until the ***Expiration Date***, during which you can exercise your Stock Options, which means you can purchase shares of PNG stock at the Option Price.

Your Stock Option can no longer be exercised after the Expiration Date, which is seven (7) years after the Date of Grant. The Stock Option will expire sooner if you leave PNG under certain circumstances. For example, if you were granted a Stock Option to purchase 100 shares of PNG Common Stock, and you remain employed by PNG for ten years, the Stock Option is exercisable as follows:

Number of Shares	Vesting Period	Option Period
25 shares	Date of Grant - First Anniversary of Date of Grant	First Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Second Anniversary of Date of Grant	Second Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Third Anniversary of Date of Grant	Third Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Fourth Anniversary of Date of Grant	Fourth Anniversary of Date of Grant - Seventh Anniversary of Date of Grant

Exhibit 10.34

PENN NATIONAL GAMING, INC.

NOTICE OF GRANT OF RESTRICTED STOCK

This is to notify you that an award of restricted shares of Common Stock of Penn National Gaming, Inc. (the "Company") has been granted pursuant to the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as follows:

Name and Address
of Grantee:

Date of Grant: , 20

Type of Grant: Restricted Stock Award

Number of shares:

Fair market value per share: $ *(as of the close of business on)*

Total fair market value of award: $ *(as of the close of business on)*

Vesting Date(s)/Lapse of Restrictions: shares on [1st anniversary of Date of Grant]
shares on [2nd anniversary of Date of Grant]
shares on [3rd anniversary of Date of Grant]
shares on [4th anniversary of Date of Grant]

OR

shares on [4th anniversary of Date of Grant]
shares on [5th anniversary of Date of Grant]

The grant is subject to all the terms and conditions of the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, a copy of which is available upon request.

GRANTEE

Date:

PENN NATIONAL GAMING, INC.

Date:

By: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

PENN NATIONAL GAMING, INC.
RESTRICTED STOCK AWARD AGREEMENT

All Restricted Stock is subject to the provisions of the 2008 Long Term Incentive Compensation Plan (the "Plan") and any rules and regulations established by the Compensation Committee of the Board of

Directors of Penn National Gaming, Inc. A copy of the Plan is available upon request. Unless specifically defined herein, words used herein with initial capitalized letters are defined in the attached Notice or the Plan.

The terms provided herein are applicable to the Restricted Stock specified in the attached Notice. Different terms may apply to any prior or future awards under the Plan.

I. PAYMENT FOR SHARES

No payment is required for the Restricted Stock you receive.

II. VESTING/LAPSE OF RESTRICTIONS

Vesting of Restricted Stock means that the Restricted Stock may no longer be forfeited in the event you have a termination of employment (see the discussion of Forfeiture below). The lapse of restrictions means that the stock is fully transferable by you. Any stock for which the lapse of restrictions has not occurred may not be sold, transferred, pledged or otherwise disposed of by you.

The Restricted Stock vests and the restrictions on transfer lapse in [25% installments on each of the first, second, third and fourth anniversaries of the Date of Grant] OR[50% installments on each of the fourth and fifth anniversaries of the Date of Grant], if you continuously provide service as an Employee or Director, as the case may be, through such date. In addition, the Restricted Stock vests and the restrictions on transfer lapse as of the occurrence of any of the following events:

A. Your service as an Employee or Director of the Company, as the case may be, terminates because of death, Disability or Retirement; or

B. The Company is subject to a Change of Control (as defined in the Plan).

No additional shares of Restricted Stock vest after your service as an Employee or a Director of the Company, as the case may be, has terminated for any other reason.

III. FORFEITURE

If your service as an Employee or Director of the Company, as the case may be, terminates for any reason (other than death, Disability, or Retirement), then your shares of Restricted Stock will be forfeited to the extent that they have not vested before the termination date and do not vest as a result of the termination. This means that the Restricted Stock will immediately revert to the Company. You will receive no payment for shares of Restricted Stock that are forfeited.

IV. LEAVES OF ABSENCE

For purposes of this grant, your service does not terminate when you go on a leave of absence recognized under the Plan. Your service will terminate when the leave of absence ends, however, unless you immediately return to active work.

V. STOCK CERTIFICATES

The certificate(s) representing your Restricted Stock award will be held for you by the Company. After those shares have vested, a stock certificate for those shares will be released to you.

VI. VOTING AND DIVIDEND RIGHTS

You may vote your Restricted Stock and you will receive any dividends paid with respect to your Restricted Stock even before they vest. Dividends with respect to your Restricted Stock will be paid in a lump sum on the dates that dividends are payable on Common Stock of the Company to Company shareholders generally.

VII. WITHHOLDING TAXES

No stock certificates will be released or issued to you unless you have made acceptable arrangements to pay any withholding taxes that may be due as a result of this grant or the vesting of the shares. Those arrangements may include withholding shares of Company Common Stock that otherwise would be released to you when they vest. These arrangements may also include surrendering shares of Company Common Stock that you already own. The fair market value of the shares you surrender, determined as of the date when taxes otherwise would have been withheld in cash, will be applied as a credit against the withholding taxes.

VIII. RESTRICTIONS ON RESALE

By signing this Agreement, you agree not to sell any shares at a time when applicable laws or Company policies prohibit a sale. This restriction will apply as long as you are an Employee or Director of the Company, as the case may be.

IX. NO RIGHT TO CONTINUED SERVICE

A grant of Restricted Stock does not give you the right to continue in service with the Company in any capacity. The Company reserves the right to terminate your services at any time, with or without cause, subject to any employment agreement or other contract.

X. ADJUSTMENTS

In the event of a stock split, a stock dividend or a similar change in Company Common Stock, the number of Restricted Shares that remain subject to forfeiture will be adjusted accordingly.

XI. APPLICABLE LAW

This Agreement will be interpreted and enforced under the laws of the Commonwealth of Pennsylvania, without regard to its choice of law provisions.

XII. THE PLAN AND OTHER AGREEMENTS

The text of the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan is incorporated in this Agreement by reference.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant. Any prior agreements, commitments or negotiations concerning this grant are superseded. This Agreement may be amended only by another written agreement, signed by both parties.

BY SIGNING THE ATTACHED NOTICE,
YOU AGREE TO ALL OF THE TERMS AND CONDITIONS
DESCRIBED ABOVE AND IN THE PLAN.

Exhibit 10.35

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and John Finamore, an individual residing in Maryland ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated July 1, 2007 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Senior Vice President, Regional Operations of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the President and Chief Operating Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on July 1, 2010 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7.

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Five Hundred Thousand Dollars ($500,000), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets

the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

2.7. Life Insurance. Company shall maintain life insurance on the Executive in the amount of $1,000,000, subject to insurability, and Executive may name the beneficiary of such policy. Some or all of such coverage may be maintained pursuant to the Company's group-term life insurance policy.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(a) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(b) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer

Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 18 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided,

however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(b) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of

this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within

the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such

amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates

Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax

counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements

made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive

shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842

Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all

other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ John Finamore
John Finamore

CONFIDENTIAL

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and

intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with,

the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other

or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the

Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this

Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or

contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER EMPLOYEE

By:

Date: Date:

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Exhibit 21.1

Subsidiaries of Penn National Gaming, Inc.

Name of Subsidiary	State or Other Jurisdiction of Incorporation
Penn National Gaming, Inc.	Pennsylvania
Bangor Historic Track, Inc.	Maine
BSL, Inc.	Mississippi
BTN, Inc.	Mississippi
CHC Casinos Canada Limited	Nova Scotia
CHC Casinos Corp.	Florida
CHC (Ontario) Supplies Limited	Nova Scotia
CRC Holdings, Inc.	Florida
Casino Rama Services, Inc.	Ontario
Delvest Corp.	Delaware
Hollywood Casino Corporation	Delaware
HWCC—Tunica, Inc.	Texas
Hollywood Casino—Aurora, Inc.	Illinois
Kansa Penn Gaming LLC	Delaware
Louisiana Casino Cruises, Inc.	Louisiana
Mountainview Thoroughbred Racing Association	Pennsylvania
PNGI Charles Town Gaming Limited Liability Company	West Virginia
Penn Bullpen, Inc.	Colorado
Penn Bullwhackers, Inc.	Colorado
Penn National GSFR, LLC	Delaware
Penn National Holding Company	Delaware
Pennsylvania National Turf Club, Inc.	Pennsylvania
Pennwood Racing, Inc.	Delaware
Penn Bullwhackers Retail, LLC	Colorado
Penn Sanford, LLC	Delaware
SOKC, LLC	Delaware
Zia Park LLC	Delaware
Argosy Gaming Company	Delaware
Alton Gaming Company	Illinois
The Indiana Gaming Company	Indiana
Indiana Gaming Holding Company	Indiana
Iowa Gaming Company	Iowa
Argosy of Iowa, Inc.	Iowa
The Missouri Gaming Company	Missouri
Empress Casino Joliet Corporation	Illinois
Indiana Gaming II, L.P.	Indiana
Indiana Gaming Company, L.P.	Indiana
Belle of Sioux City, L.P.	Iowa
Ohio Racing Company	Ohio
Raceway Park, Inc.	Ohio
Crazy Horses, Inc.	Ohio

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-156487) of Penn National Gaming, Inc.,

(2) Registration Statement (Form S-8 No. 333-125928) pertaining to the Nonqualified Stock Option Agreement with Peter M. Carlino,

(3) Registration Statement (Form S-8 No. 333-108173) pertaining to the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan, and

(4) Registration Statement (Form S-8 No. 333-61684) pertaining to the Amended and Restated Penn National Gaming, Inc. 1994 Stock Option Plan;

of our reports dated February 27, 2009, with respect to the consolidated financial statements of Penn National Gaming, Inc. and the effectiveness of internal control over financial reporting of Penn National Gaming, Inc., included in the Annual Report (Form 10-K) for the year ended December 31, 2008

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 27, 2009

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Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Peter M. Carlino, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: Date: March 2, 2009 /s/ PETER M. CARLINO

Name: Peter M. Carlino
Title: *Chief Executive Officer*

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Exhibit 31.1
CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 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) OR 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, William J. Clifford, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: Date: March 2, 2009 /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: *Chief Financial Officer*

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2008 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Peter M. Carlino, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ PETER M. CARLINO

Peter M. Carlino
Chief Executive Officer
March 2, 2009

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EXHIBIT 32.1
CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 18 U.S.C. SECTION 1350

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EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2008 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Clifford, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ WILLIAM J. CLIFFORD

William J. Clifford
Chief Financial Officer
March 2, 2009

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EXHIBIT 32.2
CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

Exhibit 99.1

Description of Governmental Regulations

General

The ownership, operation, and management of our gaming and racing facilities are subject to pervasive regulation under the laws and regulations of each of the jurisdictions in which we operate. Gaming laws are generally based upon declarations of public policy designed to protect gaming consumers and the viability and integrity of the gaming industry. Gaming laws also may be designed to protect and maximize state and local revenues derived through taxes and licensing fees imposed on gaming industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, gaming laws establish procedures to ensure that participants in the gaming industry meet certain standards of character and fitness. In addition, gaming laws require gaming industry participants to:

- Ensure that unsuitable individuals and organizations have no role in gaming operations;
- Establish procedures designed to prevent cheating and fraudulent practices;
- Establish and maintain responsible accounting practices and procedures;
- Maintain effective controls over their financial practices, including establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- Maintain systems for reliable record keeping;
- File periodic reports with gaming regulators;
- Ensure that contracts and financial transactions are commercially reasonable, reflect fair market value and are arms-length transactions; and
- Establish programs to promote responsible gaming.

Typically, a state regulatory environment is established by statute and is administered by a regulatory agency with broad discretion to regulate the affairs of owners, managers, and persons with financial interests in gaming operations. Among other things, gaming authorities in the various jurisdictions in which we operate:

- Adopt rules and regulations under the implementing statutes;
- Interpret and enforce gaming laws;
- Impose disciplinary sanctions for violations, including fines and penalties;
- Review the character and fitness of participants in gaming operations and make determinations regarding their suitability or qualification for licensure;
- Grant licenses for participation in gaming operations;
- Collect and review reports and information submitted by participants in gaming operations;
- Review and approve transactions, such as acquisitions or change-of-control transactions of gaming industry participants, securities offerings and debt transactions engaged in by such participants; and

- Establish and collect fees and taxes.

Any change in the laws or regulations of a gaming jurisdiction could have a material adverse effect on our gaming operations.

Licensing and Suitability Determinations

Gaming laws require us, each of our subsidiaries engaged in gaming operations, certain of our directors, officers and employees, and in some cases, certain of our shareholders and holders of our debt securities, to obtain licenses from gaming authorities. Licenses typically require a determination that the applicant qualifies or is suitable to hold the license. Gaming authorities have very broad discretion in determining whether an applicant qualifies for licensing or should be deemed suitable. Criteria used in determining whether to grant a license to conduct gaming operations, while varying between jurisdictions, generally include consideration of factors such as:

- The good character, honesty and integrity of the applicant;
- The financial stability, integrity and responsibility of the applicant, including whether the operation is adequately capitalized in the state and exhibits the ability to maintain adequate insurance levels;
- The quality of the applicant's casino facilities;
- The amount of revenue to be derived by the applicable state from the operation of the applicant's casino;
- The applicant's practices with respect to minority hiring and training; and
- The effect on competition and general impact on the community.

In evaluating individual applicants, gaming authorities consider the individual's business experience and reputation for good character, the individual's criminal history and the character of those with whom the individual associates.

Many gaming jurisdictions limit the number of licenses granted to operate casinos within the state, and some states limit the number of licenses granted to any one gaming operator. Licenses under gaming laws are generally not transferable without approval. Licenses in most of the jurisdictions in which we conduct gaming operations are granted for limited durations and

require renewal from time to time. Our management agreement through which we operate Casino Rama extends until 2011, with the Province of Ontario possessing the option to extend the agreement for two successive periods of five years each. There can be no assurance that any of our licenses will be renewed or that our management agreement in Ontario will be extended beyond 2011. The failure to renew any of our licenses or to obtain an extension to our management agreement in Ontario could have a material adverse effect on our gaming operations. In addition, Iowa law requires that a qualified nonprofit organization hold the gaming license. At Argosy Casino Sioux City, we are the operator of the property. We own the assets (other than the land) and we manage the facility for Missouri River Historical Development, Inc. (the licensed nonprofit organization).

In addition to us and our direct and indirect subsidiaries engaged in gaming operations, gaming authorities may investigate any individual who has a material relationship to or material involvement with, any of these entities to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Our officers, directors and certain key employees must file applications with the gaming authorities and may be required to be licensed, qualify or be found suitable in many jurisdictions. Gaming authorities may deny an application for licensing for any cause which they deem reasonable. Qualification and suitability determinations require submission of detailed personal and financial information followed by a thorough investigation. The applicant must pay all the costs of the investigation. Changes in licensed positions must be reported to gaming authorities and in addition to their authority to deny an application for licensure, qualification or a finding of suitability, gaming authorities have jurisdiction to disapprove a change in a corporate position.

If one or more gaming authorities were to find that an officer, director or key employee fails to qualify or is unsuitable for licensing or unsuitable to continue having a relationship with us, we would be required to sever all relationships with such person. In addition, gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications.

Moreover, in many jurisdictions, certain of our stockholders or holders of our debt securities may be required to undergo a suitability investigation similar to that described above. Many jurisdictions require any person who acquires beneficial ownership of more than a certain percentage of our voting securities, typically 5%, to report the acquisition to gaming authorities, and gaming authorities may require such holders to apply for qualification or a finding of suitability. Most gaming authorities, however, allow an "institutional investor" to apply for a waiver. An "institutional investor" is generally defined as an investor acquiring and holding voting securities in the ordinary course of business as an institutional investor, and not for the purpose of causing, directly or indirectly, the election of a member of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or those of any of our gaming affiliates, or the taking of any other action which gaming authorities find to be inconsistent with holding our voting securities for investment purposes only. Even if a waiver is granted, an institutional investor generally may not take any action inconsistent with its status when the waiver was granted without once again becoming subject to the foregoing reporting and application obligations.

Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period after being advised it is required by gaming authorities may be denied a license or found unsuitable, as applicable. Any stockholder found unsuitable or denied a license and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Furthermore, we may be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any of our subsidiaries, we: (i) pay that person any dividend or interest upon our voting securities; (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; (iii) pay remuneration in any form to that person for services rendered or otherwise; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

The gaming jurisdictions in which we operate also require that suppliers of certain goods and services to gaming industry participants be licensed and require us to purchase and lease gaming equipment, and certain supplies and services only from licensed suppliers.

Violations of Gaming Laws

If we or our subsidiaries violate applicable gaming laws, our gaming licenses could be limited, conditioned, suspended or revoked by gaming authorities, and we and any other persons involved could be subject to substantial fines. Further, a supervisor or conservator can be appointed by gaming authorities to operate our gaming properties, or in some jurisdictions, take title to our gaming assets in the jurisdiction, and under certain circumstances, earnings generated during such appointment could be forfeited to the applicable state or states. Furthermore, violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. As a result, violations by us of applicable gaming laws could have a material adverse effect on our gaming operations.

Some gaming jurisdictions prohibit certain types of political activity by a gaming licensee, its officers, directors and key people. A violation of such a prohibition may subject the offender to criminal and/or disciplinary action.

Reporting and Record-keeping Requirements

We are required periodically to submit detailed financial and operating reports and furnish any other information about us and our subsidiaries which gaming authorities may require. Under federal law, we are required to record and submit detailed reports of currency transactions involving greater than $10,000 at our casinos as well as any suspicious activity that may occur at such facilities. We are required to maintain a current stock ledger which may be examined by gaming authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to gaming authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Gaming authorities may require certificates for our securities to bear a legend indicating that the securities are subject to specified gaming laws.

Review and Approval of Transactions

Substantially all material loans, leases, sales of securities and similar financing transactions by us and our subsidiaries must be reported to and in some cases approved by gaming authorities. Neither we nor any of our subsidiaries may make a public offering of securities without the prior approval of certain gaming authorities. Changes in control through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or otherwise are subject to receipt of prior approval of gaming authorities. Entities seeking to acquire control of us or one of our subsidiaries must satisfy gaming authorities with respect to a variety of stringent standards prior to assuming control. Gaming authorities may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

Because of regulatory restrictions, our ability to grant a security interest in any of our gaming assets is limited and subject to receipt of prior approval by gaming authorities.

License Fees and Gaming Taxes

We pay substantial license fees and taxes in many jurisdictions, including some of the counties and cities in which our operations are conducted, in connection with our casino gaming operations, computed in various ways depending on the type of gaming or activity involved. Depending upon the particular fee or tax involved, these fees and taxes are payable with varying frequency. License fees and taxes are based upon such

factors as:

- a percentage of the gross gaming revenues received;
- the number of gaming devices and table games operated;
- admission fees for customers boarding our riverboat casinos; and
- one time fees payable upon the initial receipt of license and fees in connection with the renewal of license.

In many jurisdictions, gaming tax rates are graduated such that they increase as gross gaming revenues increase. Furthermore, tax rates are subject to change, sometimes with little notice, and such changes could have a material adverse effect on our gaming operations.

In addition to taxes specifically unique to gaming, we are required to pay all other applicable taxes.

Operational Requirements

In most jurisdictions, we are subject to certain requirements and restrictions on how we must conduct our gaming operations. In many states, we are required to give preference to local suppliers and include minority and women-owned businesses as well as organized labor in construction projects to the maximum extent practicable as well as in general vendor business

activity. Similarly, we may be required to give employment preference to minorities, women and in-state residents in certain jurisdictions.

Some gaming jurisdictions also prohibit a distribution, except to allow for the payment of taxes, if the distribution would impair the financial viability of the gaming operation. Moreover, many jurisdictions require a gaming operation to maintain insurance and post bonds in amounts determined by their gaming authority.

In addition, our ability to conduct certain types of games, introduce new games or move existing games within our facilities may be restricted or subject to regulatory review and approval. Some of our operations are subject to restrictions on the number of gaming positions we may have and the maximum wagers allowed to be placed by our customers.

In Maine, we are a party to a development agreement with the City of Bangor which requires that either we or an alternative developer construct a hotel when gaming revenues at the Bangor facility exceed $60 million in a calendar year. We constructed a hotel which opened in 2008.

In Mississippi, we are required to include a 500 car parking facility in close proximity to each casino complex and infrastructure facilities that will amount to at least twenty five percent of the casino cost. This requirement has recently been increased for any new casinos in Mississippi.

In Pennsylvania, the holder of a Category 1 license is required to create a fund to be used for the improvement and maintenance of the backside area of the racetrack. A Category 1 licensee must deposit into the fund $5,000,000 over the initial five year period of the license and an amount not less than $250,000 or more than $1,000,000 annually for the five years thereafter. We have reached an agreement with the Pennsylvania Horsemen's Benevolent and Protective Association on the allocation of these funds.

Riverboat Casinos

In addition to all other regulations generally applicable to the gaming industry generally, our riverboat casinos are also subject to regulations applicable to vessels operating on navigable waterways, including regulations of the U.S. Coast Guard. These requirements set limits on the operation of the vessel, mandate that it must be operated by a minimum complement of licensed personnel, establish periodic inspections, including the physical inspection of the outside hull, and establish other mechanical and operations rules. In addition, the riverboat casinos may be subject to future U.S. Coast Guard regulations, or alternative security procedures, designed to increase homeland security which could affect some of our properties and require significant expenditures to bring such properties into compliance.

Racetracks

We conduct horse racing operations at our thoroughbred racetracks in Charles Town, West Virginia, Grantville, Pennsylvania, Hobbs, New Mexico and at our harness racetracks in Bangor, Maine and Toledo, Ohio. We also have a 50% ownership interest in a harness racetrack in Freehold, New Jersey through a joint venture agreement. We conduct greyhound racing in

Seminole County, Florida, at our Sanford Orlando facility. In Pennsylvania, we operate four off track wagering facilities and conduct account wagering operations. We currently operate video lottery terminals at the Charles Town, West Virginia racetrack. Slot machine operations commenced at the Grantville, Pennsylvania racetrack in the first quarter of 2008. We also conduct slot operations in Bangor, Maine at a facility located near the racetrack. Generally, our slot operations at racetracks are regulated in the same manner as our gaming operations in other jurisdictions. In some jurisdictions, our ability to conduct gaming operations may be conditioned on the maintenance of agreements or certain arrangements with horsemen's or labor groups.

Regulations governing our horse racing operations are administered separately from the regulations governing gaming operations, with separate licenses and license fee structures. The racing authorities responsible for regulating our racing operations have broad oversight authority, which may include: annually reviewing and granting racing licenses and racing dates; approving the opening and operation of off track wagering facilities; approving simulcasting activities; licensing all officers, directors, racing officials and certain other employees of a racing licensee; and approving all contracts entered into by a racing licensee affecting racing, pari-mutuel wagering, account wagering and off track wagering operations.

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FORM -K

PENN NATIONAL GAMING INC (PENN)

825 BERKSHIRE BLVD STE 200 ,
WYOMISSING ,PA 19610
610-373-2400
www.pngaming.com

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 02/29/2008
Filed Period 12/31/2007

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 0-24206

Penn National Gaming, Inc. (Exact name of registrant as specified in its charter)

Pennsylvania	**23-2234473**
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
Wyomissing Professional Center 825 Berkshire Blvd., Suite 200 Wyomissing, Pennsylvania	**19610**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (610) 373-2400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
None	None

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2007 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $4.4 billion. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the NASDAQ Global Select Market on June 30, 2007. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and beneficial owners of more than ten percent of the Common Stock of the Company.

The number of shares of the registrant's Common Stock outstanding as of February 14, 2008 was 86,886,020.

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IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

This document includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are included throughout the document, including the section entitled "Risk Factors," and relate to our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "expects," "intends," "may," "will," "should" or "anticipates" or the negative or other variation of these or similar words, or by discussions of future events, strategies or risks and uncertainties. Specifically, forward-looking statements may include, among others, statements concerning:

- our expectations of future results of operations or financial condition;
- our expectations for our properties;
- the timing, cost and expected impact of planned capital expenditures on our results of operations;
- the impact of our geographic diversification;
- our expectations with regard to further acquisitions and the integration of any companies we have acquired or may acquire;
- the outcome and financial impact of the litigation in which we are or will be periodically involved;
- the actions of regulatory, legislative, executive or judicial decisions at the federal, state or local level with regard to our business and the impact of any such actions;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approval for new businesses;
- our expectations with respect to the June 15, 2007 Agreement and Plan of Merger with certain funds managed by affiliates of Fortress Investment Group LLC and Centerbridge Partners, L.P.; and
- our expectations for the continued availability and cost of capital.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, they are inherently subject to risks, uncertainties and assumptions about our subsidiaries and us, and accordingly, our forward-looking statements are qualified in their entirety by reference to the factors described below 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 or adjacent to the jurisdictions in which we do business;
- increases in our effective rate of taxation at any of our properties or at the corporate level;
- the activities of our competitors;
- successful completion of the various capital projects at our gaming and pari-mutuel facilities;
- the existence of attractive acquisition candidates, the costs and risks involved in the pursuit of those acquisitions and our ability to integrate those acquisitions;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for new businesses;

- our dependence on key personnel;
- the availability and cost of financing;
- the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups;
- the impact of terrorism and other international hostilities; and
- other factors as discussed in our filings with the United States Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document may not occur.

PART I

ITEM 1. BUSINESS

Overview

We are a leading, diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties. The Company was incorporated in Pennsylvania in 1982 as PNRC Corp. and adopted its current name in 1994, when the Company became a public company. In 1997, we began our transition from a

pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, we have continued to expand our gaming operations through strategic acquisitions, including the acquisitions of Hollywood Casino Corporation in March 2003, Argosy Gaming Company ("Argosy") in October 2005, Black Gold Casino at Zia Park in April 2007, and Sanford-Orlando Kennel Club in October 2007. We now own or operate nineteen facilities in fifteen jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario.

On June 15, 2007, we announced that we had entered into a merger agreement that would ultimately result in our shareholders receiving $67.00 per share. Specifically, we, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), announced that we entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (the "Merger Agreement"), that provides, among other things, for Merger Sub to be merged with and into us (the "Merger"), as a result of which we will continue as the surviving corporation and will become a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds (the "Funds") managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge"). On December 12, 2007, our shareholders approved the Merger Agreement. Based upon the tally of shares voted, with 81.6% of our outstanding shares voting, 99.3% of the shares were voted in favor of the transaction. We are seeking to complete the transaction late in the second quarter of 2008. The timing of any closing is subject to obtaining certain regulatory approvals and satisfying other customary closing conditions. See "Risk Factors—Risks Related to the Consummation of the Merger Agreement" on page 17 of this Annual Report on Form 10-K for a discussion of the risk in connection with the consummation of the Merger.

We believe that our portfolio of assets provides us with a diversified cash flow from operations. We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions of gaming properties in attractive markets. In this Annual Report on Form 10-K, the terms "we", "us", "our", "the Company" and "Penn National" refer to Penn National Gaming, Inc. and subsidiaries, unless the context indicates otherwise.

The following table summarizes certain features of our properties and our operated facility as of December 31, 2007:

	Location	Type of Facility	Approx. Gaming Square Footage	Gaming Machines	Table Games(1)	Hotel Rooms
Owned Properties:						
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/ Thoroughbred racing	184,348	5,031	—	—
Argosy Casino Lawrenceburg	Lawrenceburg, IN	Dockside gaming	74,300	2,417	74	300
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	53,000	1,183	20	—
Empress Casino Hotel(2)	Joliet, IL	Dockside gaming	50,000	1,211	21	100
Argosy Casino Riverside	Riverside, MO	Dockside gaming	56,400	1,950	39	258

Hollywood Casino Baton Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,145	27	—
Argosy Casino Alton	Alton, IL	Dockside gaming	23,000	1,103	20	—
Hollywood Casino Tunica	Tunica, MS	Dockside gaming	54,000	1,305	32	494
Hollywood Casino Bay St. Louis	Bay St. Louis, MS	Land-based gaming	40,000	1,080	21	291
Argosy Casino Sioux City	Sioux City, IA	Dockside gaming	20,500	703	21	—
Boomtown Biloxi	Biloxi, MS	Dockside gaming	80,850	1,400	22	—
Hollywood Slots at Bangor	Bangor, ME	Land-based gaming/ Harness racing	12,400	479	—	—
Bullwhackers	Black Hawk, CO	Land-based gaming	16,556	802	—	—
Black Gold Casino at Zia Park	Hobbs, New Mexico	Land-based gaming/ Thoroughbred racing	18,460	748	—	—
Hollywood Casino at Penn National Race Course(3)	Grantville, PA	Land-based gaming/ Thoroughbred racing	—	—	—	—
Raceway Park	Toledo, OH	Harness racing	—	—	—	—
Freehold Raceway(4)	Monmouth, NJ	Harness racing	—	—	—	—
Sanford-Orlando Kennel Club	Longwood, FL	Greyhound racing	—	—	—	—
Operated Property:						
Casino Rama	Orillia, Ontario	Land-based gaming	93,000	2,520	101	289
Total			804,814	23,077	398	1,732

(1) Excludes poker tables.

(2) On February 19, 2008, the Illinois Gaming Board resolved to allow us to retain the Empress Casino Hotel. Previously, in connection with our acquisition of Argosy, we entered into an agreement with the Illinois Gaming Board in which we agreed, in part, to enter into an agreement to divest the Empress Casino Hotel by December 31, 2006, which date was later extended to June 30, 2008, subject to us having the right to request that the Illinois Gaming Board review and reconsider the terms of the agreement.

(3) In addition to our racetrack, Hollywood Casino at Penn National Race Course operates four off-track wagering facilities, located in Pennsylvania.

(4) Pursuant to a joint venture with Greenwood Limited Jersey, Inc., a subsidiary of Greenwood Racing, Inc.

Recent Developments

Hollywood Casino at Penn National Race Course

The opening of Hollywood Casino at Penn National Race Course occurred on February 12, 2008. The Hollywood Casino at Penn National Race Course is a 365,000 square foot facility, and is sized for 3,000 slot machines, with approximately 2,000 positions currently operating. The new facility also includes a 2,500 space parking garage and several restaurants. We plan on spending a total of $326.0 million on the project, including an additional $12.0 million incurred after the opening for a signature restaurant and buffet in order to provide additional dining venues.

Merger Agreement

On June 15, 2007, we announced that we entered into a merger agreement that would ultimately result in our shareholders receiving $67.00 per share. Specifically, we, Parent and Merger Sub, announced that we entered into a Merger Agreement that provides, among other things, for the Merger, as a result of which we will continue as the surviving corporation and will become a wholly-owned subsidiary of Parent. Parent is indirectly owned by Funds managed by affiliates of Fortress and Centerbridge. On December 12, 2007, our shareholders approved the Merger Agreement. Based upon the tally of shares voted, with 81.6% of our outstanding shares voting, 99.3% of the shares were voted in favor of the transaction. We are seeking to complete the transaction late in the second quarter of 2008. The timing of any closing is subject to obtaining certain regulatory approvals and satisfying other customary closing conditions. See "Risk Factors—Risks Related to the Consummation of the Merger Agreement" on page 17 of this Annual Report on Form 10-K for a discussion of the risk in connection with the consummation of the Merger.

Sanford-Orlando Kennel Club

On October 17, 2007, pursuant to the Asset Purchase Agreement dated July 5, 2007, we completed the purchase of Sanford-Orlando Kennel Club in Longwood, Florida from Sanford-Orlando Kennel Club, Inc. and Collins and Collins. In connection with the purchase, we also secured a right of first refusal with respect to a majority stake in the Sarasota Kennel Club in Sarasota, Florida. The purchase price for the Sanford-Orlando Kennel Club provides for additional consideration to be paid by us based upon certain future regulatory developments. Located on approximately 26 acres in Longwood, Florida, the Sanford-Orlando Kennel Club features year-round greyhound racing, a simulcast wagering facility, a clubhouse lounge and two dining areas. The results of the Sanford-Orlando Kennel Club have been included in our consolidated financial statements since the acquisition date.

Black Gold Casino at Zia Park

On April 16, 2007, pursuant to the Asset Purchase Agreement dated November 7, 2006 among Zia Partners, LLC ("Zia"), Zia Park LLC (the "Buyer"), one of our wholly-owned subsidiaries, and (solely with respect to specified sections thereof which relate to our guarantee of the Buyer's payment and performance) us, the Buyer completed the acquisition of the Black Gold Casino at Zia Park and all related assets of Zia. We funded this purchase with additional borrowings under our existing $750 million revolving credit facility. The results of the Black Gold Casino at Zia Park have been included in our consolidated financial statements since the acquisition date.

Development and Expansion Projects

In April 2007, we opened Argosy Casino Riverside's Mediterranean-themed, nine-story, 258-room hotel and spa to the public, as well as our latest expansion at the Charles Town Entertainment Complex. We are continuing to build and develop several of our properties, including the Charles Town Entertainment Complex, Argosy Casino Lawrenceburg and the permanent Hollywood Slots at Bangor, which will be called the Hollywood Slots Hotel and Raceway.

Owned Properties

Charles Town Entertainment Complex

The complex is located within approximately a one-hour drive of the Baltimore, Maryland and Washington, D.C. markets, and is the only gaming property located conveniently west of these two cities. The Charles Town Entertainment Complex has 184,348 square feet of gaming space, with approximately 5,031 gaming machines. The complex also features live thoroughbred racing at a refurbished, 3/4-mile all-weather, lighted thoroughbred racetrack with a 3,000-seat grandstand, parking for 6,048 vehicles as well as simulcast wagering and dining. The gaming floor was expanded in April

2007, which added 32,898 square feet of gaming space and netted the property approximately 900 additional slot machines. In addition, we continue to build and develop the Charles Town Entertainment Complex, with plans for the current expansion of the property including a 153-room on-site hotel, which is under construction and is expected to open during the third quarter of 2008.

Argosy Casino Lawrenceburg

The Argosy Casino Lawrenceburg is located on the Ohio River in Lawrenceburg, Indiana, approximately 15 miles west of Cincinnati and is the closest casino to the Cincinnati metropolitan area, its principal target market. The casino also services the major metropolitan markets of Dayton and Columbus, Ohio and, to a lesser extent, Indianapolis, Indiana and Lexington, Kentucky. The casino has 74,300 square feet of gaming space on three levels with approximately 2,417 slot machines, 74 table games and 15 poker tables.

The complex also features a 300-room hotel, a land-based entertainment pavilion and support facility featuring a 350-seat buffet restaurant, two specialty restaurants, an entertainment lounge, a 1,710 space parking garage and a 1,640 space remote parking lot. We are moving forward with the construction of the planned casino development. The development includes a 1,500 space parking garage which is expected to open in the second quarter of 2008, a two-level 270,000 square foot riverboat, and numerous infrastructure upgrades to allow more convenient access to the property, which are expected to open in the second quarter of 2009. The new riverboat will allow up to 4,000 positions on one level and another 400 positions will be added to the second level, along with restaurants and other amenities on the gaming riverboat.

Hollywood Casino Aurora

Hollywood Casino Aurora, part of the Chicagoland market, is located in Aurora, Illinois, the second largest city in Illinois, approximately 35 miles west of Chicago. The facility is easily accessible from major highways, can be reached by train from downtown Chicago, and is approximately 30 miles from both the O'Hare International and Midway airports. Hollywood Casino Aurora has a 53,000 square foot single-level dockside casino facility with 1,183 gaming machines, 20 gaming tables and 5 poker tables.

The facility features two upscale lounges, a steakhouse, the Hollywood Epic Buffet®, a fast food outlet, 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 and a gift shop.

Empress Casino Hotel

The Empress Casino Hotel, part of the Chicagoland market, is located on the Des Plaines River in Joliet, Illinois, approximately 40 miles southwest of Chicago. This barge-based casino provides 50,000 square feet of gaming space on two levels with approximately 1,211 slot machines, 21 table games and 3 poker tables.

The casino theme evokes Northern California's wine country and features a 150,000 square foot entertainment pavilion with three restaurants, an entertainment lounge and banquet/conference facilities. The complex also includes a 100-room hotel, surface parking areas with approximately 1,616 spaces and an 80-space recreational vehicle park. On February 19, 2008, the Illinois Gaming Board resolved to allow us to retain the Empress Casino Hotel. Previously, in connection with our acquisition of Argosy, we entered into an agreement with the Illinois Gaming Board in which we agreed, in part, to enter into an agreement to divest the Empress Casino Hotel by December 31, 2006, which date was later extended to June 30, 2008, subject to us having the right to request that the Illinois Gaming Board review and reconsider the terms of the agreement. As a result of this decision, we plan to invest $50 million in the facility, in order to improve its competitive position in the market.

Argosy Casino Riverside

The Argosy Casino Riverside is located on the Missouri River approximately five miles from downtown Kansas City in Riverside, Missouri. The casino primarily attracts customers who reside in the northern and western regions of the Kansas City metropolitan area. This Las Vegas-style casino features approximately 56,400 square feet of gaming space with approximately 1,950 slot machines, 39 table games and 8 poker tables.

This state-of-the-art Mediterranean-themed casino features an innovative "floating" casino floor that provides a seamless transition between the casino and land-based support areas, which include a Mediterranean-themed, nine-story, 258-room hotel and spa, an entertainment facility featuring 6 food and beverage areas, including a buffet, steak house, deli, coffee bar, VIP lounge and sports/entertainment lounge and 19,000 square feet of banquet/conference facilities. Argosy Casino Riverside currently has parking for approximately 3,000 vehicles.

Hollywood Casino Baton Rouge

Hollywood Casino Baton Rouge is currently one of two dockside riverboat gaming facilities operating in Baton Rouge, Louisiana. The Hollywood Casino Baton Rouge property features a riverboat casino reminiscent of a nineteenth century Mississippi River paddlewheel steamboat. The riverboat features approximately 28,000 square feet of gaming space, 1,145 gaming machines and 27 table games.

The facility also includes a two-story, 58,000-square foot dockside building featuring a variety of amenities, including a steakhouse, a 268-seat buffet, a premium players' lounge, a nightclub that doubles as a players' event area, a lobby bar, a public atrium, two meeting rooms, 1,548 parking spaces, a players' club booth and a gift shop.

In early 2007, we completed the renovation of the dockside building's interior décor including a completely new art deco themed interior design for the lobby and entry corridor as well as a new nightclub, lobby bar, and gift shop. We also added a new marquee, signage, Hollywood memorabilia displays and a digital video system throughout the property.

In December 2007, we agreed to acquire 3.8 acres of adjacent land and jointly construct a railroad underpass with the seller of the land. The underpass will provide unimpeded access to the casino property and to property owned by the seller for future development.

Argosy Casino Alton

The Argosy Casino Alton is located on the Mississippi River in Alton, Illinois, approximately 20 miles northeast of downtown St. Louis and primarily services the St. Louis metropolitan market. The target customers of the Argosy Casino Alton are drawn largely from the northern and eastern regions of the greater St. Louis metropolitan area, as well as portions of central and southern Illinois. The Argosy Casino Alton is a three-deck gaming facility featuring 23,000 square feet of gaming space with approximately 1,103 slot machines and 20 table games.

The Argosy Casino Alton includes an entertainment pavilion and features a 124-seat buffet, a restaurant and a 400-seat main showroom. The facility includes parking areas with 1,258 spaces.

Hollywood Casino Tunica

Hollywood Casino Tunica is located in Tunica, Mississippi. Tunica County is the closest resort gaming jurisdiction to, and is easily accessible from, the Memphis, Tennessee metropolitan area. The Tunica market has become a regional destination resort, attracting customers from surrounding markets such as Nashville, Tennessee, Atlanta, Georgia, St. Louis, Missouri, Little Rock, Arkansas, and Tulsa, Oklahoma. Hollywood Casino Tunica features 54,000 square feet of gaming space at a single-level casino with approximately 1,305 slot machines, 32 table games and 6 poker tables.

Hollywood Casino Tunica's 494-room hotel and 123-space recreational vehicle park provide overnight accommodations for its patrons. The casino includes multimedia displays of memorabilia from famous adventure motion pictures. Additional entertainment amenities include a steakhouse, the Hollywood Epic Buffet, a 1950's-style diner, an entertainment lounge, a premium players' club, a themed bar facility, a non-smoking slot room, an indoor pool and showroom as well as banquet and meeting facilities. There is also an 18-hole championship golf course adjacent to the facility that is owned and operated through a joint venture of three gaming companies. In addition, Hollywood Casino Tunica offers parking for 1,635 cars.

Hollywood Casino Bay St. Louis

Hollywood Casino Bay St. Louis is located in Bay St. Louis, Mississippi. Hollywood Casino Bay St. Louis reopened on August 31, 2006 after being closed for approximately one year due to Hurricane Katrina. Hollywood Casino Bay St. Louis offers a 40,000 square foot casino, and features 21 table games, 6 poker tables and 1,080 slot machines, with room to expand to 1,270 slot machines.

In addition, the damaged areas of the existing 291-room hotel tower were completely refurbished upon the reopening. The waterfront Hollywood Hotel features a 10,000 square foot ballroom including nine separate

meeting rooms offering more than 17,000 square feet of meeting space. Hollywood Casino Bay St. Louis offers live entertainment on weekends in Shakers martini bar and concerts in the ballroom. The Bridges golf course is an 18-hole championship golf course that reopened in mid-October after being masterfully renovated by Seaside Golf Development under the watchful eye of Arnold Palmer's Course Design Group. Hollywood Casino Bay St. Louis has three restaurants including Tuscany Steaks & Seafood® (fine dining), the Hollywood Epic Buffet and Jackpot Java®, a 24-hour cafe. The Bridges Clubhouse reopened with a new pro shop and grill in February 2007. Other amenities include a RV Park with 100 sites and Tokens gift shop.

Argosy Casino Sioux City

The Argosy Casino Sioux City is located on the Missouri River in downtown Sioux City, Iowa. The riverboat features 20,500 square feet of gaming space with approximately 703 slot machines, 21 table games and 4 poker tables. The casino is complemented by adjacent barge facilities featuring dining facilities, meeting space, 389 parking spaces and administrative support offices.

Boomtown Biloxi

Boomtown Biloxi is located in Biloxi, Mississippi. Boomtown Biloxi, which had been closed as a result of Hurricane Katrina, reopened on June 29, 2006 with a re-modeled interior, including 80,850 square feet of gaming space with approximately 1,100 new slot machines, 22 table games and a 350-seat buffet. In early September 2006, Boomtown Biloxi opened its pier-based expansion, with 300 additional slot machines, for a total of 1,400 slot machines, 7 poker tables and a full-service restaurant.

Hollywood Slots at Bangor

Hollywood Slots at Bangor is situated near historic Bass Park, where Bangor Raceway is located, in downtown Bangor, Maine. The facility includes a small restaurant, full beverage service, 220 parking spaces and 12,400 square feet of gaming space with approximately 479 slot machines.

In late December 2006, we completed the purchase of the former Holiday Inn in Bangor, Maine, where we are building the permanent Hollywood Slots at Bangor facility, which will be called the Hollywood Slots Hotel and Raceway. Due to the results currently generated by our temporary facility and a substantial number of patrons driving significant distances to Hollywood Slots at Bangor, we have added a 152-room hotel to the plans for the permanent facility, which will feature a two-story, semi-circular, glass tower casino area, a four-story parking garage, Hollywood Epic Buffet, snack bar, retail space and a new simulcast facility for off-track wagering. The permanent facility, which will open

with 1,000 slot machines and have capacity for 1,500 gaming machines, is scheduled to open in the third quarter of 2008.

Bangor Raceway is located at historic Bass Park in downtown Bangor, Maine. Harness racing has been conducted continuously at Bass Park since 1893 and it was once part of racing's Grand Circuit during the 1920s. In 2007, Bangor Raceway conducted 54 days of harness racing from late April through early November on its one-half mile track. With over 12,000 square feet of space, the facility can seat 3,500 patrons and features a restaurant and cocktail lounge.

Bullwhackers

The Bullwhackers properties include the Bullwhackers Casino, the adjoining Bullpen Casino and the Silver Hawk Casino. The Bullwhackers properties, which are located in Black Hawk, Colorado, include 16,556 square feet of gaming space and 802 slot machines. The properties also include a 344-car parking area.

Black Gold Casino at Zia Park

Black Gold Casino at Zia Park includes the Black Gold Casino and the adjoining Zia Park Racetrack. Black Gold Casino at Zia Park is located in Hobbs, New Mexico and includes 18,460 square feet of gaming space and 748 slot machines. The property operates three restaurants consisting of the Black Gold Buffet offering lunch and dinner, the Black Gold Steakhouse offering dinner nightly, and the Homestretch Bar & Grill serving burgers and sandwiches daily for lunch and dinner with live entertainment on the weekends. The property also includes a one-mile oval Quarter/Thoroughbred racetrack, which is utilized for approximately 50 days per year, and a Simulcast Parlor, which is utilized year-round. Banquet services are available in the Turf Club, which also offers food and beverage services during the live racing season.

Hollywood Casino at Penn National Race Course

Hollywood Casino at Penn National Race Course is located in Grantville, Pennsylvania, and is 15 miles northeast of Harrisburg, 100 miles west of Philadelphia and 200 miles east of Pittsburgh. Penn National Race Course is one of only three operating thoroughbred racetracks in Pennsylvania. The property includes a one-mile all-weather, lighted thoroughbred racetrack, and a 7/8-mile turf track. The property also includes approximately 400 acres that are available for future expansion or development.

In late December 2006, the Pennsylvania Gaming Control Board granted us a Category 1 slot machine license for the placement of slot machines at our planned Hollywood Casino at Penn National Race Course. In August 2006, we commenced construction of the Hollywood Casino at Penn National Race Course. In preparation for the construction, we closed and razed the aged grandstand and clubhouse at Penn National Race Course, and opened a new 24,000 square foot temporary facility offering pari-mutuel wagering, food and beverage services, more than 250 television monitors, administrative offices and facilities for jockeys.

The opening of Hollywood Casino at Penn National Race Course occurred on February 12, 2008. The Hollywood Casino at Penn National Race Course is a 365,000 square foot facility, and is sized for 3,000 slot machines, with approximately 2,000 positions currently operating. The new facility also includes a food court, entertainment bar and lounge, trackside dining room, and a sports bar. A connected five-story self parking garage, with capacity for 2,500 cars, was constructed and is supplemented by approximately 1,200 surface parking spaces for self and valet parking.

Raceway Park

Raceway Park is a 58,250 square foot facility, with a 5/8-mile harness racing track located in Toledo, Ohio. The facility also features simulcast wagering and has a 1,977 theatre-style seating capacity and parking for 3,000 vehicles.

Freehold Raceway

Through our joint venture, we own Freehold Raceway, located in Freehold in Western Monmouth County, New Jersey. The property features a half-mile oval harness track and a 150,000 square foot grandstand.

Sanford-Orlando Kennel Club

Sanford-Orlando Kennel Club is a 1/4 mile greyhound facility located in Longwood, Florida. The facility has a capacity for 6,500 patrons, with seating for 4,000 and parking for 2,500 vehicles. The facility conducts year-round greyhound racing, as well as year-round horse racing simulcasts. The first race meeting at Sanford-Orlando Kennel Club was in 1935.

Off-track wagering facilities ("OTWs")

Our OTWs and racetracks provide areas for viewing import simulcast races of thoroughbred and harness horse racing, televised sporting events, placing pari-mutuel wagers and dining. We operate four of the eighteen OTWs currently in operation in Pennsylvania. In 2007, three OTWs were closed in Pennsylvania, including two that we owned in Williamsport and Johnstown. Only licensed racing associations can operate OTWs or accept customer wagers on simulcast races. We have been transmitting simulcasts of our races to other OTWs, thoroughbred and harness horse racetracks, and greyhound dog racetracks throughout the world, and receiving simulcasts of races from other thoroughbred and harness horse racetracks for wagering by customers at our OTW locations and our horse racetrack facilities, year-round, for many years. Import simulcasts typically include races from premier horse racetracks such as Belmont Park, Churchill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga.

Account Wagering/Internet Wagering

In 1983, we pioneered Telebet®, the complete account wagering operation for Penn National Race Course. The platform offers account wagering on more than 80 U.S. racetracks, and currently has more than 12,900 active account betting customers from the 14 states that permit account wagering as well as the U.S. Virgin Islands.

We have also developed strategic relationships to further our wagering activities. In August 1999, we entered into an agreement with eBet Limited, an Internet wagering operation in Australia, to license their eBetUSA.com technology in the U.S. Through eBetUSA.com, Inc., our wholly-owned subsidiary, we use the eBetUSA.com technology to permit on-line pari-mutuel horseracing wagering over the internet in selected jurisdictions with the approval of the Pennsylvania State Horse Racing Commission and applicable federal and state laws, rules and regulations, as permitted. We currently accept wagers from residents of 14 U.S. states and the U.S. Virgin Islands.

Operated Gaming Property

Casino Rama

Through CHC Casinos Canada Limited, 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 is located on the lands of the

Mnjikaning First Nation, approximately 90 miles north of Toronto. The property has approximately 93,000 square feet of gaming space, 2,520 gaming machines, 101 table games and 12 poker tables. In addition, the property includes a 5,000-seat entertainment facility, a 289-room hotel and 3,170 parking spaces. The majority of the capital for construction of the hotel and entertainment facility was financed by an affiliate of the Mnjikaning First Nation, and was repaid out of the revenue of Casino Rama pursuant to the terms of the Development and Operating Agreement described below.

The Development and Operating Agreement under which CHC Casinos Canada Limited operates the facility, which we refer to as the management service contract for Casino Rama, sets out the duties, rights and obligations of CHC Casinos Canada Limited. As the operator, CHC Casinos Canada Limited 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 management service contract 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 Canada Limited's appointment as operator for two successive periods of five years each commencing on August 1, 2011.

Trademarks

We own a number of trademarks registered with the U.S. Patent and Trademark Office ("U.S. PTO"), including but not limited to, "Telebet," "The World Series of Handicapping," and "Players' Choice." We also have a number of trademark applications pending with the U.S. PTO.

BTN, Inc., our wholly-owned subsidiary, entered into a License Agreement with Boomtown, Inc., dated August 8, 2000 pursuant to which it uses "Boomtown" and other trademarks.

As a result of our acquisitions of Hollywood Casino Corporation and Argosy, we own the service marks "Hollywood Casino" and "Argosy" which are registered with the U.S. Patent and Trademark Office. We have been informed that our rights to the "Hollywood Casino" and "Argosy" service marks are well established and have competitive value to the Hollywood Casino and Argosy properties. We have also acquired other trademarks used by the Hollywood Casino and Argosy facilities and their related services. These marks are either registered or are the subject of pending applications with the U.S. PTO.

Competition

Gaming Operations

The gaming industry is characterized by a high degree of competition among a large number of participants, some of which have financial and other resources that are greater than our resources. Competitive gaming activities include traditional and Native American casinos, video lottery terminals and other forms of legalized gaming in the U.S. and other jurisdictions.

Legalized gaming is currently permitted in various forms throughout the U.S. and in several Canadian provinces. In addition, other jurisdictions may legalize gaming in the near future and 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 in the neighboring states of Pennsylvania, Delaware and New Jersey. On June 9, 2007, the citizens of Jefferson County, West Virginia, voted against the placement of table games at the Charles Town Entertainment Complex. According to the West Virginia Lottery Racetrack Table Games Act, we will have to wait at least two years from June 9, 2007 before we can propose

another table games referendum vote. In Pennsylvania, slot operations have commenced at Philadelphia Park,

Mohegan Sun at Pocono Downs, Chester Downs, The Meadows, and most recently at Mount Airy Casino Resort. Hollywood Casino at Penn National Race Course opened on February 12, 2008. Slot licenses have been issued to two stand-alone casinos in Philadelphia and one casino in Pittsburgh, however, operations at these facilities have yet to commence. In November 2007, the Maryland legislature approved legislation for a referendum to allow slots at five locations during a special legislative session. These locations include one facility in Cecil, Allegany, Anne Arundel, Baltimore City, and Worcester counties. A state-wide vote to ratify this referendum will occur in November 2008. In Delaware, legislation to increase the number of video lottery terminals at gaming facilities from 2,500 to 4,000 passed and was signed by the Governor of Delaware in 2006. This bill also allows gaming facilities in Delaware to operate 24 hours per day, with the exception of Sundays and certain holidays. Any significant increase in the competition in the region could negatively impact the operations of Charles Town Entertainment Complex.

Lawrenceburg, Indiana. The Argosy Casino Lawrenceburg is the closest casino to the Cincinnati metropolitan area, and faces competition from two other riverboat casinos in the Cincinnati market. The nearest competitor is located approximately 15 miles further south of Lawrenceburg in Rising Sun, Indiana. Another competitor is located 40 miles from Lawrenceburg in Switzerland County, Indiana. In 2007, the Indiana Legislature passed a law that allows up to 2,000 slot machines at each of two racetracks in Indianapolis, approximately 90 miles northwest of Lawrenceburg. Reports indicate these two gaming facilities should commence operations in 2008. The effect that gaming in Indianapolis will have on the financial results of Argosy Casino Lawrenceburg is unknown at this time. Casino gaming is not currently permitted under the laws of either Ohio or Kentucky. The Ohio legislature has considered, at various times, legislation that would allow Ohio voters to approve certain types of casino gaming at racetracks. In November 2006, Ohio voters rejected a proposed constitutional amendment that would have established a tuition grant program for Ohio students to attend public or private colleges in the state by allowing up to 3,500 slot machines at each of the state's seven existing racetracks and two locations in downtown Cleveland. Legislation has been introduced in Kentucky to allow gaming at racetracks and casinos, subject to referendum. To date, neither Ohio nor Kentucky has enacted such proposed legislation. The commencement of casino gaming in Ohio or Kentucky could have an adverse effect on the financial results of our Lawrenceburg casino.

Chicagoland. Aurora and Joliet are part of the Chicagoland market that includes properties in the Chicago suburbs in both Illinois and northern Indiana. Hollywood Casino Aurora and Empress Casino Hotel face competition from numerous other riverboat casinos in the Chicago-area market, dockside casinos that are located in Illinois and dockside casinos that are located in Indiana. Due to significantly higher gaming taxes imposed on Illinois riverboats, the Indiana riverboats have been able to spend greater amounts on marketing and other amenities, which has significantly increased their ability to compete with the Illinois riverboats. Any increase in gaming taxes or admission fees imposed on Illinois riverboats could have an adverse impact on the financial results of our Chicagoland casinos.

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 10 owner licenses for riverboat gaming operations in Illinois and permit a maximum of 1,200 gaming positions at any time for each of the 10 licensed sites. All authorized owners' licenses have been granted; however, one of the licenses has remained dormant due to a 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 in the area around Chicagoland. The legislature has considered, at various times, legislation that

would expand gaming in the state of Illinois. Should the Illinois legislature enact such gaming-expansion legislation, the financial results of our Chicagoland casinos could be adversely affected.

Riverside, Missouri. The Argosy Casino Riverside currently faces competition from three other casinos in its market. The Kansas legislature has approved legislation to expand casino gaming in its state, which is expected to begin during early 2008. During previous legislative sessions, as well as the current legislative session, legislation was introduced in Missouri that would increase admission and gaming taxes, while removing the loss limit in the state. The expansion of casino gaming in Kansas could have an adverse effect on our Riverside casino's financial results, as would legislation enacted by Missouri to increase admission or gaming taxes.

Alton, Illinois. The Argosy Casino Alton faces competition from five other riverboat casinos currently operating in the St. Louis, Missouri area, including one other Illinois licensee. In addition, a casino project in south St. Louis County is in development. As an Illinois licensee, the Argosy Casino Alton is not subject to Missouri's $500-loss limit. Should the Illinois legislature enact gaming-expansion legislation or increase admission or gaming taxes, our Alton casino's financial results could be adversely affected.

Baton Rouge, Louisiana. Hollywood Casino Baton Rouge faces competition from land-based and riverboat casinos throughout Louisiana and on the Mississippi Gulf Coast, casinos on Native American lands and from non-casino gaming opportunities within Louisiana. The principal competitor to Hollywood Casino Baton Rouge is the Belle of Baton Rouge, which is the only other licensed riverboat casino in Baton Rouge. We face competition from eleven casinos on the Mississippi Gulf Coast, which is approximately 120 miles east of Baton Rouge; many of these casinos are destination resorts that attract customers from the Baton Rouge area. Subsequent to Hurricane Katrina, Mississippi Gulf Coast casinos are allowed to operate as land-based facilities. Hollywood Casino Baton Rouge also faces competition from two major riverboat casinos, one land-based casino in the New Orleans area, which is approximately 75 miles from Baton Rouge, and three Native American casinos in Louisiana. The two closest Native American casinos are land-based facilities located approximately 45 miles southwest and approximately 65 miles northwest of Baton Rouge. In addition, we face competition from a racetrack located approximately 55 miles from Baton Rouge operating approximately 1,500 gaming machines. We also face competition from approximately 3,000 video poker machines located in truck stops, restaurants, bars and off-track betting facilities located in certain surrounding parishes. In addition, another gaming operator received approval from the Louisiana Gaming Control Board for a third riverboat casino in Baton Rouge that was subject to a local option referendum subsequently approved by East Baton Rouge Parish voters on February 9, 2008. If the project receives the remaining local approvals and entitlements, the financial results of Hollywood Casino Baton Rouge could be adversely affected.

Tunica County, Mississippi. Hollywood Casino Tunica faces intense competition from nine other casinos operating in north Tunica County and Coahoma County. The Tunica County market is segregated into two casino clusters, Casino Center and Casino Strip, where Hollywood Casino Tunica is located, as well as three stand-alone properties. 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, Tennessee. In addition, Hollywood Casino Tunica may eventually face competition

from the opening of gaming casinos closer to Memphis, such as in DeSoto County, Mississippi, which is the only county between Tunica County and the Tennessee border. DeSoto County has defeated gaming proposals on three separate occasions, most recently in November 1996. In November 2006, Southland Park Gaming & Racing, formerly Southland Greyhound Park, in West Memphis, Arkansas, opened a $40 million gaming facility with nearly 1,000 electronic "games of skill". The facility is located across the Mississippi River from Memphis. Casino gaming is not currently legalized in Tennessee; however, the legalization of gaming in Tennessee could have an adverse impact on Hollywood Casino Tunica.

Mississippi Gulf Coast. As a result of Hurricane Katrina's direct hit on the Mississippi Gulf Coast on August 29, 2005, two of the Company's casinos, Hollywood Casino Bay St. Louis and Boomtown Biloxi, were significantly damaged, many employees were displaced and operations ceased at the two properties. Boomtown Biloxi reopened on June 29, 2006 and Hollywood Casino Bay St. Louis reopened on August 31, 2006. Prior to Hurricane Katrina, dockside gaming grew rapidly on the Mississippi Gulf Coast, increasing from no dockside casinos in March 1992 to twelve operating dockside casinos on December 31, 2004. Nine of these facilities were located in Biloxi, two were located in Gulfport and one was located in Bay St. Louis. Including the Company's casinos, eight of the casinos in Biloxi have re-opened, one of the Gulfport casinos reopened and two Bay St. Louis properties opened in 2006. Prior to Hurricane Katrina, our Bay St. Louis property was the only casino in the Bay St. Louis market. Currently there are two casinos in the Bay St. Louis market, with three additional casinos proposed for development in the next few years. As of December 31, 2007, the Mississippi Gulf Coast has 11 casinos operating, compared to the 12 that were open prior to Hurricane Katrina.

During the 2005 special session of the Mississippi legislature, a bill to allow Gulf Coast casinos to rebuild on land was approved and signed by the Governor of Mississippi. In addition, the Mississippi Gaming Control Act does not limit the number of licenses that may be granted and there are a number of additional sites located in the Gulf Coast region that are in various stages of development. Any significant increase in the competition in the region could negatively impact our existing operations.

Sioux City, Iowa. The Argosy Casino Sioux City competes primarily with land-based Native American casinos that are not required to report gaming revenues and other operating statistics, therefore market comparisons cannot be made. In June 2006, Wild Rose Casino & Resort opened in Emmetsburg, Iowa. We also compete with certain providers and operators of video gaming in the neighboring state of South Dakota. Additionally, to a lesser extent, we compete with slot machines at a pari-mutuel racetrack in Council Bluffs, Iowa, and with two riverboat casinos in the Council Bluffs/Omaha, Nebraska market, approximately 90 miles south of Sioux City.

Bangor, Maine. Hollywood Slots at Bangor is the only facility with slot machines in the state of Maine. The closest competitors offering slot machines are Foxwoods and Mohegan Sun in Connecticut, Newport Grand Casino in Rhode Island and Horizon's Edge casino cruise ship operating in Lynn, Massachusetts, all approximately 300 miles away.

Black Hawk, Colorado. The Black Hawk gaming market is characterized by intense competition. The primary competitive factors in the market are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, types and pricing of non-gaming amenities, name recognition and overall atmosphere. There are currently 20 gaming facilities in the Black Hawk market and six

gaming facilities in nearby Central City. Central City and Black Hawk gaming facilities compete for visitors, but historically, Black Hawk enjoyed an advantage over Central City because customers had to drive through Black Hawk to reach Central City. During 2004, Central City completed construction of, and opened, a road directly connecting Central City and Black Hawk with Interstate 70, which allows customers to reach Central City without driving through Black Hawk.

Ontario. Our operation of Casino Rama through CHC Casinos Canada Limited faces competition in Ontario from three other commercial casinos, seven charity casinos and at least 17 racetracks with

gaming machines in the province. All of the casinos (including Casino Rama) and gaming machine facilities are operated by or on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. The Ontario Lottery and Gaming Corporation also operates several province-wide lotteries.

There are two charity casinos and six racetracks with gaming machine facilities that directly affect Casino Rama. The two charity casinos together have 114 gaming tables and 1,059 gaming machines. The number of gaming machines at the racetracks ranges from 200 to over 2,009 each. There are also two commercial casinos located in Niagara Falls, Ontario, 80 miles southwest of Toronto with a total of 194 gaming tables and 4,822 gaming machines.

Hobbs, New Mexico. The closest competitors to Black Gold Casino at Zia Park are located in New Mexico, and are approximately 190 and 250 miles from Hobbs. Hobbs is located very close to the Texas border, and the political climate in Texas is monitored closely, as currently there is no legalized gaming in Texas which, if legalized, would greatly impact Black Gold Casino at Zia Park. In New Mexico, the Governor recently signed a new compact with the tribal casinos limiting the future expansion of gaming facilities in the state.

Racing Operations

Our racing operations face significant competition for wagering dollars from other racetracks and OTWs, some of which also offer other forms of gaming, as well as other gaming venues such as casinos and state-sponsored lotteries, including the Pennsylvania, New Jersey, Delaware, Florida, Ohio and West Virginia lotteries. Our account wagering operations compete with other providers of such services throughout the country. We also may face competition in the future from new OTWs, new racetracks or new providers of account wagering. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available near our racing operations, such gaming opportunities could have an adverse effect on our business, financial condition and results of operations.

U.S. and Foreign Revenues

Our net revenues from continuing operations in the U.S. for 2007, 2006 and 2005 were approximately $2,419.5 million, $2,226.4 million, and $1,350.5 million, respectively. Our revenues from operations in Canada for 2007, 2006 and 2005 were approximately $17.3 million, $18.1 million, and $18.6 million, respectively.

Segments

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), we view each property as an operating segment, and aggregate all of our properties into one reportable segment, as we believe that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

Board of Directors and Management

Name	Age	Position
Peter M. Carlino	61	Chairman and Chief Executive Officer
Harold Cramer	80	Director
David A. Handler	43	Director
John M. Jacquemin	61	Director
Robert P. Levy	77	Director
Barbara Z. Shattuck	57	Director
William J. Clifford	50	Senior Vice President-Finance and Chief Financial Officer
Leonard M. DeAngelo	56	Executive Vice President of Operations
Robert S. Ippolito	56	Vice President, Secretary and Treasurer
Jordan B. Savitch	42	Senior Vice President and General Counsel
Timothy J. Wilmott	49	President and Chief Operating Officer

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 and monitoring its operations.

Harold Cramer. Mr. Cramer has been a director since 1994. Until November 1996, Mr. Cramer was the Chairman and Chief Executive Officer of the Graduate Health System. From November 1996 to July 2000, Mr. Cramer was Counsel to Mesirov Gelman Jaffe Cramer & Jamieson, LLP, which merged with Schnader Harrison Segal & Lewis LLP in July 2000. Mr. Cramer is now a retired partner of Schnader Harrison Segal & Lewis LLP.

David A. Handler. Mr. Handler has been a director since 1994. Since April 2006, he has been a Managing Director at UBS Investment Bank. From April 2000 until April 2006, he was a Senior Managing Director at Bear Stearns & Co., Inc. From July 1995 to April 2000, Mr. Handler was employed by Jefferies & Company, Inc. where he became a Managing Director in March 1998.

John M. Jacquemin. Mr. Jacquemin has been a director since 1995 and is President of Mooring Financial Corporation. Mooring Financial Corporation is a group of financial services companies founded by Mr. Jacquemin in 1982 that specialize in the purchase and administration of commercial loan portfolios.

Robert P. Levy. Mr. Levy has been a director since 1995. He is the past Chairman of the Board of the Atlantic City Racing Association and served a two-year term from 1989 through 1990 as President of the Thoroughbred Racing Association. Mr. Levy has served as the Chairman of the Board of DRT Industries, Inc., a diversified business based in the Philadelphia metropolitan area, since 1960. Mr. Levy owns the Robert P. Levy Stable, a thoroughbred racing and breeding operation. Mr. Levy is a director of Fasig-Tipton Company, an equine auction company.

Barbara Z. Shattuck. Ms. Shattuck has been a director since 2004. She is a Principal of Shattuck Hammond Partners, LLC, an investment banking firm. Prior to co-founding Shattuck Hammond in 1993, Ms. Shattuck

spent eleven years at Cain Brothers, Shattuck & Company, Inc., an investment banking firm she co-founded. From 1976 to 1982 she was a Vice President of Goldman, Sachs & Co. Ms. Shattuck began her career as a municipal bond analyst at Standard & Poor's Corporation. Ms. Shattuck is a member of the board of directors of Sun Life Insurance & Annuity Company of New York.

William J. Clifford. Mr. Clifford joined us in August 2001 and was appointed to his current position as Senior Vice President-Finance and Chief Financial Officer in October 2001. From March 1997 to July 2001, Mr. Clifford served as the Chief Financial Officer and Senior Vice President of Finance with Sun International Resorts, Inc., Paradise Island, Bahamas. From November 1993 to February 1997, Mr. Clifford was Financial, Hotel and Operations Controller for Treasure Island Hotel and Casino in Las Vegas. From May 1989 to November 1993, Mr. Clifford was Controller for Golden Nugget Hotel and Casino, Las Vegas. Prior to May 1989, Mr. Clifford held the positions of Controller for the Dunes Hotel and Casino, Las Vegas, Property Operations Analyst with Aladdin Hotel and Casino, Las Vegas, Casino Administrator with Las Vegas Hilton, Las Vegas, Senior Internal Auditor with Del Webb, Las Vegas, and Agent, Audit Division, of the Nevada Gaming Control Board, Las Vegas and Reno.

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 Resorts, Inc., where, in addition to his marketing responsibilities, he also oversaw information technology initiatives relating to the casinos, including operations, marketing, data warehousing and online projects. From November 1995 to December 1997, Mr. DeAngelo was President of the Sands Hotel and Casino in Atlantic City. He served with the Sands in other executive positions beginning in 1983, holding the titles of Director of Casino Administration, Vice President Casino Administration and Senior Vice President before being named President. He began his career in the gaming and hotel industry in 1979 at Bally's Park Place Hotel and Casino in Atlantic City.

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 23 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.

Timothy J. Wilmott. Mr. Wilmott joined us in February 2008 as President and Chief Operating Officer. Mr. Wilmott most recently served as Chief Operating Officer of Harrah's Entertainment, a position he held for approximately four years. In this position, he oversaw the operations of all of Harrah's revenue-generating businesses, including 48 casinos, 38,000 hotel rooms and 300 restaurants. All Harrah's Division Presidents, Senior Vice Presidents of Brand Operations, Marketing and Information Technology personnel reported to Mr. Wilmott. Prior to his appointment to the position of Chief Operating Officer, Mr. Wilmott served from 1997 to 2002 as Division President of Harrah's Eastern Division with responsibility for the operations of eight

Harrah's properties.

Governmental Regulations

The gaming and racing industries are highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our facilities is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where it is located. These laws, rules and regulations generally concern the responsibility, financial stability and character of the owners, managers, and persons with financial interests in the gaming operations. Violations of laws or regulations in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is contained in Exhibit 99.1 to this Annual Report on Form 10-K, which is incorporated herein by reference.

Our businesses are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

Employees and Labor Relations

As of December 31, 2007, we had 15,289 full- and part-time employees.

We are required to have agreements with the horsemen at each of our racetracks to conduct our live racing and simulcasting activities, with the exception of our tracks in Ohio and New Mexico. In addition, in order to operate gaming machines in West Virginia, we must maintain agreements with each of the Charles Town horsemen, pari-mutuel clerks and breeders. At the Charles Town Entertainment Complex, we have an agreement with the Charles Town horsemen that expires on December 31, 2008, and an agreement with the breeders that expires on June 30, 2008. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2010.

Our agreement with the Pennsylvania thoroughbred horsemen at Penn National Race Course expires on September 30, 2011. We are currently involved in good faith negotiations with Local 137 of the Sports Arena Employees (AFL-CIO) at Penn National Race Course with respect to pari-mutuel clerks, admissions and Telebet personnel relative to the renewal of a contract that will expire on February 28, 2008. The parties are cooperatively working on a successor agreement and expect to briefly extend the current agreement. We also have an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at our OTWs, which will expire on September 30, 2009.

Our agreement with the Maine Harness Horsemen Association at Bangor Raceway expires at the end of the 2008 racing season. Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires in May 2009.

Throughout our Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately two thousand one hundred of our employees. Additionally, at Argosy Casino Alton, the Seafarer

International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO represents eight of our employees, the International Brotherhood of Electrical Workers represents eight of our employees, the Security Police and Fire Professionals of America represents fifty-six of our employees. At our Lawrenceburg, Indiana property, the American Maritime Officers Union represents seventeen of our employees. We have collective bargaining agreements with these unions that expire at various times between July 2008 and October 2015. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE"), Local 1 represents

approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2010. Negotiations are expected to begin in the near term with the International Brotherhood of Electrical Workers, Local 176, who began representing fifteen slot technicians at the Empress Casino Hotel in October 2007. At Raceway Park, UNITE/HERE Local 10 represents the twenty pari-mutuel tellers under a contract which expires on May 31, 2012.

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 1A. RISK FACTORS

Risks Related to the Consummation of the Merger Agreement.

On December 12, 2007, our shareholders voted to approve the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 15, 2007, by and among the Company, PNG Acquisition Company Inc. ("Parent"), and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), that provides, among other things, for Merger Sub to be merged with and into the Company (the "Merger"), with the Company as the surviving corporation and thereby becoming a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds (the "Funds") managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge"). If the Merger is completed, shareholders will be entitled to receive $67.00 in cash, without interest, for each outstanding share of Company common stock they own. If the Merger is not completed by June 15, 2008, the $67.00 per share merger consideration will be increased $0.0149 per day for each day after such date through and including the closing date. The Company faces a number of risks in connection with the Merger, including, but not limited to:

- if any event, change or other circumstance occurs that results in the termination of the Merger Agreement (including a failure by Parent to obtain the necessary debt financing in light of current market conditions), or otherwise results in a failure to complete the Merger, such occurrence could negatively impact our stock price;
- changes in our operations and prospects, general market and economic conditions and other factors which may be beyond our control, and on which the fairness opinion was based, may alter our value

or the prices of our common stock by the time the Merger is completed. The fairness opinion is based on the information in existence on the date delivered and will not be updated as of the time the Merger is completed. Because we currently do not anticipate asking Lazard Freres & Co. LLC to update their opinion, the opinion given at the time the Merger Agreement was entered into does not address the fairness of the Merger consideration, from a financial point of view, at any time other than the time the Merger Agreement was entered into;

- additional legal proceedings may be instituted against us related to the Merger, and those lawsuits could result in settlements or damages that have a material adverse impact on our business or results of operations;
- we expect to incur a number of non-recurring transaction fees and other costs associated with completing the Merger. These fees and costs will be substantial and could have an adverse impact on our results of operations. If the Merger is not completed, we will have to pay certain

costs relating to the Merger, including, possibly, a termination fee of up to $200 million to Parent;

- the fact that the Merger is pending could negatively affect our business relationships, operating results and business generally, including our ability to retain key employees;
- the Merger may divert management's attention from our operations and the pursuit of other potentially beneficial business opportunities as a result of which our results of operations or prospects could be adversely affected; and
- certain covenants we agreed to in the Merger Agreement may have an adverse effect on our business, properties and operations.

Risks Related to Our Business

A substantial portion of our revenues and income from operations is derived from our Charles Town, West Virginia and Argosy Casino Lawrenceburg, Indiana facilities.

For the fiscal year ended December 31, 2007, approximately 40.2% and 54.2% of our net revenue and income from continuing operations, respectively, were collectively derived from our Charles Town and Argosy Casino Lawrenceburg operations. Our ability to meet our operating and debt service requirements is substantially dependent upon the continued success of these facilities. The operations at these facilities and any of our other facilities could be adversely affected by numerous factors, including:

- risks related to local and regional economic and competitive conditions, such as a decline in the number of visitors to a facility, a downturn in the overall economy in the market, a decrease in gaming activities in the market or an increase in competition within and outside the state in which each property is located;
- changes in local and state governmental laws and regulations (including changes in laws and regulations affecting gaming operations and taxes) applicable to a facility;

- impeded access to a facility due to weather, road construction or closures of primary access routes; and
- the occurrence of floods and other natural disasters.

If any of these events occur, our operating revenues and cash flow could decline significantly.

We may face disruption in integrating and managing facilities we may acquire in the future.

We expect to continue pursuing expansion and acquisition opportunities, and we regularly evaluate opportunities for acquisition of other properties, which evaluations may include discussions and the review of confidential information after the execution of nondisclosure agreements with potential acquisition candidates, some of which may be potentially significant in relation to our size.

We could face significant challenges in managing and integrating the expanded or combined operations of the Company and any other properties we may acquire. The integration of any other properties we may acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating properties that we may acquire also may interrupt the activities of those businesses, which could have a material adverse effect on our business, financial condition and results of operations.

Management of new properties, especially in new geographic areas, may require that we increase our managerial resources. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions. We also cannot

assure you that if acquisitions are completed, that the acquired businesses will generate sufficient revenue to offset the associated costs.

Our ability to achieve our objectives in connection with any acquisition we may consummate may be highly dependent on, among other things, our ability to retain the senior level property management teams of such acquisition candidates. If, for any reason, we are unable to retain these management teams following such acquisitions or if we fail to attract new capable executives, our operations after consummation of such acquisitions could be materially adversely affected.

The occurrence of some or all of the above described events could have a material adverse effect on our business, results of operations and financial condition.

We face risks related to the development and expansion of our current properties.

We expect to use a portion of our cash on hand, cash flow from operations and available borrowings under our revolving credit facility for significant capital expenditures at certain of our properties. Any proposed enhancement may require us to significantly increase the size of our existing work force at those properties. We cannot be certain that management will be able to hire and retain a sufficient number of employees to operate and manage these facilities at their optimal levels. The failure to employ the necessary work force could adversely affect our operations and ultimately harm profitability. In addition, these enhancements could involve risks similar to construction risks including cost over-runs, delays, market deterioration and timely receipt of

required licenses, permits or authorizations, among others. Our failure to complete any new development or expansion project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have a material adverse effect on our business, financial condition and results of operations.

We face a number of challenges prior to opening new gaming facilities.

No assurance can be given that, when we endeavor to open new gaming facilities, the expected timetables for opening such facilities will be met in light of the uncertainties inherent in the development of the regulatory framework, the licensing process, legislative action and litigation.

We face significant competition from other gaming operations.

The gaming industry is characterized by a high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, video lottery and poker machines not located in casinos, Native American gaming, Internet gaming and other forms of gambling in the United States. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, high school, collegiate and professional athletic events, television and movies, concerts and travel. Legalized gaming is currently permitted in various forms throughout the U.S., in several Canadian provinces and on various lands taken into trust for the benefit of certain Native Americans in the U.S. and Canada. Other jurisdictions, including states adjacent to states in which we currently have facilities (such as proposed sites in Kansas and Maryland), may legalize and implement gaming in the near future. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations. New, relocated or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us.

Gaming competition is intense in most of the markets where we operate. As competing properties and new markets are opened (for instance, the potential new markets in Kansas and Maryland, the new competition in Baton Rouge and the new properties in St. Louis and Indianapolis), our operating results may be negatively affected. In addition, some of our direct competitors in certain markets may have superior facilities and/or operating conditions. There could be further competition in our markets as a result of the upgrading or expansion of facilities by existing market participants, the entrance of new gaming participants into a market or legislative changes.

We expect each existing or future market in which we participate to be highly competitive. The competitive position of each of our casino properties is discussed in detail in the subsection entitled "Competition—Gaming Operations" of this Annual Report on Form 10-K.

We are or may become involved in legal proceedings that, if adversely adjudicated or settled, could impact our financial condition.

From time to time, we are defendants in various lawsuits relating to matters incidental to our business. The nature of our business subjects us to the risk of lawsuits filed by customers, past and present employees, competitors, business partners and others in the ordinary course of business. As with all litigation, no assurance can be provided as to the outcome of these matters and, in general, litigation can be expensive and time consuming. We may not be successful in the defense of these lawsuits, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations (see, for example, the lawsuits described in Item 3 below).

We face extensive regulation from gaming and other regulatory authorities.

Licensing requirements. As owners and operators of gaming and pari-mutuel wagering facilities, we are subject to extensive state, local and, in Canada, provincial regulation. State, local and provincial authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. Various regulatory authorities, including the Colorado Limited Gaming Control Commission, the Florida Department of Business and Professional Regulation-Division of Pari-Mutuel Wagering, the Illinois Gaming Board, the Indiana Gaming Commission, the Iowa Gaming and Racing Commission, the Louisiana Gaming Control Board, the Maine Gambling Control Board, the Maine Harness Racing Commission, the Mississippi State Tax Commission, the Mississippi Gaming Commission, the Missouri Gaming Commission, the New Jersey Racing Commission, the New Mexico Gaming Control Board, the New Mexico Racing Commission, the Ohio State Racing Commission, the Pennsylvania Gaming Control Board, the Pennsylvania State Horse Racing Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission, and the Alcohol and Gaming Commission of Ontario, have broad discretion, and may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend, fail to renew or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries or prevent another person from owning an equity interest in us. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. We cannot assure you that we will be able to obtain such renewals or approvals. Regulatory authorities have input into our operations, for instance, hours of operation, location or relocation of a facility, numbers and types of machines and loss limits. Regulators may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

We have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming and pari-mutuel facilities. We cannot assure you that we will be able to retain them or demonstrate suitability to obtain any new licenses, registrations, permits or approvals. In addition, the loss of a license in one jurisdiction could trigger the loss of a license or affect our eligibility for a license in another jurisdiction. As we expand our gaming operations in our existing jurisdictions or to new areas, we may have to meet additional suitability requirements and obtain additional licenses, registrations, permits and approvals from gaming authorities in these jurisdictions. The approval process can be time-consuming and costly and we cannot be sure that we will be successful.

Gaming authorities in the U.S. generally can require that any beneficial owner of our securities file an application for a finding of suitability. If a gaming authority requires a record or beneficial owner of our securities to file a suitability application, the owner must generally apply for a finding of suitability within 30 days or at an earlier time prescribed by the gaming authority. The gaming authority has the power to investigate such an owner's suitability and the owner must pay all costs of the investigation. If the owner is found unsuitable, then the owner may be required by law to dispose of our securities.

Potential changes in legislation and regulation of our operations. Regulations governing the conduct of gaming activities and the obligations of gaming companies in any jurisdiction in which we have or in the future may have gaming operations are subject to change and could impose additional operating, financial or other burdens on the way we conduct our business.

Moreover, legislation to prohibit or limit gaming may be introduced in the future in states where gaming has been legalized. In addition, from time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations or which may otherwise adversely impact our operations in the jurisdictions in which we operate. Any expansion of gaming or restriction on or prohibition of our gaming operations or enactment of other adverse regulatory changes could have a material adverse effect on our operating results. For example, in October 2005, the Illinois House of Representatives voted to approve proposed legislation that would eliminate riverboat gambling. If the Illinois Senate were to pass a bill eliminating riverboat gambling, our business would be materially impacted. However, leadership in the Illinois Senate has indicated that the Senate will not pass this bill. In addition, legislation banning smoking appears to be gaining momentum in a number of jurisdictions where we operate. If these bans are enacted our business could be adversely affected.

Taxation and fees. We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on our business, financial condition and results of operations. The large number of state and local governments with significant current or projected budget deficits makes it more likely that those governments that currently permit gaming will seek to fund such deficits with new or increased gaming taxes, and worsening economic conditions could intensify those efforts. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our future financial results.

Compliance with other laws. We are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. If we are not in compliance with these laws, it could have a material adverse effect on our business, financial condition and results of operations.

We depend on our key personnel.

We are highly dependent on the services of Peter M. Carlino, our Chairman and Chief Executive Officer, Timothy J. Wilmott, our President and Chief Operating Officer, and other members of our senior management team. Our ability to retain key personnel is affected by the competitiveness of our compensation packages and the other terms and conditions of employment, our continued ability to compete effectively against other gaming companies and our growth prospects. The loss of the services

of any of these individuals could have a material adverse effect on our business, financial condition and results of operations.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses and compliance risks.

Changing laws and regulations relating to corporate governance and public disclosure, including SEC

regulations and NASDAQ Global Select Market rules, are creating uncertainty for companies. These changed laws and regulations are subject to varying interpretations in many cases due to their lack of specificity, recent issuance and/or lack of guidance. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty and higher costs regarding compliance matters. Due to our commitment to maintain high standards of compliance with laws and public disclosure, our efforts to comply with evolving laws, regulations and standards have resulted in and are likely to continue to result in increased general and administrative expense. In addition, we are subject to different parties' interpretation of our compliance with these new and changing laws and regulations. A failure to comply with any of these laws or regulations could have a materially adverse effect on the company. For instance, if our gaming authorities, the SEC, our independent auditors or our shareholders and potential shareholders conclude that our compliance with the regulations is unsatisfactory, this may result in a negative public perception of our company, subject us to increased regulatory scrutiny, penalties or otherwise adversely affect us.

Inclement weather and other conditions could seriously disrupt our business and have a material adverse effect on our financial condition and results of operations.

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions, natural disasters and other casualties. Because many of our gaming operations are located on or adjacent to rivers, these facilities are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, forces of nature, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. For example, in late August 2005, we closed Hollywood Casino Bay St. Louis in Bay St. Louis, Mississippi, Boomtown Biloxi in Biloxi, Mississippi and Hollywood Casino Baton Rouge in Baton Rouge, Louisiana in anticipation of Hurricane Katrina. Hollywood Casino Baton Rouge subsequently reopened on August 30, 2005. However, due to the extensive damage sustained, operations at Boomtown Biloxi and Hollywood Casino Bay St. Louis did not resume until June 29, 2006 and August 31, 2006, respectively. In addition, several of our casinos are subject to risks generally associated with the movement of vessels on inland waterways, including risks of collision or casualty due to river turbulence and traffic. Many of our casinos operate in areas which are subject to periodic flooding that has caused us to experience decreased attendance and increased operating expenses. Any flood or other severe weather condition could lead to the loss of use of a casino facility for an extended period.

The extent to which we can recover under our insurance policies for damages sustained at our Gulf Coast properties in the event of future hurricanes, as well as changes in the local gaming market as a result of a hurricane could adversely affect our business.

On August 28, 2005, we closed Hollywood Casino Bay St. Louis in Bay St. Louis, Mississippi and Boomtown Biloxi casino in Biloxi, Mississippi in anticipation of Hurricane Katrina. Due to the extensive damage sustained, operations at Boomtown Biloxi and Hollywood Casino Bay St. Louis did not resume until June 29, 2006 and August 31, 2006, respectively. We maintain significant property insurance, including business interruption coverage, for both Hollywood Casino Bay St. Louis and Boomtown Biloxi. However, there can be no assurances that we will be fully or promptly compensated for weather-related losses at any of our facilities in the event of future hurricanes. Our experience

demonstrates that the infrastructure damage caused by hurricanes to the surrounding communities can adversely affect the local gaming markets by making travel and staffing more difficult.

We are subject to environmental laws and potential exposure to environmental liabilities.

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including emissions and discharges into the environment, and the handling and disposal of hazardous and nonhazardous substances and wastes. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities or restrictions. From time to time, we have incurred and are incurring costs and obligations for correcting environmental noncompliance matters. To date, none of these matters have had a material adverse effect on our business, financial condition or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

We also are subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs of remediating contaminated soil or groundwater on or from its property, without regard to whether the owner or operator knew of, or caused, the contamination, as well as incur liability to third parties impacted by such contamination. The presence of contamination, or failure to remediate it properly, may adversely affect our ability to sell or rent property. The Bullwhackers and Silver Hawk Casinos are located within the geographic footprint of the Clear Creek/Central City Superfund Site, a large area of historic mining activity which is the subject of state and federal clean-up actions. Although we have not been named a potentially responsible party for this Superfund Site, it is possible that as a result of our ownership and operation of these properties (on which mining may have occurred in the past), we may incur costs related to this matter in the future. Furthermore, we are aware that there is or may be soil or groundwater contamination at certain of our facilities resulting from current or former operations. These matters are in various stages of investigation, and we are not able at this time to estimate the costs that will be required to resolve them. Additionally, certain of the gaming chips used at many gaming properties, including ours, have been found to contain some level of lead. Analysis by third parties has indicated the normal handling of the chips does not create a health hazard. We are in the process of evaluating potential environmental issues and our disposal alternatives. To date, none of these matters or other matters arising under environmental laws has had a material adverse effect on our business, financial condition, or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

The concentration and evolution of the slot machine manufacturing industry could impose additional costs on us.

A majority of our revenues are attributable to slot machines operated by us at our gaming facilities. It is important, for competitive reasons, that we offer the most popular and up to date slot machine games with the latest technology to our customers.

We believe that a substantial majority of the slot machines sold in the U.S. in recent years were manufactured by a few select companies. In addition, we believe that one company in particular provided a majority of all slot machines sold in the U.S. in recent years.

In recent years, the prices of new slot machines have escalated faster than the rate of inflation. Furthermore, in recent years, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participation lease arrangements in order to acquire the machines. Participation slot machine leasing arrangements typically require the payment of a fixed daily rental. Such agreements may also include a percentage payment of coin-in or net win. Generally, a participation lease is substantially more expensive over the long term than the cost to purchase a new machine.

For competitive reasons, we may be forced to purchase new slot machines or enter into participation lease arrangements that are more expensive than our current costs associated with the continued operation of our existing slot machines. If the newer slot machines do not result in sufficient incremental revenues to offset the increased investment and participation lease costs, it could hurt our profitability.

We depend on agreements with our horsemen and pari-mutuel clerks.

The Federal Interstate Horseracing Act of 1978, as amended, the West Virginia Racing Act and the Pennsylvania Racing Act require that, in order to simulcast races, we have written agreements with the horse owners and trainers at our West Virginia and Pennsylvania race tracks. In addition, in order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of the horse breeders.

Effective October 1, 2004, we signed an agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course that expires on September 30, 2011. At the Charles Town Entertainment Complex, we have an agreement with the Charles Town Horsemen that expires on December 31, 2008 and one with the breeders that expires on June 30, 2008. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks which expires on December 31, 2010. Our agreement with the Maine Harness Horsemen Association at Bangor Raceway expires at the end of the 2008 racing season. Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires in May 2009.

If we fail to maintain operative agreements with the horsemen at a track, we will not be permitted to conduct live racing and export and import simulcasting at that track and off-track wagering facilities, and, in West Virginia, we will not be permitted to operate our gaming machines. In addition, our simulcasting agreements are subject to the horsemen's approval. If we fail to renew or modify existing agreements on satisfactory terms, this failure could have a material adverse effect on our business, financial condition and results of operations.

Work stoppages, organizing drives and other labor problems could negatively impact our future profits.

Some of our employees are currently represented by labor unions. A lengthy strike or other work stoppages at any of our casino properties or construction projects could have an adverse effect on our business and results of operations. Labor unions are making a concerted effort to recruit more employees in the gaming industry. We cannot provide any assurance that we will not experience additional and more successful union activity in the future.

Risks Related to Our Capital Structure

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt.

We continue to have a significant amount of indebtedness. Our substantial indebtedness could have important consequences to our financial health. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby

reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are not as highly leveraged;
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds; and
- result in an event of default if we fail to satisfy our obligations under our debt or fail to comply with the financial and other restrictive covenants contained in our debt, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

Any of the above listed factors could have a material adverse effect on our business, financial condition and results of operations. In addition, we may incur substantial additional indebtedness in the future, including to fund acquisitions. The terms of our existing indebtedness do not, and any future debt may not, fully prohibit us from doing so. If new debt is added to our current debt levels, the related risks that we now face could intensify.

The availability and cost of financing could have an adverse effect on business.

We intend to finance our current and future expansion and renovation projects primarily with cash flow from operations, borrowings under our current senior secured credit facility and equity or debt financings. If we are unable to finance our current or future expansion projects, we will have to adopt one or more alternatives, such as reducing or delaying planned expansion, development and renovation projects as well as capital expenditures, selling assets, restructuring debt, or obtaining additional equity financing or joint venture partners, or modifying our senior secured credit facility. Depending on credit market conditions, these sources of funds may not be sufficient to finance our expansion, and other financing may not be available on acceptable terms, in a timely manner or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness. If we are unable to secure additional financing, we could be forced to limit or suspend expansion, development and renovation projects, which may adversely affect our business, financial condition and results of operations.

Our indebtedness imposes restrictive covenants on us.

Our existing senior secured credit facility requires us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, our existing senior secured credit facility restricts, among other things, our ability to incur additional indebtedness, incur guarantee obligations, repay indebtedness or amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities. A failure to comply with the restrictions contained in our senior secured credit facility and the indentures governing our existing senior subordinated notes could lead to an event of default

thereunder which could result in an acceleration of such indebtedness. In addition, the indentures relating to our senior subordinated notes restrict, among other things, our ability to incur additional indebtedness (excluding certain indebtedness under senior secured credit facility), make certain payments and dividends or merge or consolidate. A failure to comply with the restrictions in any of the indentures governing the notes could result in an event of default under such indenture which could result in an acceleration of such indebtedness and a default under our other debt, including our existing senior subordinated notes and our senior secured credit facility.

To service our indebtedness, we will require a significant amount of cash, which depends on many factors beyond our control.

Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our existing senior secured credit facility will be adequate to meet our future liquidity needs for the next few years. We cannot assure you, however, that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our existing senior secured credit facility in amounts sufficient to enable us to fund our liquidity needs, including with respect to our indebtedness. In addition, if we consummate significant acquisitions in the future, our cash requirements may increase significantly. As we are required to satisfy amortization requirements under our existing senior secured credit facility or as other debt matures, we may also need to raise funds to refinance all or a portion of our debt. We cannot assure you that we will be able to refinance any of our debt, including our existing senior secured credit facility, on attractive terms, commercially reasonable terms or at all. Our future operating performance and our ability to service or refinance the notes, extend or refinance our debt, including our existing senior secured credit facility, will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

The price of our common stock may fluctuate significantly.

Our stock price may fluctuate in response to a number of events and factors, such as variations in operating results, actions by various regulatory agencies and legislatures, the perceived progress of the closing of the Merger, litigation, operating competition, market perceptions, progress with respect to potential acquisitions, changes in financial estimates and recommendations by securities analysts, the actions of rating agencies, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following describes our principal real estate properties:

Charles Town Entertainment Complex. We own a 300-acre parcel in Charles Town, West Virginia, a portion of which contains the Charles Town Entertainment Complex. The property also includes a $^{3}/_{4}$ mile all-weather, lighted thoroughbred racetrack and an enclosed grandstand/clubhouse.

Argosy Casino Lawrenceburg. The Argosy VI is a riverboat casino, which we own. We own and lease 52 acres in Lawrenceburg, Indiana, a portion of which serves as the dockside embarkation for the Argosy VI, and includes an entertainment pavilion, a 300-room hotel, and a parking garage. In addition, we own a 52-acre parcel on Route 50 which we use for remote parking.

Hollywood Casino Aurora. We own a dockside barge structure and land-based pavilion in Aurora, Illinois. The property also includes two parking garages under capital lease agreements.

Empress Casino Hotel. We own approximately 276 acres in Joliet, Illinois, which includes a barge-based casino, a 100-room hotel and an entertainment pavilion.

Argosy Casino Riverside. We own approximately 41 acres in Riverside, Missouri, which includes a barge-based casino, a 258-room luxury hotel, an entertainment/banquet facility and a parking garage.

Hollywood Casino Baton Rouge. The Hollywood Casino Baton Rouge is a four-story riverboat casino, which we own. We own a 17.4-acre site on the east bank of the Mississippi River in the East Baton Rouge Downtown Development District. The property site serves as the dockside embarkation for the Hollywood Casino Baton Rouge and features a two-story building. We also own 5.5 acres of land that are used primarily for offices, warehousing, and parking. In December 2007, we agreed to acquire 3.8 acres of adjacent land and jointly construct a railroad underpass with the seller of the land. The underpass will provide unimpeded access to the casino property and to property owned by the seller for future development.

Argosy Casino Alton. The Alton Belle II is a riverboat casino, which we own. We lease a 2.5-acre parcel in Alton, Illinois, a portion of which serves as the dockside boarding for the Alton Belle II. The dockside facility includes an entertainment pavilion and office space. In addition, we lease an office building adjacent to the property and own an office building nearby.

Hollywood Casino Tunica. We lease approximately 70 acres of land in Tunica, Mississippi, which contains a single-level casino, a 494-room hotel, and other land-based facilities.

Hollywood Casino Bay St. Louis. We own approximately 614 acres in the city of Bay St. Louis, Mississippi, including the 17-acre marina. The property includes an 18-hole golf course, a 291-room hotel, and other land-based facilities, all of which we own.

Argosy Casino Sioux City. We have a lease in Sioux City, Iowa, for the landing rights, which includes the dockside embarkation for the Argosy IV. The Argosy IV is a riverboat casino. We own the Argosy IV as well as adjacent barge facilities.

Boomtown Biloxi. We lease approximately 13 land acres, most of which is utilized for the gaming location, under a lease that expires in 2093. We also lease approximately 5 acres of submerged tidelands at the casino site from the State of Mississippi under a ten-year lease with a five-year option to renew. We own the barge on which the casino is located and all of the land-based facilities.

Hollywood Slots at Bangor. We lease approximately 26 acres located at Bass Park in Bangor, Maine, which consists of over 12,000 square feet of grandstand space with seating for 3,500 patrons. In addition, the Hollywood Slots at Bangor facility, which we lease, consists of just over 2 acres and is located near our Bass Park property. We own approximately 9 acres where the permanent facility, Hollywood Slots Hotel and

Raceway, is being constructed.

Bullwhackers. Our Bullwhackers Casino, the adjoining Bullpen Casino and the Silver Hawk Casino are located on an approximately 4-acre site. We own the Bullwhackers Casino and Silver Hawk Casino properties and lease the Bullpen Casino property. On August 30, 2006, we purchased a gas station/convenience store located approximately 7 miles east of Bullwhackers Casino on Highway 119. This is approximately a 7.6 acre site.

Black Gold Casino at Zia Park. Our Black Gold Casino adjoins the Zia Park Racetrack and is located on an approximately 320-acre site.

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 Canada Limited 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.

Hollywood Casino at Penn National Race Course. We own approximately 625 acres in Grantville, Pennsylvania, of which 225 is where the Penn National Race Course is located. Currently, the property includes a one-mile all-weather thoroughbred racetrack and a 7/8-mile turf track, and a temporary simulcast facility. The property also includes approximately 400 acres surrounding the Penn National Race Course that are available for future expansion or development.

Raceway Park. We own approximately 92 acres in Toledo, Ohio, where Raceway Park is located. The property includes a 5/8-mile harness race track, including a clubhouse and a grandstand.

Freehold Raceway. Through our joint venture, we own a 51-acre site in Freehold in Western Monmouth County, New Jersey, where Freehold Raceway in located. The property features a half-mile oval harness track and a grandstand.

Sanford-Orlando Kennel Club. We own approximately 26 acres in Longwood, Florida where Sanford-Orlando Kennel Club is located. The property includes a 1/4 mile racing surface, a clubhouse dining facility and a main grandstand building plus a parking lot. Kennel facilities for up to 1,300 greyhounds are located at a leased location approximately 1/2 mile from the racetrack enclosure.

Off-track wagering facilities ("OTWs"). We lease our four currently-operating OTW facilities. We also own the property where the closed Williamsport OTW facility operated through June 2007. The following is a list of our four currently-operating OTW facilities and their locations:

Our OTW Locations

Location	Size (Sq. Ft.)	Owned/Leased	Date Opened
Reading, PA	22,500	Leased	May 1992
Chambersburg, PA	12,500	Leased	April 1994
York, PA	25,000	Leased	March 1995
Lancaster, PA	24,000	Leased	July 1996

Other. We lease 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of Peter M. Carlino, our Chairman and Chief Executive Officer. We believe the lease terms for the executive office and warehouse to be no less favorable than such lease terms that could have been obtained from unaffiliated third parties.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the normal course of business. We do not believe that the final outcome of these matters will have a material adverse effect on our consolidated financial position or results of operations. In addition, we maintain what we believe is adequate insurance coverage to further mitigate the risks of such proceedings. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact our consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

The following proceedings could result in costs, settlements, damages, or rulings that materially impact our consolidated financial condition or operating results. In each instance, we believe that we have meritorious defenses, claims and/or counter-claims, and we intend to vigorously defend ourselves or pursue our claim.

In November 2005, Capital Seven, LLC and Shawn A. Scott (collectively, "Capital Seven"), the sellers of Bangor Historic Track, Inc. ("BHT"), filed a demand for arbitration with the American Arbitration Association seeking $30 million plus interest and other damages. Capital Seven alleges a breach of contract by us based on our payment of a $51 million purchase price for the purchase of BHT instead of an alleged $81 million purchase price Capital Seven claims is due under the purchase agreement. The parties had agreed that the purchase price of BHT would be determined, in part, by the applicable gaming taxes imposed by Maine on our operations, and currently are disputing the effective tax rate. Pursuant to the dispute resolution procedures, we deposited $30 million in escrow, pending a resolution. This amount is included in other assets within the consolidated balance sheets at December 31, 2007 and 2006. The parties are actively involved in discovery, and arbitration is currently scheduled for April 2008.

In conjunction with our acquisition of Argosy in 2005, and subsequent disposition of the Argosy Casino Baton Rouge property, we became responsible for litigation initiated over eight years ago related to the Baton Rouge casino license formerly owned by Argosy. On November 26, 1997, Capitol House filed an amended petition in the Nineteenth Judicial District Court for East Baton Rouge Parish, State of Louisiana, amending its previously filed but unserved suit against Richard Perryman, the person selected by the Louisiana Gaming Division to evaluate and rank the applicants seeking a gaming license for East Baton Rouge Parish, and adding state law claims against Jazz Enterprises, Inc., the former Jazz Enterprises, Inc. shareholders, Argosy, Argosy of Louisiana, Inc. and Catfish Queen Partnership in Commendam, d/b/a the Belle of Baton Rouge Casino. This suit alleged that these parties violated the Louisiana Unfair Trade Practices Act in connection with obtaining the gaming license that was issued to Jazz Enterprises, Inc./Catfish Queen Partnership in Commendam. The plaintiff, an applicant for a gaming license whose application was denied by the Louisiana Gaming Division, sought to prove that the gaming license was invalidly issued and to recover lost gaming revenues that the plaintiff contended it could have earned if the gaming license had been properly issued to the plaintiff. On October 2, 2006, we prevailed on a partial summary judgment motion which limited plaintiff's damages to its

out-of-pocket costs in seeking its gaming license, thereby eliminating any recovery for potential lost gaming profits. On February 6, 2007, the jury returned a verdict of $3.8 million (exclusive of statutory interest and attorneys' fees) against Jazz Enterprises, Inc. and Argosy. After ruling on post-trial motions, on September 27, 2007, the trial court entered a judgment in the amount of $1.4 million, plus attorneys' fees, costs and interest. We have established an appropriate reserve and have bonded the judgment pending its appeal. Both the plaintiff and us have appealed the judgment to the First Circuit Court of Appeals in Louisiana. We have the right to seek indemnification from two of the former Jazz Enterprises, Inc. shareholders for any liability suffered as a result of such cause of action, however, there can be no assurance that the former Jazz Enterprises, Inc. shareholders will have assets sufficient to satisfy any claim in excess of Argosy's recoupment rights.

In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. The casinos began paying the 3% tax surcharge during the three months ended June 30, 2006 into a protest fund which accrues interest during the pendency of the lawsuit. The accumulated funds will be returned to the casinos if they ultimately prevail in the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, the casinos will continue paying the 3% tax surcharge into the protest fund until a final order has been entered in the case. The

State of Illinois has appealed the ruling to the Illinois Supreme Court, and oral arguments were heard in November 2007. We anticipate that a ruling on the appeal will be made in the next several months.

In August 2007, a complaint was filed on behalf of a putative class of our public shareholders, and derivatively on behalf of us, in the Court of Common Pleas of Berks County, Pennsylvania (the "Complaint"). The Complaint names our Board of Directors as defendants and us as a nominal defendant. The Complaint alleges, among other things, that the Board of Directors breached their fiduciary duties by agreeing to the proposed transaction with Fortress and Centerbridge for inadequate consideration, that certain members of the Board of Directors have conflicts with regard to the Merger, and that we and our Board of Directors have failed to disclose certain material information with regard to the Merger. The Complaint seeks, among other things, a court order: determining that the action is properly maintained as a class action and a derivative action; enjoining us and our Board of Directors from consummating the proposed Merger; and awarding the payment of attorneys' fees and expenses. We and the plaintiff have reached a tentative settlement in which we agreed to pay certain attorneys' fees and to make certain disclosures regarding the events leading up to the transaction with Fortress and Centerbridge in the proxy statement sent to shareholders in November 2007. Final settlement is contingent upon court approval and consummation of the transaction with Fortress and Centerbridge.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a)

A Special Meeting of Shareholders was held on December 12, 2007.

(c)

Certain matters voted upon at the Meeting and the votes cast with respect to such matters are as follows:

(i) Approve and adopt the Agreement and Plan of Merger, dated as of June 15, 2007, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc. and PNG Merger Sub Inc. (the "Merger"):

Votes For	Votes Against	Abstentions	Broker Non-Votes
70,262,096	432,721	31,878	—

(ii) Adjournment and postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Merger Agreement:

Votes For	Votes Against	Abstentions	Broker Non-Votes
68,286,445	2,381,160	59,090	—

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Range of Market Price

Our common stock is quoted on The NASDAQ Global Select Market under the symbol "PENN." The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on The NASDAQ Global Select Market.

	High	Low
2007		
First Quarter	$ 47.99	$ 39.94
Second Quarter	63.68	42.06
Third Quarter	61.00	54.40
Fourth Quarter	62.30	56.67
2006		
First Quarter	$ 42.48	$ 30.95
Second Quarter	43.59	35.00
Third Quarter	39.09	31.01
Fourth Quarter	41.99	36.57

The closing sale price per share of our common stock on The NASDAQ Global Select Market on February 14, 2008, was $48.61. As of February 14, 2008, there were approximately 628 holders of record of our common stock.

Dividend Policy

Since our initial public offering of common stock in May 1994, we have not paid any cash dividends on our common stock. We intend to retain all of our earnings to finance the development of our business, and thus, do not anticipate paying cash dividends on our common stock for the foreseeable future. Payment of any cash dividends in the future will be at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, operations and capital requirements, our general financial condition and general business conditions. Moreover, our existing credit facility prohibits us from authorizing, declaring or paying any dividends until our commitments under the credit facility have been terminated and all amounts outstanding

thereunder have been repaid. In addition, future financing arrangements may prohibit the payment of dividends under certain conditions.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial and operating data for the years ended December 31, 2007 and 2006 is derived from our consolidated financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm. The following selected consolidated financial and operating data for the years ended December 31, 2005, 2004, and 2003 are derived from our consolidated financial statements that had been audited by BDO Seidman, LLP, an independent registered public accounting firm. The selected consolidated financial and operating data should be read in conjunction with our consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

The following is a listing of our acquisitions and dispositions that occurred during the five-year period ended December 31, 2007:

- In March 2003, we acquired Hollywood Casino Corporation.
- In January 2005, we transferred the operations of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). The sale was not considered final until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding until August 7, 2006.
- In July 2005, the Hollywood Casino Shreveport property was disposed of.
- In October 2005, we acquired Argosy Gaming Company ("Argosy") and divested the Argosy Casino Baton Rouge property.
- In April 2007, we acquired Black Gold Casino at Zia Park.
- In October 2007, we acquired Sanford-Orlando Kennel Club.

	Year Ended December 31,				
	2007(1)	2006	2005(2)	2004	2003(3)
	(in thousands, except per share data)				
Income statement data:(4)					
Net revenues	$ 2,436,793	$ 2,244,547	$ 1,369,105	$ 1,105,290	$ 980,520
Total operating expenses	1,938,984	1,666,706	1,125,557	891,510	803,985
Income from continuing operations	497,809	577,841	243,548	213,780	176,535
Other expenses, net	(205,569)	(207,909)	(101,778)	(76,152)	(76,878)

Income from continuing operations before income taxes	292,240	369,932	141,770	137,628	99,657
Taxes on income	132,187	156,852	54,593	50,288	37,463
Net income from continuing operations	160,053	213,080	87,177	87,340	62,194
Income (loss) from discontinued operations	—	114,008	33,753	(15,856)	(10,723)
Net income	$ 160,053	$ 327,088	$ 120,930	$ 71,484	$ 51,471
Per share data:(5)					
Earnings (loss) per share—Basic					
Income from continuing operations	$ 1.87	$ 2.53	$ 1.05	$ 1.09	$ 0.79
Discontinued operations, net of tax	—	1.35	0.41	(0.20)	(0.14)
Basic earnings per share	$ 1.87	$ 3.88	$ 1.46	$ 0.89	$ 0.65
Earnings (loss) per share—Diluted					
Income from continuing operations	$ 1.81	$ 2.46	$ 1.02	$ 1.05	$ 0.77
Discontinued operations, net of tax	—	1.32	0.39	(0.19)	(0.14)
Diluted earnings per share	$ 1.81	$ 3.78	$ 1.41	$ 0.86	$ 0.63
Weighted shares outstanding—Basic	85,578	84,229	82,893	80,510	78,946
Weighted shares outstanding—Diluted	88,384	86,634	85,857	83,508	81,224
Other data:					
Net cash provided by operating activities	$ 431,219	$ 281,809	$ 150,475	$ 197,164	$ 140,779
Net cash used in investing activities	(611,617)	(302,341)	(1,978,800)	(67,114)	(331,607)
Net cash provided by (used in) financing activities	186,255	56,427	1,873,221	(124,177)	217,459
Depreciation and amortization	147,915	123,951	72,531	65,785	57,471
Interest expense	198,059	196,328	89,344	75,720	76,616
Capital expenditures	361,155	408,883	121,135	68,957	56,733
Balance sheet data:					
Cash and cash equivalents(6)	$ 174,372	$ 168,515	$ 132,620	$ 87,620	$ 81,567
Total assets	4,967,032	4,514,082	4,190,404	1,632,701	1,609,599
Total debt(6)	2,974,922	2,829,448	2,786,229	858,909	990,123
Shareholders' equity	1,120,962	921,163	546,543	398,092	309,878

(1) Reflects the operations of Black Gold Casino at Zia Park since April 16, 2007, and Sanford-Orlando Kennel Club since October 17, 2007.

(2) Reflects the operations of Argosy properties since the October 1, 2005 acquisition effective date.

(3) Reflects the operations of the Hollywood Casino properties since the March 1, 2003 acquisition effective date.

(4) For purposes of comparability, 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 March 7, 2005 stock split.

(6)
Does not include discontinued operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Operations

We are a leading, diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties. We currently own or operate nineteen facilities in fifteen jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario. We believe that our portfolio of assets provides us with a diversified cash flow from operations.

We have made significant acquisitions in the past, and expect to continue to pursue additional acquisition and development opportunities in the future. In 1997, we began our transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, we have continued to expand our gaming operations through strategic acquisitions, including the acquisitions of Hollywood Casino Corporation in March 2003, Argosy Gaming Company ("Argosy") in October 2005, Black Gold Casino at Zia Park in April 2007, and Sanford-Orlando Kennel Club in October 2007.

On June 15, 2007, we announced that we had entered into a merger agreement that would ultimately result in our shareholders receiving $67.00 per share. Specifically, we, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), announced that we entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (the "Merger Agreement"), that provides, among other things, for Merger Sub to be merged with and into us (the "Merger"), as a result of which we will continue as the surviving corporation and will become a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds (the "Funds") managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge"). On December 12, 2007, our shareholders approved the Merger Agreement. Based upon the tally of shares voted, with 81.6% of our outstanding shares voting, 99.3% of the shares were voted in favor of the transaction. We are seeking to complete the transaction late in the second quarter of 2008. The timing of any closing is subject to obtaining certain regulatory approvals and satisfying other customary closing conditions. See "Risk Factors—Risks Related to the Consummation of the Merger Agreement" on page 17 of this Annual Report on Form 10-K for a discussion of the risk in connection with the consummation of the Merger.

The vast majority of our revenues is gaming revenue, derived primarily from gaming on slot machines and, to a lesser extent, table games. Other revenues are derived from our management service fee from Casino Rama, our hotel, dining, retail, admissions, program sales, concessions and certain other ancillary activities, and our racing operations. Our racing revenue includes our share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, our share of wagering from import and export simulcasting, and our share of wagering from our off-track wagering facilities ("OTWs").

We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions of gaming properties, particularly in attractive regional markets.

Key performance indicators related to gaming revenue are slot handle (volume indicator), table game drop (volume indicator) and "win" or "hold" percentages. Our typical property slot win percentage is in the range of 6% to 10% of slot handle, and our typical table game win percentage is in the range of 15% to 25% of table game drop.

Our properties generate significant operating cash flow, since most of our revenue is cash-based from slot machines and pari-mutuel wagering. Our business is capital intensive, and we rely on cash flow from our properties to generate operating cash to repay debt, fund capital maintenance

expenditures, fund new capital projects at existing properties and provide excess cash for future development and acquisitions.

Executive Summary

Factors affecting our results for the year ended December 31, 2007, as compared to the year ended December 31, 2006, included revenue growth at several of our properties, the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, the acquisition of Black Gold Casino at Zia Park, and lower insurance costs. These increases were partially offset by decreases in net revenues at Empress Casino Hotel and Hollywood Casino Baton Rouge, costs related to our support of local referenda in Kansas and West Virginia, and costs associated with our previously announced Merger.

Highlights for the year:

- Net revenues increased $192.2 million, or 8.6%, for the year ended December 31, 2007, as compared to the year ended December 31, 2006, primarily due to revenue growth at several of our properties, including the Argosy Casino Riverside, Charles Town Entertainment Complex, Hollywood Casino Aurora, Argosy Casino Lawrenceburg, and Hollywood Slots at Bangor, the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, and the acquisition of Black Gold Casino at Zia Park, which we acquired in mid-April 2007, all of which were partially offset by decreases in net revenues at Empress Casino Hotel, due to continued competitive pressures, and Hollywood Casino Baton Rouge, due to ongoing post-hurricane market stabilization.
- On October 17, 2007, pursuant to the Asset Purchase Agreement dated July 5, 2007, we completed the purchase of Sanford-Orlando Kennel Club in Longwood, Florida from Sanford-Orlando Kennel Club, Inc. and Collins and Collins. In connection with the purchase, we also secured a right of first refusal with respect to a majority stake in the Sarasota Kennel Club in Sarasota, Florida. The purchase price for the Sanford-Orlando Kennel Club provides for additional consideration to be paid by us based upon certain future regulatory developments. Located on approximately 26 acres in Longwood, Florida, the Sanford-Orlando Kennel Club features year-round greyhound racing, a simulcast wagering facility, a clubhouse lounge and two dining areas. The results of the Sanford-Orlando Kennel Club have been included in our consolidated financial statements since the acquisition date.
-

In June 2007, we renewed our first layer of property insurance coverage in the amount of $200 million. The $200 million coverage, which is effective from August 8, 2007 through December 31, 2010, is on an "all risk" basis, including, but not limited to, coverage for "named windstorms," floods and earthquakes. Also, we purchased an additional $400 million of "all risk" coverage that is subject to certain exclusions including, among others, exclusions for "named windstorms," floods and earthquakes. The additional $400 million coverage is effective from August 8, 2007 through June 1, 2008. There is a $25 million deductible for "named windstorm" events, and lesser deductibles as they apply to other perils. Both layers are subject to specific policy terms, conditions and exclusions. The premium for the new property insurance coverage is expected to be $8.2 million less, from August 8, 2007 until August 7, 2008, than it was from August 8, 2006 until August 7, 2007.

- On April 16, 2007, pursuant to the Asset Purchase Agreement dated November 7, 2006 among Zia Partners, LLC ("Zia"), Zia Park LLC (the "Buyer"), one of our wholly-owned subsidiaries, and (solely with respect to specified sections thereof which relate to our guarantee of the Buyer's payment and performance) us, the Buyer completed the acquisition of the Black Gold Casino at Zia Park and all related assets of Zia. We funded this purchase with additional borrowings under our existing $750 million revolving credit facility. The results of the Black Gold Casino at Zia Park have been included in our consolidated financial statements since the acquisition date.

Other Developments:

- On February 6, 2008, we announced that we named Timothy J. Wilmott to the position of President and Chief Operating Officer.
- On December 12, 2007, we announced that we received the unanimous endorsement of the Sumner County Commissioners for our proposed destination resort in Wellington, Kansas. We secured one of two endorsements from the Sumner County Commissioners, which is a prerequisite in negotiating for, and ultimately securing, a state lottery gaming facility management contract. Sumner County is in the South Central Gaming Zone, one of four areas of the state where gaming is authorized under the new Kansas Expanded Lottery Act ("KELA").
- On November 28, 2007, we announced that we would not proceed with our proposed acquisition of Rosecroft Raceway, a harness racetrack located in Prince George's County, Maryland near Washington, D.C.
- On August 31, 2007, we filed a license application with the Kansas Lottery Commission to be considered as a Lottery Gaming Facility Manager at a destination casino resort in Cherokee County. Cherokee County is within the Southeast Gaming Zone, one of four areas of the state where gaming is authorized under the new KELA. We previously earned an exclusive endorsement from the Cherokee County Commissioners and executed a pre-development agreement with the host community. On August 23, 2007 an action was filed by the Kansas Attorney General challenging the constitutionality of KELA. The challenge is based on the prohibition in the Kansas constitution of all lotteries except those owned by the State of Kansas. On February 1, 2008, the Shawnee County District Court upheld the constitutionality of KELA. The Attorney General is appealing the ruling to the Kansas Supreme Court.
-

On June 15, 2007, we announced that we entered into a Merger Agreement that would ultimately result in our shareholders receiving $67.00 per share. Specifically, we, Parent and Merger Sub, announced that we entered into a Merger Agreement that provides, among other things, for the Merger, as a result of which we will continue as the surviving corporation and will become a wholly-owned subsidiary of Parent. Parent is indirectly owned by Funds managed by affiliates of Fortress and Centerbridge. On December 12, 2007, our shareholders approved the Merger Agreement. Based upon the tally of shares voted, with 81.6% of our outstanding shares voting, 99.3% of the shares were voted in favor of the transaction. We are seeking to complete the transaction late in the second quarter of 2008. The timing of any closing is subject to obtaining certain regulatory approvals and satisfying other customary closing conditions. See "Risk Factors—Risks Related to the Consummation of the Merger Agreement" on page 17 of this Annual Report on Form 10-K for a discussion of the risk in connection with the consummation of the Merger.

- On June 9, 2007, citizens in Jefferson County, West Virginia, voted against the placement of table games at the Charles Town Entertainment Complex. According to the West Virginia Lottery Racetrack Table Games Act, we will have to wait at least two years from June 9, 2007 before we can propose another table games referendum vote.

- On June 6, 2007, we announced that our shareholders approved our Annual Incentive Plan and the performance goals thereunder, and voted against the 2007 Employee Long Term Incentive Compensation Plan and the 2007 Long Term Incentive Compensation Plan for Non-Employee Directors of the Company (the "2007 Equity Compensation Plans"). Accordingly, we also announced that we would not proceed with our previously announced program to repurchase up to $200 million of our common stock, as it was conditioned on shareholder approval of the 2007 Equity Compensation Plans.

- In April 2007, we opened Argosy Casino Riverside's Mediterranean-themed, nine-story, 258-room hotel and spa to the public, as well as our latest expansion at the Charles Town Entertainment Complex.

- On March 23, 2007, BTN, Inc. ("BTN"), one of our wholly-owned subsidiaries, entered into an amended and restated ground lease (the "Amended Lease") with Skrmetta MS, LLC. The lease amended the prior ground lease, dated October 19, 1993. The Amended Lease requires BTN to maintain a minimum gaming operation on the leased premises and to pay rent equal to 5% of adjusted gaming win after gaming taxes have been deducted. The term of the Amended Lease expires on January 1, 2093. The lessor purchased property owned by BTN and certain other of our wholly-owned subsidiaries in the vicinity of Boomtown Biloxi casino for $12.8 million. As a result of the execution of the Amended Lease, all litigation between the lessor and BTN was settled and dismissed.

- On January 22, 2007, we completed a claim settlement agreement (the "Claim Settlement Agreement") with Allianz Global Risks US Insurance Company, Arch Insurance Company, Everest Reinsurance (Bermuda) Ltd., Princeton Excess and Surplus Lines Insurance Company, U.S. Fire Insurance Company, XL Insurance Company Ltd., HCC International Insurance Co. PLC (Houston Casualty) and certain underwriters at Lloyd's (together, the "Insurers") with respect to the business

interruption and property damage claims under our all-risk property insurance program resulting from Hurricane Katrina's impact on our Hollywood Casino Bay St. Louis and Boomtown Biloxi properties (the "Hurricane Katrina Claims"). Pursuant to the Claim Settlement Agreement, which had an effective date of December 31, 2006, the Insurers paid us an aggregate of $100 million in January 2007, which was in addition to the $125 million in reimbursements that we previously received from the Insurers in connection with the Hurricane Katrina Claims, and both we and the Insurers agreed to release each other from, and covenanted not to sue each other regarding, any other claims arising from the Hurricane Katrina catastrophe.

- In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. The casinos began paying the 3% tax surcharge during the three months ended June 30, 2006 into a protest fund which accrues interest during the pendency of the lawsuit, and have subsequently expensed approximately $24.7 million in incremental tax, including $15.4 million during the year ended December 31, 2007. The accumulated funds will be returned to the casinos if they ultimately prevail in the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, the casinos will continue paying the 3% tax surcharge into the protest fund until a final order has been entered in the case. The State of Illinois has appealed the ruling to the Illinois Supreme Court, and oral arguments were heard in November 2007. We anticipate that a ruling on the appeal will be made in the next several months.
- We are continuing to build and develop several of our properties, including the Charles Town Entertainment Complex, Argosy Casino Lawrenceburg and the permanent Hollywood Slots at Bangor, which will be called the Hollywood Slots Hotel and Raceway. Additional information regarding our capital projects is discussed in detail in the section entitled "Liquidity and Capital Resources—Capital Expenditures" below.

Critical Accounting Policies

We make certain judgments and use certain estimates and assumptions when applying accounting principles in the preparation of our consolidated financial statements. The nature of the estimates and assumptions are material due to the levels of subjectivity and judgment necessary to account for highly uncertain factors or the susceptibility of such factors to change. We have identified the policies related to the accounting for long-lived assets, goodwill and other intangible assets, income taxes and litigation, claims and assessments as critical accounting policies, which require us to make significant judgments, estimates and assumptions.

We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and, in certain

situations, could have a material adverse effect on our financial condition.

The development and selection of the critical accounting policies, and the related disclosures, have been reviewed with the Audit Committee of our Board of Directors.

Long-lived assets

At December 31, 2007, we had a net property and equipment balance of $1,688.4 million within the consolidated balance sheet, representing 34% of total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are determined based on the nature of the assets as well as our current operating strategy. We review the carrying value of our property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated future cash flows expected to result from its use and eventual disposition. The factors considered by us in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the individual property level. In assessing the recoverability of the carrying value of property and equipment, we must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record an impairment loss for these assets. Such an impairment loss would be calculated based upon the discounted future cash flows expected to result from the use of the asset, and would be recognized as a non-cash component of operating income.

Goodwill and other intangible assets

At December 31, 2007, we had $2,013.1 million in goodwill and $777.4 million in other intangible assets within the consolidated balance sheet, representing 41% and 16% of total assets, respectively, resulting from our acquisition of other businesses and payment for gaming licenses and racing permits. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation; and (ii) the ongoing evaluation for impairment.

In connection with our acquisitions, valuations are completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of our due diligence in connection with the acquisitions and projections for future operations. Goodwill is 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 goodwill exceeds its fair value, an impairment loss is recognized. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), issued by the Financial Accounting Standards Board ("FASB"),

we consider our gaming license, racing permit and trademark intangible assets as indefinite-life intangible assets that do not require amortization. Rather, these intangible assets are tested at least annually for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the gaming license, racing permit and trademark intangible assets exceed their fair value, an impairment loss is recognized. The annual evaluation of goodwill and indefinite-life intangible assets requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. Changes in forecasted operations can materially affect these estimates. Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because our goodwill and

indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that have a definite-life, including the management service contract for Casino Rama, are amortized on a straight-line basis over their estimated useful lives or related service contract. We review the carrying value of our intangible assets that have a definite-life for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount of the intangible assets that have a definite-life exceed their fair value, an impairment loss is recognized.

Income taxes

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The realizability of the deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The factors used to assess the likelihood of realization are the forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. We have used tax-planning strategies to realize or renew net deferred tax assets in order to avoid the potential loss of future tax benefits.

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is an interpretation of SFAS 109, on January 1, 2007. FIN 48 created a single model to address uncertainty in tax positions, and clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. FIN 48 also provided guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As a result of the implementation of FIN 48, we recognized a liability for unrecognized tax benefits of approximately $11.9 million, which was accounted for as a reduction to the January 1, 2007 retained earnings balance. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2007.

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.

Results of Operations

The following are the most important factors and trends that contribute to our operating performance:

- The fact that most of our properties operate in mature competitive markets. As a result, we expect a majority of our future growth to come from prudent acquisitions of gaming properties, jurisdictional expansions (such as in Pennsylvania, Maine and Kansas) and property expansion in under-penetrated markets (such as at our Lawrenceburg property).
- The actions of government bodies can affect our operations in a variety of ways. For instance, the continued pressure on governments to balance their budgets could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. In addition, government bodies may restrict, prevent or negatively impact operations in the jurisdictions in which we do business (such as through the smoking ban in Illinois that was signed in July 2007 and became effective on January 1, 2008).
- The fact that a number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for instance, in Kansas and Kentucky) and potential competitive threats to business at our existing properties (such as in Kansas, Maryland, Ohio, and Kentucky). The timing and occurrence of these events remain uncertain. We also face uncertainty regarding anticipated gaming expansion by one of our competitors in Baton Rouge, Louisiana. Legalized gaming from casinos located on Native American lands can also have a significant competitive effect.
- The continued demand for, and our emphasis on, slot wagering entertainment at our properties.
- The ongoing successful expansion and revenue gains at the Charles Town Entertainment Complex, Argosy Casino Lawrenceburg, Hollywood Casino at Penn National Race Course and Hollywood Slots at Bangor.
- The successful execution of the development and construction activities currently underway at a number of our facilities, as well as the risks associated with the costs, regulatory approval and the timing for these activities.

The results of continuing operations for the years ended December 31, 2007, 2006, and 2005 are summarized below:

Year Ended December 31,	2007	2006	2005
		(in thousands)	
Revenues:			
Gaming	$ 2,227,944	$ 2,057,617	$ 1,211,360
Management service fee	17,273	18,146	18,596
Food, beverage and other	320,520	275,700	213,089
Gross revenues	2,565,737	2,351,463	1,443,045

Less promotional allowances	(128,944)	(106,916)	(73,940)
Net revenues	2,436,793	2,244,547	1,369,105
Operating expenses:			
Gaming	1,155,062	1,061,904	644,801
Food, beverage and other	247,576	224,673	160,796
General and administrative	388,431	349,909	198,109
Hurricane	—	(128,253)	21,145
Goodwill impairment	—	34,522	—
Settlement costs	—	—	28,175
Depreciation and amortization	147,915	123,951	72,531
Total operating expenses	1,938,984	1,666,706	1,125,557
Income from continuing operations	$ 497,809	$ 577,841	$ 243,548

The results of continuing operations by property for the years ended December 31, 2007, 2006, and 2005 are summarized below:

	Net Revenues			Income (loss) from Continuing Operations		
Year Ended December 31,	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
			(in thousands)			
Charles Town Entertainment Complex	$ 500,800	$ 485,197	$ 440,641	$ 127,277	$ 122,938	$ 109,495
Argosy Casino Lawrenceburg(1)	478,719	474,046	107,259	142,690	139,267	31,792
Hollywood Casino Aurora	251,877	245,475	227,339	73,914	70,140	65,972
Empress Casino Hotel(1)	225,794	238,843	58,228	38,821	47,822	14,019
Argosy Casino Riverside(1)	174,426	153,441	34,844	42,388	37,744	7,680
Hollywood Casino Baton Rouge	135,869	144,001	129,675	47,417	52,097	16,645
Argosy Casino Alton(1)	119,166	115,194	26,046	29,709	21,373	3,615
Hollywood Casino Tunica	103,858	106,352	106,496	19,536	19,393	19,187
Hollywood Casino Bay St. Louis	96,622	32,184	69,595	4,850	35,810	(5,855)
Argosy Casino Sioux City(1)	54,417	53,909	13,218	13,259	13,363	2,929
Boomtown Biloxi	86,159	51,421	45,714	12,979	72,812	346
Hollywood Slots at Bangor	46,689	40,871	5,957	9,523	7,332	(1,845)
Bullwhackers	28,882	26,812	29,435	1,149	947	2,028
Black Gold Casino at Zia Park(2)	58,572	—	—	16,702	—	—
Casino Rama management service contract	17,273	18,146	18,595	15,899	16,765	17,234
Pennsylvania Racing Operations	48,488	50,303	53,777	(9,451)	629	(2,956)
Raceway Park(1)	7,814	8,352	2,286	(1,119)	(651)	124
Sanford-Orlando Kennel Club(3)	1,368	—	—	(3)	—	—
Earnings from Pennwood Racing, Inc.	—	—	—	—	—	—

Corporate overhead	—	—	—	(87,731)	(79,940)	(36,862)
Total	$ 2,436,793	$ 2,244,547	$ 1,369,105	$ 497,809	$ 577,841	$ 243,548

(1) Reflects results since the October 1, 2005 acquisition effective date.

(2) Reflects results since the April 16, 2007 acquisition effective date.

(3) Reflects results since the October 17, 2007 acquisition effective date.

Revenues

Revenues for the year ended December 31, 2007, 2006 and 2005 are as follows (in thousands):

Year ended December 31,	2007	2006	Variance	Percentage Variance
Gaming	$ 2,227,944	$ 2,057,617	$ 170,327	8.3%
Management service fee	17,273	18,146	(873)	(4.8)%
Food, beverage and other	320,520	275,700	44,820	16.3%
Gross revenues	2,565,737	2,351,463	214,274	9.1%
Less promotional allowances	(128,944)	(106,916)	(22,028)	20.6%
Net revenues	$ 2,436,793	$ 2,244,547	$ 192,246	8.6%

Year ended December 31,	2006	2005	Variance	Percentage Variance
Gaming	$ 2,057,617	$ 1,211,360	$ 846,257	69.9%
Management service fee	18,146	18,596	(450)	(2.4)%
Food, beverage and other	275,700	213,089	62,611	29.4%
Gross revenues	2,351,463	1,443,045	908,418	63.0%
Less promotional allowances	(106,916)	(73,940)	(32,976)	44.6%
Net revenues	$ 2,244,547	$ 1,369,105	$ 875,442	63.9%

Gaming revenue

Gaming revenue increased by $170.3 million, or 8.3%, to $2,227.9 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis, the acquisition of Black Gold Casino at Zia Park, the reopening of Boomtown Biloxi, and revenue growth at several of our properties, all of which were partially offset by decreases at Empress Casino Hotel and Hollywood Casino Baton Rouge.

Gaming revenue at Hollywood Casino Bay St. Louis increased by $57.1 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Gaming revenue at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $53.0 million in 2007.

Gaming revenue at Boomtown Biloxi increased by $31.9 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Gaming revenue at Argosy Casino Riverside increased by $16.4 million in 2007, primarily due to successful marketing promotions and increased patronage at the property due to the opening of its hotel to the public in April 2007.

Gaming revenue at the Charles Town Entertainment Complex increased by $14.4 million in 2007, primarily due to an increase in gaming play as a result of slot expansion and an aggressive advertising and promotional campaign.

Gaming revenue at Hollywood Casino Aurora increased by $6.2 million in 2007, primarily due to increases in slot and table game revenues resulting from the continued refinement of marketing programs and the incentives offered to existing customers, as well as increases in slot hold, all of which were partially offset by a decrease in slot handle. Slot revenue benefited from the expansion of highly popular low-denomination video slot machines, which generate a higher win per unit and hold percentages than other slot machines.

Gaming revenue at Hollywood Slots at Bangor increased by $5.7 million in 2007, due to continued growth in the Bangor market.

Gaming revenue at Argosy Casino Lawrenceburg increased by $4.7 million in 2007, primarily due to an increase in poker room revenue, as the poker room was not in operation in the first quarter of 2006, and decreases in sales incentives and point loyalty programs. The increase in gaming revenue was partially offset by decreases in slot and table game revenues.

Gaming revenue at Empress Casino Hotel decreased by $12.8 million in 2007, due to continued competitive pressures.

Gaming revenue at Hollywood Casino Baton Rouge decreased by $8.3 million in 2007 due to ongoing post-hurricane market stabilization.

Gaming revenue increased by $846.3 million, or 69.9%, to $2,057.6 million in 2006, primarily due to the addition of the Argosy properties, which increased gaming revenue by $761.6 million, the introduction of the Hollywood Slots at Bangor, which had increased gaming revenue of $33.3 million from 2005, and revenue growth at several of our properties. Gaming revenue increased at the Charles Town Entertainment Complex by $45.4 million in 2006, due to an increase in patronage due to increased market awareness and expansion of the property. Gaming revenue increased at Hollywood Casino Aurora by $18.5 million in 2006, as a result of the continued refinement of the marketing programs implemented in 2005 and increases to the incentives offered to existing customers. Gaming revenue increased at Hollywood Casino Baton Rouge by $14.0 million in 2006, as a result of the population growth in the Baton Rouge area, the economic impact of the regional recovery efforts and the reduced competition from casinos on the Mississippi Gulf Coast, all of which were related to the impact of Hurricane Katrina on the region. All of these increases were partially offset by a decrease of $29.1 million at Hollywood Casino Bay St. Louis, which was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Food, beverage and other revenue

Food, beverage and other revenue increased by $44.8 million, or 16.3%, to $320.5 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis, the opening of the Argosy Casino Riverside hotel, the reopening of Boomtown Biloxi, the acquisition of Black Gold Casino at Zia Park, and our purchase and opening of a gas station/convenience store near the Bullwhackers facility.

Food, beverage and other revenue at Hollywood Casino Bay St. Louis increased by $20.3 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Food, beverage and other revenue at Argosy Casino Riverside increased by $7.1 million in 2007, primarily due to the opening of its hotel to the public in April 2007.

Food, beverage and other revenue at Boomtown Biloxi increased by $6.3 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Food, beverage and other revenue at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $5.8 million in 2007.

Food, beverage and other revenue at Bullwhackers increased by $2.4 million in 2007, primarily due to our purchase and opening of a gas station/convenience store near the Bullwhackers facility during the third quarter of 2006.

Food, beverage and other revenue increased by $62.6 million, or 29.4%, to $275.7 million in 2006, primarily due to the addition of the Argosy properties, which increased food, beverage and other revenue by $78.9 million, partially offset by decreases of $13.8 million and $2.1 million at Hollywood Casino Bay St. Louis and Boomtown Biloxi, which were closed from August 28, 2005 until August 31,

2006 and June 29, 2006, respectively, due to Hurricane Katrina, and a decrease of $3.9 million at Penn National Race Course, which was modified from a permanent facility to a temporary facility in 2006, as construction began on Hollywood Casino at Penn National Race Course.

Promotional allowances

Promotional allowances increased by $22.0 million, or 20.6%, to $128.9 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, as well as increased wagering by some of our customers at our Pennsylvania Racing Operations and the opening of the Argosy Casino Riverside hotel.

Promotional allowances at Hollywood Casino Bay St. Louis increased by $13.0 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Promotional allowances at Boomtown Biloxi increased by $3.6 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Promotional allowances at Pennsylvania Racing Operations increased by $3.0 million in 2007, primarily due to an increase in wagering by customers who receive point rebates.

Promotional allowances at Argosy Casino Riverside increased by $2.6 million in 2007, primarily due to the opening of its hotel to the public in April 2007 and gaming revenue growth.

Promotional allowances increased by $33.0 million, or 44.6%, to $106.9 million in 2006, primarily due to the Argosy acquisition, which increased promotional allowances by $38.5 million, partially offset by a decrease at Hollywood Casino Bay St. Louis of $5.5 million, which was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Operating Expenses

Operating expenses for the year ended December 31, 2007, 2006 and 2005 are as follows (in thousands):

Year ended December 31,	2007	2006	Variance	Percentage Variance
Gaming	$ 1,155,062	$ 1,061,904	$ 93,158	8.8%
Food, beverage and other	247,576	224,673	22,903	10.2%
General and administrative	388,431	349,909	38,522	11.0%
Hurricane	—	(128,253)	128,253	100.0%
Goodwill impairment	—	34,522	(34,522)	(100.0)%
Depreciation and amortization	147,915	123,951	23,964	19.3%
Total operating expenses	$ 1,938,984	$ 1,666,706	$ 272,278	16.3%

Year ended December 31,	2006	2005	Variance	Percentage Variance
Gaming	$ 1,061,904	$ 644,801	$ 417,103	64.7%
Food, beverage and other	224,673	160,796	63,877	39.7%
General and administrative	349,909	198,109	151,800	76.6%
Hurricane	(128,253)	21,145	(149,398)	(706.5)%
Goodwill impairment	34,522	—	34,522	100.0%
Settlement costs	—	28,175	(28,175)	(100.0)%
Depreciation and amortization	123,951	72,531	51,420	70.9%
Total operating expenses	$ 1,666,706	$ 1,125,557	$ 541,149	48.1%

Gaming expense

Gaming expense increased by $93.2 million, or 8.8%, to $1,155.1 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis, the acquisition of Black Gold Casino at Zia Park, the reopening of Boomtown Biloxi, and increases and decreases in gaming taxes and other gaming expense at our properties.

Gaming expense at Hollywood Casino Bay St. Louis increased by $32.9 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Gaming expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $29.1 million for 2007.

Gaming expense at Boomtown Biloxi increased by $13.5 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Gaming expense at the Charles Town Entertainment Complex increased by $9.9 million in 2007, primarily due to increased gaming taxes and purses resulting from higher gaming revenue.

Gaming expense at Argosy Casino Riverside increased by $5.3 million in 2007, due to an increase in gaming taxes resulting from higher gaming revenue.

Gaming expense at Empress Casino Hotel decreased by $5.9 million in 2007, primarily due to decreases in marketing expenses and gaming taxes.

Gaming expense at Hollywood Casino Baton Rouge decreased by $3.9 million in 2007, primarily due to decreased gaming taxes resulting from lower gaming revenue.

Gaming expense at Argosy Casino Alton decreased by $3.3 million in 2007, due to the expiration of the Illinois "hold harmless" tax minimum guarantee on July 1, 2007.

Gaming expense increased by $417.1 million, or 64.7%, to $1,061.9 million in 2006, primarily due to the addition of the Argosy properties, increases at the Charles Town Entertainment Complex and Hollywood Casino Aurora, and the introduction of the Hollywood Slots at Bangor temporary facility. The addition of the Argosy properties increased gaming expense by $385.8 million. Gaming expense increased at the Charles Town Entertainment Complex by $26.6 million in 2006 due to increases in gaming taxes, which were a result of an increase in gaming revenue. Gaming expense increased at Hollywood Casino Aurora by $10.3 million due to increases in gaming taxes, which were a result of an increase in gaming revenue and the 3% Illinois tax surcharge. Gaming expense at the Hollywood Slots at Bangor temporary facility increased by $19.3 million, as the property opened to customers in November 2005. All of these increases were partially offset by a decrease at Hollywood Casino Bay St. Louis of $27.7 million, which was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Food, beverage and other expense

Food, beverage and other expense increased by $22.9 million, or 10.2%, to $247.6 million in 2007, primarily due to the opening of the Argosy Casino Riverside hotel, the reopening of Hollywood Casino Bay St. Louis, the acquisition of Black Gold Casino at Zia Park, and the reopening of Boomtown Biloxi.

Food, beverage and other expense at Argosy Casino Riverside increased by $5.8 million in 2007, primarily due to the opening of its hotel to the public in April 2007.

Food, beverage and other expense at Hollywood Casino Bay St. Louis increased by $5.0 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Food, beverage and other expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $4.1 million in 2007.

Food, beverage and other expense at Boomtown Biloxi increased by $3.2 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Food, beverage and other expense increased by $63.9 million, or 39.7%, to $224.7 million in 2006, primarily due to the addition of the Argosy properties, which increased food, beverage and other expense by

$77.6 million, partially offset by decreases at Hollywood Casino Bay St. Louis and Boomtown Biloxi, where food, beverage and other expense declined by $9.2 million and $2.2 million, respectively, as both properties were closed from August 28, 2005 until August 31, 2006 and June 29, 2006, respectively, due to Hurricane Katrina.

General and administrative expense

General and administrative expense increased by $38.5 million, or 11.0%, to $388.4 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, pre-opening charges related to the Hollywood Casino at Penn National Race Course, the acquisition of Black Gold Casino at Zia Park, and increased corporate overhead expense. General and administrative expense at the properties includes expenses such as compliance, facility maintenance, utilities, property and liability insurance, surveillance and security, and certain housekeeping, as well as all expenses for administrative departments such as accounting, purchasing, human resources, legal and internal audit.

General and administrative expense at Hollywood Casino Bay St. Louis increased by $14.4 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

General and administrative expense at Boomtown Biloxi increased by $12.9 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

General and administrative expense at Penn National Race Course increased by $6.1 million in 2007, primarily due to a $2.5 million pre-opening charge for Pennsylvania Gaming Control Board start-up fees and other expenses associated with the opening of the Hollywood Casino at Penn National Race Course, which opened on February 12, 2008.

General and administrative expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $5.1 million in 2007.

Corporate overhead expense increased by $5.0 million in 2007, primarily due to the costs incurred relating to the expensing of equity-based compensation awards as required under SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") having increased by $4.9 million, as additional equity-based compensation awards were granted during 2007.

General and administrative expense increased by $151.8 million, or 76.6%, to $349.9 million in 2006, primarily due to the addition of the Argosy properties, which increased general and administrative expense by $100.0 million, the reopening of Hollywood Casino Bay St. Louis, the introduction of the Hollywood Slots at Bangor temporary facility, and an increase in corporate overhead expenses for items such as the SFAS 123(R) charge. General and administrative expense at Hollywood Casino Bay St. Louis increased by $7.7 million in 2006, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina. General and administrative expense at Hollywood Slots at Bangor increased by $7.6 million, as the property opened to customers in November 2005. Corporate overhead expense increased by $34.7 million, due to costs incurred during 2006 for acquisition opportunities, increases in legal fees and lobbying costs, additional payroll expense for staffing, and our January 1, 2006 adoption of SFAS 123(R).

Hurricane

During the year ended December 31, 2006, our financial results benefited from a settlement agreement with our property and business interruption insurance providers for a total of $225 million for Hurricane Katrina-related losses at our Hollywood Casino Bay St. Louis and Boomtown Biloxi properties, as well as minor proceeds related to our National Flood Insurance coverage and auto insurance claims. Reflecting the settlement agreement, we recorded a pre-tax gain of $128.3 million ($81.8 million, net of taxes).

We recognized a pre-tax charge of $21.1 million ($13.7 million after-tax) associated with the expenses incurred from Hurricane Katrina for the year ended December 31, 2005. The costs included property insurance and business interruption policy deductible expense (approximately $10.2 million), compensation being paid to employees through November 30, 2005 that exceeded the ordinary payroll limits under the business interruption policy (approximately $6.1 million), the purchase of replacement flood insurance for coverage during the remaining insurance policy term (approximately $3.6 million), contributions to the Penn National Gaming Foundation's Hurricane Katrina Relief Project (approximately $1.0 million) and costs for insurance claim consultants (approximately $0.2 million).

Goodwill impairment

As a result of the increased asset values resulting from the reconstruction at Hollywood Casino Bay St. Louis, we determined that all of the goodwill associated with the original purchase of the property was impaired. Accordingly, we recorded a pre-tax charge of $34.5 million ($22.0 million, net of taxes) during the year ended December 31, 2006.

Settlement costs

Hollywood Casino Baton Rouge recorded one-time settlement costs of $28.2 million ($16.8 million after-tax) during the year ended December 31, 2005. The charge was part of the $30.5 million Settlement and Property Purchase Agreement, which terminated litigation between the parties, terminated the lease and mutually released all claims of the parties. The property acquired consists of land on the Mississippi River on which Hollywood Casino Baton Rouge conducts a significant portion of its dockside operations.

Depreciation and amortization expense

Depreciation and amortization expense increased by $24.0 million, or 19.3%, to $147.9 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, incremental depreciation at the Charles Town Entertainment Complex, the acquisition of Black Gold Casino at Zia Park, and the opening of the Argosy Casino Riverside hotel.

Depreciation and amortization expense at Hollywood Casino Bay St. Louis increased by $8.6 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Depreciation and amortization expense at Boomtown Biloxi increased by $5.8 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Depreciation and amortization expense at the Charles Town Entertainment Complex increased by $3.5 million in 2007, due to incremental depreciation for assets placed into service subsequent to the same periods in 2006, including expanded gaming space, a 378-seat buffet and a new parking garage, which were completed in mid-2006.

Depreciation and amortization expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $3.5 million in 2007.

Depreciation and amortization expense at Argosy Casino Riverside increased by $3.0 million in 2007, primarily due to the opening of its hotel to the public in April 2007.

Depreciation and amortization expense increased by $51.4 million, or 70.9%, to $124.0 million in 2006, primarily due to the addition of the Argosy properties, which increased depreciation by $45.4 million, partially offset by a decrease of $5.5 million that was primarily a result of depreciation being suspended at our Mississippi properties for property and equipment as a result of Hurricane Katrina.

Other income (expenses)

Other income (expenses) for the year ended December 31, 2007, 2006 and 2005 are as follows: (in thousands):

Year ended December 31,	2007	2006	Variance	Percentage Variance
Interest expense	$ (198,059)	$ (196,328)	$ (1,731)	(0.9)%
Interest income	4,016	3,525	491	13.9 %
Loss from joint venture	(99)	(788)	689	87.4 %
Other	(11,427)	(4,296)	(7,131)	(166.0)%
Loss on early extinguishment of debt	—	(10,022)	10,022	100.0 %
Total other expenses	$ (205,569)	$ (207,909)	$ 2,340	1.1 %

Year ended December 31,	2006	2005	Variance	Percentage Variance
Interest expense	$ (196,328)	$ (89,344)	$ (106,984)	(119.7)%
Interest income	3,525	4,111	(586)	(14.3)%
(Loss) earnings from joint venture	(788)	1,455	(2,243)	(154.2)%
Other	(4,296)	39	(4,335)	(11,115.4)%
Loss on early extinguishment of debt	(10,022)	(18,039)	8,017	44.4 %
Total other expenses	$ (207,909)	$ (101,778)	$ (106,131)	(104.3)%

Interest expense

Interest expense increased by $107.0 million, or 119.7%, to $196.3 million in 2006, as a result of our entry into a new $2.725 billion senior secured credit facility on October 3, 2005. The senior secured credit facility is comprised of a $750 million revolving credit facility, a $325 million Term Loan A facility and a $1.65 billion Term Loan B facility.

Other

Other increased by $7.1 million, or 166.0%, to $(11.4) million in 2007, primarily due to Merger-related costs and currency translation losses that were recorded during the year ended December 31, 2007.

Loss on early extinguishment of debt

We recorded a $10.0 million loss on early extinguishment of debt during the year ended December 31, 2006, as a result of the redemption of $175 million in aggregate principal amount of our outstanding 8 7/8% senior subordinated notes due March 15, 2010. As a result of the redemption, we recorded a loss on early extinguishment of debt of $10.0 million for the call premium and the write-off of the associated deferred financing fees. We recorded a $18.0 million loss on early extinguishment of

debt during the year ended December 31, 2005 as a result of the following: $14.0 million loss for the redemption of our $200 million 11 1/8% senior subordinated notes and a $5.7 million loss for the write-off of deferred finance charges relating to the termination of our previous senior secured credit facility, offset by a $1.7 million pre-tax gain for the termination of swap contracts related to the repaid loans.

Taxes

The increase in our effective tax rate to 45.2% for the year ended December 31, 2007, as compared to 42.4% for the year ended December 31, 2006, reflects the impact of FIN 48 tax positions and an increase in nondeductible permanent differences.

Discontinued operations

Discontinued operations reflect the results of Hollywood Casino Shreveport ("HCS"), The Downs Racing, Inc., and the sale of Argosy Casino Baton Rouge. We recorded a gain on sale of discontinued operations, net of tax benefit, of $114.0 million in 2006. We recorded a gain on sale of discontinued operations, net of tax benefit, of $37.9 million in 2005, and a net loss, net of tax benefit, from discontinued operations of $4.1 million in 2005.

On October 15, 2004, we announced the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). In January 2005, we received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, we entered into the Second Amendment to the Purchase Agreement and Release of Claims ("Amendment and Release") with the MTGA pertaining to the October 14, 2004 Purchase Agreement (the "Purchase Agreement"), and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against us under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. As a result of the Amendment and Release, we recorded, in accordance with GAAP, a net book gain on the $250 million sale ($280 million initial price, less $30 million payable pursuant to the Amendment and Release) of The Downs Racing, Inc. and its subsidiaries to the MTGA of $114.0 million (net of $84.9 million of income taxes) during the year ended December 31, 2006. In addition, we recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years, with the first payment of $7.0 million having been made in November 2007.

We recorded a net loss for The Downs Racing, Inc. and its subsidiaries for the year ended December 31, 2005 of $38,000.

On August 27, 2004, HCS entered into an agreement with Eldorado Resorts LLC ("Eldorado") providing for the acquisition of HCS by certain affiliates of Eldorado. On September 10, 2004, a group of HCS's creditors, led by Black Diamond Capital Management, LLC, filed an involuntary Chapter 11 case against HCS. On July 6,

2005, the U.S. Bankruptcy Court entered an order confirming a Chapter 11 plan that provided for the acquisition of HCS by certain affiliates of Eldorado and, on July 22, 2005, the acquisition was completed. As a result, we recorded a non-cash pre-tax gain of approximately $58.3 million, representing the aggregate amount of previously-recorded losses. The after-tax effect of the gain was approximately $37.9 million. We recorded a net loss of $5.5 million for HCS for the year ended December 31, 2005.

On October 25, 2005, pursuant to the previously-announced Securities Purchase Agreement among Argosy, Wimar Tahoe Corporation and CP Baton Rouge Casino, L.L.C., an affiliate of Columbia

Sussex Corporation, we completed the sale of Argosy Casino Baton Rouge to Columbia Sussex Corporation for approximately $148.6 million. We owned Argosy Casino Baton Rouge for twenty-four days prior to the sale, and we did not record a gain or loss on sale of the property, as the sale price on date of disposition equaled the estimated fair value of the assets and liabilities acquired, but assigned a purchase price equal to $148.6 million. We recorded net income for Argosy Casino Baton Rouge of $1.4 million for the year ended December 31, 2005.

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 $431.2 million, $281.8 million, and $150.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. Net cash provided by operating activities for the year ended December 31, 2007 included net income of $160.1 million, non-cash reconciling items, such as depreciation, amortization and the charge for stock compensation of $206.4 million, and net changes in asset and liability accounts of $64.7 million.

Net cash used in investing activities totaled $611.6 million, $302.3 million and $1,978.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. Net cash used in investing activities for the year ended December 31, 2007 included expenditures for property and equipment totaling $361.1 million and acquisition of businesses and licenses, such as the Black Gold Casino at Zia Park and Sanford-Orlando Kennel Club acquisitions and the Pennsylvania gaming license, totaling $265.5 million, both of which were partially offset by proceeds from the sale of property and equipment totaling $15.0 million.

Net cash provided by financing activities totaled $186.3 million, $56.4 million and $1,873.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. Net cash provided by financing activities for the year ended December 31, 2007 included proceeds from the exercise of stock options totaling $24.9 million, proceeds from the issuance of long-term debt of $426.1 million, proceeds from insurance financing of $29.0 million and the tax benefit from stock options exercised totaling $20.5 million, all of which were partially offset by principal payments on long-term debt totaling $282.4 million and $31.8 million in payments on insurance financing.

Capital Expenditures

Capital expenditures are accounted for as either capital project or capital maintenance (replacement) expenditures. Capital project expenditures are for fixed asset additions that expand an existing facility. Capital maintenance (replacement) expenditures are expenditures to replace existing fixed assets with a useful life

greater than one year that are obsolete, worn out or no longer cost effective to repair.

The following table summarizes our capital project expenditures, other than capital maintenance expenditures and Hurricane Katrina-related expenditures for the repair of Boomtown Biloxi and Hollywood Casino Bay St. Louis, by property, for the year ended December 31, 2007:

Property	Actual (in millions)
Charles Town Entertainment Complex	$ 31.5
Hollywood Casino at Penn National Race Course	149.3
Hollywood Slots at Bangor	49.3
Argosy Casino Riverside	9.3
Argosy Casino Lawrenceburg	40.4
Other	6.5
Total	$ 286.3

At the Charles Town Entertainment Complex, we opened phase one of our latest expansion on April 20, 2007, bringing Charles Town's total slot count to approximately 5,000 units. Our next phase of development at the Charles Town Entertainment Complex includes plans for a 153-room hotel. The expected opening date of the hotel is the third quarter of 2008.

In late December 2006, the Pennsylvania Gaming Control Board granted us a Category 1 slot machine license for the placement of slot machines at our planned Hollywood Casino at Penn National Race Course. In August 2006, we commenced construction of the integrated racing and gaming facility at Penn National Race Course. The Hollywood Casino at Penn National Race Course is a 365,000 square foot facility, and is sized for 3,000 slot machines, with approximately 2,000 positions currently operating. The Hollywood Casino at Penn National Race Course includes a 2,500 space parking garage and several restaurants. The Hollywood Casino at Penn National Race Course opened on February 12, 2008. We plan to spend an aggregate of $326.0 million on the project, including an additional $12.0 million incurred after the opening for a signature restaurant and buffet in order to provide additional dining venues.

At the Hollywood Slots at Bangor, we are building a permanent facility, which will include a 1,500 slot facility (1,000 slot machines at opening), a 152-room hotel, a 1,500 space parking garage and several restaurants. The expected opening date is the third quarter of 2008. We plan to spend an aggregate of $139.0 million on the project. Upon completion, the permanent facility will be called the Hollywood Slots Hotel and Raceway.

We opened Argosy Casino Riverside's Mediterranean-themed, nine-story, 258-room hotel and spa to the public in April 2007.

The expansion at Argosy Casino Lawrenceburg includes a 1,500 space parking garage, which is expected to open in the second quarter of 2008, a two-level 270,000 square foot riverboat, and numerous infrastructure upgrades to allow more convenient access to the property, which are expected to open in the second quarter of 2009. The new riverboat will allow up to 4,000 positions on one level and another 400 positions will be added to the second level, along with restaurants and other amenities on the gaming riverboat. We plan to spend an

aggregate of $328.0 million on the project.

During the year ended December 31, 2007, we spent approximately $2.6 million for Hurricane Katrina-related capital project expenditures at Boomtown Biloxi and Hollywood Casino Bay St. Louis.

During the year ended December 31, 2007, we spent approximately $72.2 million for capital maintenance expenditures at our properties. The majority of the capital maintenance expenditures were for slot machines, slot machine equipment, and environmental work.

Cash generated from operations and cash available under the revolver portion of our $2.725 billion senior secured credit facility have funded our capital project and capital maintenance expenditures in 2007 to date.

The following table summarizes our expected capital project expenditures, other than capital maintenance expenditures and planned expenditures related to projects that we have not yet been

awarded, such as in Cherokee County and Sumner County, Kansas, by property for the year ended December 31, 2008, as well as the projects in their entirety:

Property	December 31, 2008	Project Total
	(in millions)	
Charles Town Entertainment Complex	$ 16.0	$ 23.0
Hollywood Casino at Penn National Race Course	87.0	326.0
Hollywood Slots at Bangor	87.0	139.0
Argosy Casino Lawrenceburg	102.0	328.0
Other	17.0	17.0
Totals	$ 309.0	$ 833.0

- We continue to build and develop the Charles Town Entertainment Complex, with plans for the current expansion of the property including a 153-room on-site hotel expected to open in the third quarter of 2008. We plan on spending $23.0 million on the project.
- The Hollywood Casino at Penn National Race Course project includes a license fee of $50.0 million, the construction and fitting of a 365,000 square foot facility, 2,000 slot machines (with the ability to add 1,000 additional machines), a 2,500 space parking garage and several restaurants. Hollywood Casino at Penn National Race Course opened on February 12, 2008. We plan on spending a total of $326.0 million on the project, including an additional $12.0 million incurred after the opening for a signature restaurant and buffet in order to provide additional dining venues.
- Due to the results currently generated by our temporary Hollywood Slots at Bangor facility and a substantial number of patrons driving significant distances to Hollywood Slots at Bangor, we have added a 152-room hotel to the plans for the permanent Hollywood Slots at Bangor facility, which will feature a two-story, semi-circular, glass tower casino area, a four-story parking garage, restaurants, retail space and a new simulcast facility for off-track wagering. Construction of the facility, which will open with 1,000 slot machines and have capacity for 1,500 gaming machines, is expected to be

completed in the third quarter of 2008 at a projected cost of $139.0 million.

- The expansion at Argosy Casino Lawrenceburg includes a 1,500 space parking garage, which is expected to open in the second quarter of 2008, a two-level 270,000 square foot riverboat, and numerous infrastructure upgrades to allow more convenient access to the property, which are expected to open in the second quarter of 2009. The new riverboat will allow up to 4,000 positions on one level and another 400 positions will be added to the second level, along with restaurants and other amenities on the gaming riverboat. We plan to spend an aggregate of $328.0 million on the project.

Debt

In January 2005, we received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. In March 2005, we completed a private offering of $250 million of $6^{3}/4$% senior subordinated notes. The proceeds from these activities were applied to the redemption of $200 million of our $11^{1}/8$% Series B senior subordinated notes and were applied to previously-announced development projects. In October 2005, we entered into a new $2.725 billion senior secured credit facility. The proceeds of the senior secured credit facility were used to, among other things, fund the consummation of our acquisition of Argosy, repay our and Argosy's existing credit facilities, fund Argosy's repurchase of all of its 9% senior subordinated notes and 7% senior subordinated notes tendered in the previously-announced tender offers and consent solicitations and pay certain fees and

expenses in connection with the aforementioned transactions. Consistent with our management of our capital structure, in February 2006 we called for the redemption of the $175 million of our outstanding $8^{7}/8$% senior subordinated notes. We funded the note redemption from available cash and borrowings under our revolving credit facility, which we expect to result in lower levels of debt service going forward.

Senior Secured Credit Facility

On October 3, 2005, the Company entered into a $2.725 billion senior secured credit facility to fund the Company's acquisition of Argosy, including payment for all of Argosy's outstanding shares, the retirement of certain long-term debt of Argosy and its subsidiaries, the payment of related transaction costs, and to provide additional working capital. Concurrent with this financing, the Company's previous senior credit facility was terminated, which resulted in an early extinguishment of debt charge of $4.0 million. The $2.725 billion senior secured credit facility consists of three credit facilities comprised of a $750 million revolving credit facility (of which $575.0 million was drawn at December 31, 2007), a $325 million Term Loan A Facility and a $1.65 billion Term Loan B Facility. The $2.725 billion senior secured credit facility also allows the Company to raise an additional $300 million in senior secured credit for project development and property expansion.

During the year ended December 31, 2007, the senior secured credit facility increased by $152.8 million, primarily due to the issuance of long-term debt for items such as partial funding for the Black Gold Casino at Zia Park acquisition and the payment for capital expenditures, partially offset by principal payments on long-term debt.

The senior secured credit facility is secured by substantially all of the assets of the Company.

Redemption of $8^{7}/8$% Senior Subordinated Notes

In February 2006, we called for the redemption of our $175 million 8 7/8% senior subordinated notes. The redemption price was $1,044.38 per $1,000 principal amount, plus accrued and unpaid interest and was made on March 15, 2006. We recorded a $10.0 million loss on early extinguishment of debt during the year ended December 31, 2006 for the call premium and the write-off of the associated deferred financing fees. We funded the redemption of the notes from available cash and borrowings under our revolving credit facility.

6 7/8% Senior Subordinated Notes

On December 4, 2003, we completed an offering of $200 million of 6 7/8% senior subordinated notes that mature on December 1, 2011. Interest on the notes is payable on June 1 and December 1 of each year, beginning June 1, 2004.

We may redeem all or part of the notes on or after December 1, 2007 at certain specified redemption prices.

The 6 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. The 6 7/8% notes rank equally with our future senior subordinated debt and junior to our senior debt, including debt under our senior secured credit facility. In addition, the 6 7/8% notes will be effectively junior to any indebtedness of our 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 of 1933 (the "Securities Act"). On August 27, 2004, we completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act having substantially identical terms.

6 3/4% Senior Subordinated Notes

On March 9, 2005, we completed an offering of $250 million of 6 3/4% senior subordinated notes that mature on March 1, 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005. The 6 3/4% notes are general unsecured obligations and are not guaranteed by our subsidiaries. The 6 3/4% notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act.

Other Long-Term Obligations

On October 15, 2004, we announced the sale of The Downs Racing, Inc. and its subsidiaries to the MTGA. Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania off-track wagering facilities located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, we received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, we entered into the Amendment and Release with the MTGA pertaining to the Purchase Agreement, and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various

claims it raised against us under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. We recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years, with the first payment of $7.0 million having been made in November 2007.

Covenants

Our $2.725 billion senior secured credit facility, $200 million 6$^{7}/_{8}$% and $250 million 6$^{3}/_{4}$% senior subordinated notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, our $2.725 billion senior secured credit facility, $200 million 6$^{7}/_{8}$% and $250 million 6$^{3}/_{4}$% senior subordinated notes restrict, among other things, our ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

At December 31, 2007, we were in compliance with all required financial covenants.

Outlook

Based on our current level of operations, and anticipated revenue growth, we believe that cash generated from operations and amounts available under our senior secured credit facility will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated revenue growth will be realized, or that future borrowings will be available under our senior secured credit facility or otherwise will be available to enable us to service our indebtedness, including the senior secured credit facility and the notes, to retire or redeem the notes when required or to make anticipated capital expenditures. In addition, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable

valuations, jurisdictional expansions and property expansion in under-penetrated markets. If we consummate significant acquisitions in the future or undertake any significant property expansions, our cash requirements may increase significantly and we may need to make additional borrowings or complete equity or debt financings to meet these requirements. We may need to refinance all or a portion of our debt on or before maturity. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Commitments and Contingencies

Contractual Cash Obligations

At December 31, 2007, there was $575.0 million indebtedness outstanding under the revolving credit portion of our senior secured credit facility and approximately $138.5 million available for borrowing. The following table presents our contractual cash obligations at December 31, 2007:

	Payments Due By Period				
	Total	2008	2009 - 2010	2011 - 2012	2013 and After
			(in thousands)		
Senior secured credit facility					
Principal	$ 2,496,625	$ 85,562	$ 774,563	$ 1,636,500	$ —
Interest	603,245	155,605	297,799	149,841	—
6 7/8% senior subordinated notes					
Principal	200,000	—	—	200,000	—
Interest	55,000	13,750	27,500	13,750	—
6 3/4% senior subordinated notes					
Principal	250,000	—	—	—	250,000
Interest	126,563	16,875	33,750	33,750	42,188
Other long-term obligations	19,810	5,609	10,918	3,283	—
Purchase obligations	38,642	30,192	4,932	2,550	968
Capital expenditure commitments	201,897	201,897	—	—	—
Capital leases	8,487	2,281	3,082	1,204	1,920
Operating leases	58,039	8,550	11,697	8,894	28,898
Other liabilities reflected in the Company's consolidated balance sheets	14,742	14,157	195	195	195
Total	$ 4,073,050	$ 534,478	$ 1,164,436	$ 2,049,967	$ 324,169

Other Commercial Commitments

The following table presents our material commercial commitments as of December 31, 2007 for the following future periods:

	Total Amounts Committed	2008	2009 □ 2010	2011 □ 2012	2013 and After
			(in thousands)		
Letters of Credit(1)	$ 36,477	$ 36,477	$ —	$ —	$ —
Guarantees of New Jersey Joint Venture Obligations(2)	5,750	767	4,983	—	—
Total	$ 42,227	$ 37,244	$ 4,983	$ —	$ —

(1) The available balance under the revolving credit portion of our senior secured credit facility is diminished by outstanding letters of credit.

(2) In connection with our 50% ownership interest in Pennwood Racing, Inc. ("Pennwood"), our joint venture in New Jersey, we entered into a debt service maintenance agreement with Pennwood's lender to guarantee up to 50% of Pennwood's $11.5 million term loan. Our obligation at December 31, 2007 under this guarantee was approximately $5.75 million.

Interest Rate Swap Agreements

See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" below.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised), "Business Combinations" ("SFAS 141(R)"), which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) impacts the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently determining the impact of SFAS 141(R) on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115" ("SFAS 159"), which permits an entity to choose to measure many financial instruments and certain other items at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. We adopted SFAS 159 as of January 1, 2008, as required. We do not expect that the adoption of SFAS 159 will have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim

periods within those fiscal years. We adopted SFAS 157 as of January 1, 2008, as required. We do not expect that the adoption of SFAS 157 will have a material impact on our consolidated financial statements.

In July 2006, the FASB issued FIN 48, which is an interpretation of SFAS No. 109. FIN 48 created a single model to address uncertainty in tax positions, and clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. FIN 48 also provided guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a liability for unrecognized tax benefits of approximately $11.9 million, which was accounted for as a reduction to the January 1, 2007 retained earnings balance. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2007.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information at December 31, 2007 about our financial instruments that are

sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents notional amounts maturing during the year and the related weighted-average interest rates at year-end. For interest rate swaps, the table presents notional amounts and weighted-average interest rates outstanding at each year-end. Notional amounts are used to calculate the contractual payments to be exchanged under the contract and the weighted-average variable rates are based on implied forward rates in the yield curve as of December 31, 2007.

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value 12/31/07
	(in thousands)							
Long-term debt:								
Fixed rate	$ 5,609	$ 5,511	$ 5,407	$ 203,283	$ —	$ 250,000	$ 469,810	$ 475,247
Average interest rate	7.00%	7.00%	7.00%	6.88%	—	6.75%		
Variable rate	$ 85,562	$ 97,750	$ 676,813	$ 473,250	$ 1,163,250	$ —	$ 2,496,625	$ 2,496,625
Average interest rate(1)	5.66%	6.04%	6.56%	6.75%	6.80%	—		
Leases	$ 2,281	$ 2,031	$ 1,051	$ 1,127	$ 77	$ 1,920	$ 8,487	$ 8,487
Average interest rate	6.88%	6.63%	5.68%	5.67%	7.72%	7.72%		
Interest rate derivatives:								
Interest rate swaps								
Variable to fixed(2)	$ 811,000	$ 574,000	$ 300,000	$ —	$ —	$ —	N/A	$ (26,896)
Average pay rate	4.93%	5.02%	5.26%				N/A	
Average receive rate(3)	4.11%	4.50%	5.05%				N/A	

(1) Estimated rate, reflective of forward LIBOR plus the spread over LIBOR applicable to variable-rate borrowing.

(2) Notional amounts outstanding at each year-end.

(3) Estimated rate, reflective of forward LIBOR.

In accordance with the terms of our $2.725 billion senior secured credit facility, we were required to enter into interest rate swap agreements in an amount equal to 50% of the outstanding term loan balances within 100 days of the closing date of the senior secured credit facility. On October 25, 2005, we entered into four interest rate swap contracts with terms from three to five years, notional amounts of $224 million, $274 million,

$225 million, and $237 million, for a total of $960 million, and fixed interest rates ranging from 4.678% to 4.753%. The annual weighted-average interest rate of the four contracts is 4.71%. On April 6, 2006, we entered into three interest rate swap contracts with a term of five years and notional amounts of $100 million each, for a total of $300 million and fixed interest rates

ranging from 5.263% to 5.266%. The annual weighted-average interest rate of the three contracts is 5.26%. On September 5, 2007, we entered into two interest rate swap contracts with terms of nine months and notional amounts of $197 million and $181 million, for a total of $378 million, and fixed interest rates of 5.01%. Under all of these contracts, we pay a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31 2007, the applicable 90-day LIBOR rate was 5.01% for the $960 million swaps, 4.90% for the $300 million swaps, 4.99% for the $197 million swap, and 5.21% for the $181 million swap. On December 19, 2007, we entered into three monthly interest rate swap contracts, each with notional amounts of $146.25 million and fixed rates of 4.97% effective December 31, 2007, 4.47% effective January 31, 2008 and 4.40% effective February 29, 2008. Under these contracts, we pay a fixed interest rate against a variable interest rate based on the 30-day LIBOR rate. As of December 31, 2007, the applicable 30-day LIBOR rate was 4.85% for the $146.25 million swap.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Penn National Gaming, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, the Company changed the manner in

which it accounts for share-based compensation in 2006.

As discussed in Note 4 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertainty in income taxes in 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Penn National Gaming Inc. and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 22, 2008

Report of Independent Registered Public Accounting Firm

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited the accompanying consolidated statements of income, shareholders' equity and cash flows of Penn National Gaming, Inc. and subsidiaries for the year ended December 31, 2005. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of Penn National Gaming, Inc.'s operations and their cash flows for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

BDO Seidman, LLP
Philadelphia, Pennsylvania
March 7, 2006

Penn National Gaming, Inc. and Subsidiaries Consolidated Balance Sheets (in thousands, except share and per share data)

	December 31, 2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 174,372	$ 168,515
Receivables, net of allowance for doubtful accounts of $3,241 and $3,698 at December 31, 2007 and 2006, respectively	56,427	53,829
Insurance receivable	—	100,000
Prepaid expenses and other current assets	52,825	57,432
Deferred income taxes	19,079	22,187
Total current assets	302,703	401,963
Property and equipment, net	1,688,393	1,365,871
Other assets		
Investment in and advances to unconsolidated affiliate	15,548	16,138
Goodwill	2,013,139	1,869,444
Other intangible assets	777,441	726,126
Deferred financing costs, net of accumulated amortization of $27,680 and $16,438 at December 31, 2007 and 2006, respectively	46,144	57,386
Other assets	123,664	77,154
Total other assets	2,975,936	2,746,248
Total assets	$ 4,967,032	$ 4,514,082
Current liabilities		
Current maturities of long-term debt	$ 93,452	$ 40,058
Accounts payable	28,581	37,928
Accrued expenses	163,579	130,877
Accrued interest	56,631	31,329
Accrued salaries and wages	54,149	60,164
Gaming, pari-mutuel, property, and other taxes	43,621	48,181
Income taxes payable	3,642	21,020
Insurance financing	16,515	19,336
Other current liabilities	33,704	26,778
Total current liabilities	493,874	415,671
Long-term liabilities		
Long-term debt, net of current maturities	2,881,470	2,789,390
Deferred income taxes	385,089	387,615
Noncurrent tax liabilities	82,849	—
Other noncurrent liabilities	2,788	243
Total long-term liabilities	3,352,196	3,177,248
Shareholders' equity		

Preferred stock ($.01 par value, 1,000,000 shares authorized, none issued and outstanding at December 31, 2007 and 2006)	—	—
Common stock ($.01 par value, 200,000,000 shares authorized, 88,579,070 and 86,814,999 shares issued at December 31, 2007 and 2006, respectively)	887	868
Treasury stock (1,698,800 shares issued at December 31, 2007 and 2006)	(2,379)	(2,379)
Additional paid-in capital	322,760	251,943
Retained earnings	815,678	667,557
Accumulated other comprehensive (loss) income	(15,984)	3,174
Total shareholders' equity	1,120,962	921,163
Total liabilities and shareholders' equity	$ 4,967,032	$ 4,514,082

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,	2007	2006	2005
Revenues			
Gaming	$ 2,227,944	$ 2,057,617	$ 1,211,360
Management service fee	17,273	18,146	18,596
Food, beverage and other	320,520	275,700	213,089
Gross revenues	2,565,737	2,351,463	1,443,045
Less promotional allowances	(128,944)	(106,916)	(73,940)
Net revenues	2,436,793	2,244,547	1,369,105
Operating expenses			
Gaming	1,155,062	1,061,904	644,801
Food, beverage and other	247,576	224,673	160,796
General and administrative	388,431	349,909	198,109
Hurricane	—	(128,253)	21,145
Goodwill impairment	—	34,522	—
Settlement costs	—	—	28,175
Depreciation and amortization	147,915	123,951	72,531
Total operating expenses	1,938,984	1,666,706	1,125,557
Income from continuing operations	497,809	577,841	243,548
Other income (expenses)			
Interest expense	(198,059)	(196,328)	(89,344)
Interest income	4,016	3,525	4,111

(Loss) earnings from joint venture	(99)	(788)	1,455
Other	(11,427)	(4,296)	39
Loss on early extinguishment of debt	—	(10,022)	(18,039)
Total other expenses	(205,569)	(207,909)	(101,778)
Income from continuing operations before income taxes	292,240	369,932	141,770
Taxes on income	132,187	156,852	54,593
Net income from continuing operations	160,053	213,080	87,177
Loss from discontinued operations, net of tax	—	—	(4,135)
Gain on sale of discontinued operations, net of tax	—	114,008	37,888
Net income	$ 160,053	$ 327,088	$ 120,930
Earnings per share—Basic			
Income from continuing operations	$ 1.87	$ 2.53	$ 1.05
Discontinued operations, net of tax	—	1.35	0.41
Basic earnings per share	$ 1.87	$ 3.88	$ 1.46
Earnings per share—Diluted			
Income from continuing operations	$ 1.81	$ 2.46	$ 1.02
Discontinued operations, net of tax	—	1.32	0.39
Diluted earnings per share	$ 1.81	$ 3.78	$ 1.41

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries Consolidated Statements of Changes in Shareholders' Equity (in thousands, except share data)

	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income
	Shares	Amount						
Balance, December 31, 2004	83,131,940	$ 831	$ (2,379)	$ 178,459	$ 219,539	$ 1,642	$ 398,092	
Exercise of stock options, including tax benefit of $16,969	1,932,946	19	—	27,826	—	—	27,845	$ —
Restricted	—	—	—	478	—	—	478	—

stock								
Change in fair value of interest rate swap contracts, net of income taxes of $477	—	—	—	—	—	(852)	(852)	(852)
Amortization of unrealized loss on interest rate swap contracts, net of income taxes of $29	—	—	—	—	—	(54)	(54)	—
Foreign currency translation adjustment	—	—	—	—	—	104	104	104
Net income	—	—	—	—	120,930	—	120,930	120,930
Balance, December 31, 2005	85,064,886	850	(2,379)	206,763	340,469	840	546,543	120,182
Stock option activity, including tax benefit of $12,435	1,310,113	14	—	43,397	—	—	43,411	—
Restricted stock	440,000	4	—	1,783	—	—	1,787	—
Change in fair value of interest rate swap contracts, net of income taxes of $1,461	—	—	—	—	—	2,380	2,380	2,380
Foreign currency translation adjustment	—	—	—	—	—	(46)	(46)	(46)
Net income	—	—	—	—	327,088	—	327,088	327,088
Balance, December 31, 2006	86,814,999	868	(2,379)	251,943	667,557	3,174	921,163	329,422

Stock option activity, including tax benefit of $20,460	1,824,071	19	—	68,851	—	—	68,870	—
Restricted stock	(60,000)	—	—	1,966	—	—	1,966	—
Change in fair value of interest rate swap contracts, net of income taxes of $11,203	—	—	—	—	—	(19,728)	(19,728)	(19,728)
Foreign currency translation adjustment	—	—	—	—	—	570	570	570
Cumulative effect of adoption of FIN 48	—	—	—	—	(11,932)	—	(11,932)	—
Net income	—	—	—	—	160,053	—	160,053	160,053
Balance, December 31, 2007	88,579,070	$ 887	$ (2,379)	$ 322,760	$ 815,678	$ (15,984)	$ 1,120,962	$ 140,895

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries Consolidated Statements of Cash Flows (in thousands)

Year ended December 31,	2007	2006	2005
Operating activities			
Net income	$ 160,053	$ 327,088	$ 120,930
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	147,915	123,951	72,531
Amortization of items charged to interest expense	13,011	11,361	5,269
Amortization of the unrealized gain on interest rate swap contracts charged to interest expense, net of income tax benefit	—	—	(54)

Loss on sale of fixed assets		1,637	1,383	6,449
Loss (earnings) from joint venture		99	788	(1,455)
Loss relating to early extinguishment of debt		—	2,255	8,611
Deferred income taxes		18,265	14,394	(28,673)
Tax benefit from stock options exercised		—	—	16,969
Charge for stock compensation		25,465	20,562	478
Gain on sale of discontinued operations, net of tax		—	(114,008)	—
Gain on hurricane insurance, net of tax		—	(81,799)	—
Goodwill impairment, net of tax		—	22,018	—
(Increase) decrease, net of businesses acquired				
	Accounts receivable	(2,168)	(6,197)	4,300
	Insurance receivable	100,000	(23,048)	1,431
	Prepaid expenses and other current assets	924	(26,933)	(5,956)
	Other assets	(7,159)	13,536	(32,291)
(Decrease) increase, net of businesses acquired				
	Accounts payable	(22,234)	12,379	11,193
	Accrued expenses	(12,436)	4,155	24,968
	Accrued interest	(1,594)	(1,974)	19,317
	Accrued salaries and wages	(6,003)	5,585	(3,419)
	Gaming, pari-mutuel, property and other taxes	(4,629)	(127)	13,210
	Income taxes payable	(3,584)	(28,748)	(33,900)
	Other current and noncurrent liabilities	9,470	5,176	(6,283)
	Other noncurrent tax liabilities	14,187	—	—
Operating cash flows from discontinued operations		—	12	(43,150)
Net cash provided by operating activities		431,219	281,809	150,475
Investing activities				
Expenditures for property and equipment		(361,155)	(408,883)	(121,135)
Proceeds from hurricane		—	104,136	—
Proceeds from sale of property and equipment		15,020	2,406	720
Payments to joint venture		—	—	(20)
Proceeds from sale of business		—	—	423,139
Acquisition of businesses and licenses, net of cash acquired		(265,482)	—	(2,251,376)
Increase in cash in escrow		—	—	(30,000)
Investing cash flows from discontinued operations		—	—	(128)
Net cash used in investing activities		(611,617)	(302,341)	(1,978,800)
Financing activities				
Proceeds from exercise of options		24,911	12,201	10,876
Proceeds from issuance of long-term debt		426,065	195,678	2,398,961
Principal payments on long-term debt		(282,360)	(177,066)	(471,839)
Proceeds from insurance financing		29,009	32,522	—
Payments on insurance financing		(31,830)	(19,301)	—
Increase in deferred financing cost		—	(42)	(64,777)
Tax benefit from stock options exercised		20,460	12,435	—

Net cash provided by financing activities	186,255	56,427	1,873,221
Effect of exchange rate fluctuations on cash	—	—	104
Net increase in cash and cash equivalents	5,857	35,895	45,000
Cash and cash equivalents at beginning of year	168,515	132,620	87,620
Cash and cash equivalents at end of year	$ 174,372	$ 168,515	$ 132,620
Supplemental disclosure			
Interest expense paid	$ 199,425	$ 198,605	$ 65,322
Income taxes paid	$ 88,546	$ 127,787	$ 92,971

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Penn National Gaming, Inc. ("Penn") and subsidiaries (collectively, the "Company") is a diversified, multi-jurisdictional owner and 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, when the Company became a public company. In 1997, the Company began its transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, the Company has continued to expand its gaming operations through strategic acquisitions, including the acquisitions of Hollywood Casino Corporation in March 2003, Argosy Gaming Company ("Argosy") in October 2005, Black Gold Casino at Zia Park in April 2007, and Sanford-Orlando Kennel Club in October 2007.

The Company now owns or operates nineteen facilities in fifteen jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario.

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting periods. Actual results could differ from those estimates.

For purposes of comparability, certain prior year amounts have been reclassified to conform to the current year presentation.

2. Principles of Consolidation

The consolidated financial statements include the accounts of Penn and its wholly-owned subsidiaries.

Investment in and advances to an unconsolidated affiliate that is 50% owned is accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. Merger Announcement

On June 15, 2007, the Company announced that it had entered into a merger agreement that would ultimately result in the Company's shareholders receiving $67.00 per share. Specifically, the Company, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), announced that they had entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (the "Merger Agreement"), that provides, among other things, for Merger Sub to be merged with and into the Company (the "Merger"), as a result of which the Company will continue as the surviving corporation and will become a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds (the "Funds") managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge").

Pursuant to the Merger Agreement, at the effective time of the Merger, each outstanding share of common stock of the Company (the "Common Stock"), other than shares held by the Company as treasury stock or owned directly or indirectly by Parent or Merger Sub, will be cancelled and converted into the right to receive $67.00 in cash, without interest. In the event that the Merger shall not have occurred by June 15, 2008 (the "Adjustment Date"), the $67.00 cash amount per share of Common Stock shall be increased for each day after the Adjustment Date, through and including the closing date, by adding an amount equal to $0.0149 per day.

The Merger Agreement provided that, upon termination under specified circumstances generally related to a competing acquisition proposal, the Company would be required to pay a termination fee of up to $200 million to Parent and, under certain circumstances if the Company's shareholders did not approve the Merger, the Company would be required to reimburse Parent for an aggregate amount not to exceed $17.5 million for transaction expenses incurred by Parent and its affiliates. The Company's reimbursement of Parent's expenses would reduce the amount of any required termination fee that becomes payable by the Company. The Merger Agreement further provides that, upon termination under specified circumstances related to, among other things, Parent's breach of the Merger Agreement, the failure to obtain financing or failure to obtain regulatory approval, Parent would be required to pay the Company a termination fee of $200 million. Affiliates of the Funds have agreed to fund Parent in the amount of the termination fee in the event it becomes payable.

Parent has obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement, the proceeds of which will be used by Parent to pay the aggregate Merger consideration and related fees and expenses of the transactions contemplated by the Merger Agreement and to repay certain debt of the Company and its subsidiaries. Consummation of the Merger is not subject to a financing condition.

On December 12, 2007, the Company's shareholders approved the Merger Agreement. Based upon the tally of shares voted, with 81.6% of the Company's outstanding shares voting, 99.3% of the shares were voted in favor of the transaction. The Company is seeking to complete the transaction late in the second quarter of 2008. The timing of any closing is subject to obtaining certain regulatory approvals and satisfying other customary closing conditions. See "Risk Factors—Risks Related to the Consummation of the Merger Agreement" on page 17 of this Annual Report on Form 10-K for a discussion of the risk in connection with the consummation of the Merger.

On December 26, 2007, the Company entered into a Change in Control Payment Acknowledgement and Agreement (the "Acknowledgement and Agreement") with certain members of its management team. Pursuant to the Acknowledgement and Agreement, a portion of the payment due on a change in control was accelerated and paid on or before December 31, 2007. The Acknowledgement and Agreements were entered into as part of actions taken to reduce the amount of "gross-up" payments pertaining to federal excise taxes that may have otherwise been owed to such executives under the terms of their existing employment agreements in connection with the change in control payments due upon the consummation of the Merger. The accelerated change in control payments, which are subject to repayment in the event the Merger is terminated pursuant to the terms of the Merger Agreement or the closing of the Merger otherwise fails to occur or if the executive's employment with the Company is terminated prior to the effective date of the Merger under circumstances where the Executive is not entitled to receive the remainder of his change in control payment under the terms of his employment agreement, are included in prepaid expenses and other current assets within the consolidated balance sheet at December 31, 2007.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all cash balances and highly-liquid investments with original maturities of three months or less to be cash and cash equivalents.

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist of cash equivalents and accounts receivable.

The Company's policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. The Company has bank deposits and overnight repurchase agreements that exceed federally-insured limits.

Concentration of credit risk, with respect to casino receivables, is limited through the Company's credit evaluation process. The Company issues markers to approved casino customers only following credit checks and investigations of creditworthiness.

The Company's receivables of $56.4 million and $53.8 million at December 31, 2007 and 2006, respectively, primarily consist of $21.9 million and $22.2 million, respectively, due from the West Virginia Lottery for gaming revenue settlements and capital reinvestment projects at the Charles Town Entertainment Complex, and $13.4 million and $11.2 million, respectively, for reimbursement of expenses paid on behalf of Casino Rama.

Accounts are written off when management determines that an account is uncollectible. Recoveries of accounts previously written off are recorded when received. An allowance for doubtful accounts is determined to reduce the Company's receivables to their carrying value, which approximates fair value. The allowance is estimated based on historical collection experience, specific review of individual customer accounts, and current economic and business conditions. Historically, the Company has not incurred any significant credit-related losses.

Fair Value of Financial Instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

Cash and Cash Equivalents: The fair value of the Company's cash and cash equivalents approximates the carrying value of the Company's cash and cash equivalents, due to the short maturity of the cash equivalents.

Long-term Debt: The fair value of the Company's senior secured credit facility approximates its carrying value, as it is variable-rate debt. The fair value of the Company's fixed-rate bonds and other long-term obligations as of December 31, 2007 was $475.2 million, which was estimated based on 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. The carrying value of the Company's fixed-rate bonds as of December 31, 2007 and other long-term obligations was $469.8 million. The fair value of the Company's capital leases and other debt approximates their carrying value.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Maintenance and repairs that neither add materially to the value of the asset nor appreciably prolong its useful life are charged to expense as incurred. Gains or losses on the disposal of property and equipment are included in the determination of income.

Depreciation of property and equipment is recorded using the straight-line method over the following estimated useful lives:

Land improvements	5 to 15 years
Building and improvements	25 to 40 years
Furniture, fixtures, and equipment	3 to 7 years

Leasehold improvements are amortized over the shorter of the estimated useful life of the improvement or the related lease term.

The estimated useful lives are determined based on the nature of the assets as well as the Company's current operating strategy.

The Company reviews the carrying values of its property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated future cash flows expected to result from its use and eventual disposition. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the individual property level. In assessing the recoverability of the carrying value of property and equipment, the Company must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, the Company may be required to record an impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income. The Company recognized an impairment charge of $4.3 million associated with the Penn National Race Course building demolition during the year ended December 31, 2005.

Goodwill

Goodwill is recorded as part of the Company's acquisitions of businesses where the purchase price exceeds the fair market value of the net tangible and identifiable intangible assets acquired. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), issued by the Financial Accounting Standards Board ("FASB"). 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. In accordance with SFAS 142, amortization of goodwill is not permitted. Goodwill is 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 goodwill exceeds its fair value, an impairment loss is recognized. The annual evaluation of goodwill requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. Changes in forecasted operations can materially affect these estimates. Once an impairment of goodwill has been recorded, it cannot be reversed. During the year ended December 31, 2006, as a result of the increased asset values resulting from the reconstruction at Hollywood Casino Bay St. Louis, the Company determined that all of the goodwill associated with the original purchase of the property was impaired. Accordingly, the Company recorded a pre-tax charge of $34.5 million ($22.0 million, net of taxes) during the year ended December 31, 2006.

Other Intangible Assets

The Company accounts for its other intangible assets in accordance with SFAS 142. In accordance with SFAS 142, the Company considers its gaming license, racing permit and trademark intangible assets as indefinite-life intangible assets that do not require amortization. Rather, these intangible assets are tested at least annually for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the gaming license, racing permit and trademark intangible assets exceed their fair value, an impairment loss is recognized. The annual evaluation of indefinite-life intangible assets requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. Changes in forecasted operations can materially affect these estimates. Once an impairment of an indefinite-life intangible asset has been recorded, it cannot be reversed. Intangible assets that have a definite-life are amortized on a straight-line basis over their estimated useful lives or related service contract. The Company reviews the carrying value of its intangible assets that have a definite-life for possible impairment whenever events or changes in

circumstances indicate that their carrying value may not be recoverable. If the carrying amount of the intangible assets that have a definite-life exceed their fair value, an impairment loss is recognized.

Deferred Financing Costs

Deferred financing costs that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense over the life of the underlying indebtedness, adjusted to reflect any early repayments.

Comprehensive Income

The Company accounts for comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which established standards for the reporting and presentation of comprehensive income in the consolidated financial statements. The Company presents comprehensive income

in its consolidated statements of changes in shareholders' equity.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The realizability of the deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The factors used to assess the likelihood of realization are the forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The Company has used tax-planning strategies to realize or renew net deferred tax assets in order to avoid the potential loss of future tax benefits.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is an interpretation of SFAS 109, on January 1, 2007. FIN 48 created a single model to address uncertainty in tax positions, and clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. FIN 48 also provided guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As a result of the implementation of FIN 48, the Company recognized a liability for unrecognized tax benefits of approximately $11.9 million, which was accounted for as a reduction to the January 1, 2007 retained earnings balance. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2007.

Accounting for Derivatives and Hedging Activities

The Company does not hold or issue derivative financial instruments for trading or speculative purposes. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended, established accounting and reporting standards for derivative instruments and hedging activities.

The Company uses fixed and variable-rate debt to finance its operations. Both funding sources have associated risks and opportunities, and the Company's risk management policy permits the use of derivatives to manage these exposures. Acceptable derivatives for this purpose include interest rate swaps, futures, options, caps, and similar instruments. The Company's use of derivatives is strictly restricted to hedging (i.e., risk management) applications.

Currently, the Company has a number of interest rate swaps in place, where the swaps serve to mitigate the income volatility associated with a portion of its variable-rate funding. Swap coverage extends out through 2011. In effect, these swaps synthetically convert the portion of variable-rate debt being hedged to the equivalent of fixed-rate funding. Under the terms of the swaps, the Company receives cash flows from the swap counterparties to offset the variable interest payments on the hedged financings, in exchange for paying cash

flows based on the swaps' fixed rates. The Company accounts for these swaps as cash flow hedges, which requires determining a division of hedge results deemed effective and deemed ineffective. However, all of the Company's hedges were designed in such a way so as to perfectly offset specifically-defined interest payments, such that no ineffectiveness has occurred—nor is any ineffectiveness going to occur, as long as the forecasted cash flows of the designated hedged items and the associated swaps remain unchanged.

Under cash flow hedge accounting, effective derivative results are initially recorded in other comprehensive income and later reclassified to earnings, coinciding with the income recognition relating to the variable interest payments being hedged. The Company recorded a $6.2 million decrease in interest expense during the year ended December 31, 2007, which was previously reported in other comprehensive income. In the coming twelve months, the Company anticipates that approximately an $8.0 million loss will be reclassified from other comprehensive income to earnings, as part of interest expense. As this amount represents effective hedge results, a comparable offsetting amount of incrementally lower interest expense will be realized in connection with the variable funding being hedged.

Credit risk relating to derivative counterparties is mitigated by using multiple, highly rated counterparties, and the credit quality of each is monitored on an ongoing basis.

Under cash flow hedge accounting, derivatives are included in the consolidated balance sheets as assets or liabilities. Changes in the fair value of a derivative 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 consolidated statements of cash flows, cash flows from derivative instruments designated and qualifying as hedges are classified with the cash flows from the hedged item.

Revenue Recognition and Promotional Allowances

Gaming revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs, for chips and "ticket-in, ticket-out" coupons in the customers' possession, and for accruals related to the anticipated payout of progressive jackpots. Base jackpots are charged to revenue when established. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are charged to revenue as the amount of the jackpots increase.

Revenue from the management service contract for Casino Rama is based upon contracted terms, and is recognized when services are performed.

Food, beverage and other revenue, including racing revenue, is recognized as services are performed. Racing revenue includes the Company's share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, its share of wagering from import and export simulcasting, and its share of wagering from its off-track wagering facilities ("OTWs").

Revenues are recognized net of certain sales incentives in accordance with the Emerging Issues Task Force ("EITF") consensus on Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's products)" ("EITF 01-9"). The consensus in EITF 01-9 requires that sales incentives and points earned in point-loyalty programs be recorded as a reduction of revenue. The Company recognizes incentives related to gaming play and points earned in point-loyalty programs as a direct reduction of gaming revenue.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is primarily included in food, beverage and other expense. The amounts included in promotional allowances for the years ended December 31, 2007, 2006 and 2005 are as follows:

Year ended December 31,	2007	2006	2005
		(in thousands)	
Rooms	$ 15,518	$ 11,970	$ 7,901
Food and beverage	101,040	85,884	54,479
Other	12,386	9,062	11,560
Total promotional allowances	$ 128,944	$ 106,916	$ 73,940

The estimated cost of providing such complimentary services for the years ended December 31, 2007, 2006 and 2005 are as follows:

Year ended December 31,	2007	2006	2005
		(in thousands)	
Rooms	$ 6,538	$ 5,156	$ 4,917
Food and beverage	71,922	60,762	37,561
Other	5,471	5,644	5,479
Total cost of complimentary services	$ 83,931	$ 71,562	$ 47,957

Earnings Per Share

Basic earnings per share ("EPS") is 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.

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic earnings per share to the weighted-average common shares outstanding used in the calculation of diluted earnings per share. Options to purchase 1,395,610, 1,966,880, and 125,000 shares of common stock were outstanding during the years ended December 31, 2007, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per share because they are antidilutive.

Year ended December 31,	2007	2006	2005
		(in thousands)	
Determination of shares:			
Weighted-average common shares outstanding	85,578	84,229	82,893
Assumed conversion of dilutive stock options	2,806	2,405	2,964
Diluted weighted-average common shares outstanding	88,384	86,634	85,857

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

The Company elected the modified prospective application method for adoption, which results in the recognition of compensation expense using the provisions of SFAS 123(R) for all share-based awards granted or modified after December 31, 2005, and the recognition of compensation expense using the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"), with the exception of the method of recognizing forfeitures, for all unvested awards outstanding at the date of adoption. Under this transition method, the results of operations of prior periods were not restated. Accordingly, the Company provides pro forma financial information below for 2005 to illustrate the effect on net income and earnings per share of applying the fair value recognition provisions of SFAS 123, as amended by SFAS 148.

Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic-value method in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as interpreted by FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." Under the intrinsic-value method, because the

exercise price of the Company's employee stock options was equal to the market price of the underlying stock on the date of grant, no compensation expense was recognized. However, there were situations that could have occurred, such as the accelerated vesting of options or the issuance of restricted stock that required a current charge to income.

The most significant difference between the fair value approaches prescribed by SFAS 123 and SFAS 123(R) and the intrinsic-value method prescribed by APB 25 related to the recognition of compensation expense for stock option awards based on their grant-date fair value. Under SFAS 123, the Company estimated the fair value of stock option grants using the Black-Scholes option-pricing model. The following table reflects the pro forma impact on net income and earnings per share for the year ended December 31, 2005 of accounting for the Company's stock-based compensation using the fair value provisions of SFAS 123, as amended by SFAS 148.

Year ended December 31,	**2005**
	(in thousands)
Net income, as reported	$ 120,930
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	294
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(9,589)
Pro forma net income	$ 111,635
Earnings per share:	
Basic—as reported	$ 1.46
Basic—*pro forma*	1.35
Diluted—as reported	1.41
Diluted—*pro forma*	1.30

Prior to the adoption of SFAS 123(R), the Company included all tax benefits associated with stock-based compensation as operating cash flows in the consolidated statements of cash flows. SFAS 123(R) requires any reduction in taxes payable resulting from tax deductions that exceed the recognized compensation expense ("excess tax benefits") to be classified as financing cash flows. The Company included $20.5 million and $12.4 million of excess tax benefits in the Company's cash flows from financing activities for the years ended December 31, 2007 and 2006, respectively, that would have been classified as operating cash flows had the Company not adopted SFAS 123(R).

The fair value for stock options was estimated at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The risk-free interest rate was based on the U.S. Treasury spot rate with a remaining term equal to the expected life assumed at the date of grant. Expected volatility was estimated based on the historical volatility of the Company's stock price over a period of 4.73 years, in order to match the expected life of the options at the grant date. There is no expected dividend yield since the Company has not paid any cash dividends on its common stock since its initial public offering in May 1994, and since the Company intends to retain all of its earnings to finance the development of its business for the foreseeable future. The weighted-average expected life was based on the contractual term of the stock option and expected employee exercise dates, which was based on the historical exercise behavior of the

Company's employees. Forfeitures are estimated at the date of grant based on historical experience. Prior to the adoption of SFAS 123(R), the Company recorded forfeitures as they occurred for purposes of estimating pro forma compensation

expense under SFAS 123. The following are the weighted-average assumptions used in the Black-Scholes option-pricing model at December 31, 2007, 2006 and 2005:

Year ended December 31,	2007	2006	2005
Risk-free interest rate	4.24%	5.11%	3.40%
Expected volatility	37.68%	43.29%	40.00%
Dividend yield	—	—	—
Weighted-average expected life (years)	4.73	4.26	5.45
Forfeiture rate	4.00%	4.00%	—

Segment Information

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

Statements of Cash Flows

The Company has presented the consolidated statements of cash flows using the indirect method, which involves the reconciliation of net income to net cash flow from operating activities.

Acquisitions

The Company accounts for its acquisitions in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). The results of operations of acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by state gaming commissions. The loss of a license, in any jurisdiction in which the Company operates, could have a material adverse effect on future results of operations.

The Company is dependent on each gaming property's local market for a significant number of its patrons and revenues. If economic conditions in these areas deteriorate or additional gaming licenses are awarded in these markets, the Company's results of operations could be adversely affected.

The Company is also dependent upon a stable gaming and admission tax structure in the locations that it operates in. Any change in the tax structure could have a material adverse affect on future results of operations.

5. New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised), "Business Combinations" ("SFAS 141(R)"),

which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) impacts the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is

on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently determining the impact of SFAS 141(R) on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115" ("SFAS 159"), which permits an entity to choose to measure many financial instruments and certain other items at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS 159 as of January 1, 2008, as required. The Company does not expect that the adoption of SFAS 159 will have a material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted SFAS 157 as of January 1, 2008, as required. The Company does not expect that the adoption of SFAS 157 will have a material impact on its consolidated financial statements.

In July 2006, the FASB issued FIN 48, which is an interpretation of SFAS 109. FIN 48 created a single model to address uncertainty in tax positions, and clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. FIN 48 also provided guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a liability for unrecognized tax benefits of approximately $11.9 million, which was accounted for as a reduction to the January 1, 2007 retained earnings balance. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2007.

A reconciliation of the beginning and ending amount for the liability for unrecognized tax benefits is as follows:

	Noncurrent tax liabilities (in thousands)
Balance at January 1, 2007	$ 56,960
Additions based on current year tax positions	3,122
Additions based on prior year tax positions	7,676

Currency translation adjustments		15,091
Balance at December 31, 2007	$	82,849

Included in the liability for unrecognized tax benefits at December 31, 2007 were $38.7 million of tax positions that are indemnified by a third party. The receivable for this indemnification is included in other assets within the consolidated balance sheet at December 31, 2007.

Included in the liability for unrecognized tax benefits at December 31, 2007 were $15.1 million of currency translation adjustments for foreign currency tax positions.

Included in the liability for unrecognized tax benefits at December 31, 2007 were $27.3 million of tax positions that, if reversed, would affect the effective tax rate.

During the year ended December 31, 2007, as well as prior to January 1, 2007, the Company recognized interest and penalties accrued related to unrecognized tax benefits in taxes on income within the consolidated statements of income.

During the year ended December 31, 2007, the Company recognized approximately $3.7 million of interest and penalties, net of deferred taxes. The Company has accrued approximately $42.3 million for the payment of interest and penalties at December 31, 2007. These accruals were included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2007.

As of January 1, 2007, the Company is subject to U.S. Federal income tax examinations for the tax years 2005 and 2006. In addition, the Company is subject to state and local income tax examinations for various tax years in the taxing jurisdictions in which the Company operates.

6. Acquisitions

Sanford-Orlando Kennel Club

On October 17, 2007, pursuant to the Asset Purchase Agreement dated July 5, 2007, the Company completed the purchase of Sanford-Orlando Kennel Club in Longwood, Florida from Sanford-Orlando Kennel Club, Inc. and Collins and Collins. In connection with the purchase, the Company also secured a right of first refusal with respect to a majority stake in the Sarasota Kennel Club in Sarasota, Florida. The purchase price for the Sanford-Orlando Kennel Club provides for additional consideration to be paid by the Company based upon certain future regulatory developments. Located on approximately 26 acres in Longwood, Florida, the Sanford-Orlando Kennel Club features year-round greyhound racing, a simulcast wagering facility, a clubhouse lounge and two dining areas. The results of the Sanford-Orlando Kennel Club have been included in the Company's consolidated financial statements since the acquisition date.

Black Gold Casino at Zia Park

On April 16, 2007, pursuant to the Asset Purchase Agreement dated November 7, 2006 among Zia Partners, LLC ("Zia"), Zia Park LLC (the "Buyer"), a wholly-owned subsidiary of Penn, and (solely with respect to specified sections thereof which relate to the Company's guarantee of the Buyer's payment and performance) Penn, the Buyer completed the acquisition of Black Gold Casino at Zia Park and all related assets

of Zia. Penn funded this purchase with additional borrowings under its existing $750 million revolving credit facility. The Company accounted for the acquisition in accordance with SFAS No. 141. As a result of the acquisition, the Company recorded goodwill of $143.8 million and other intangible assets of $4.6 million, both of which are subject to a final purchase price allocation. The results of the Black Gold Casino at Zia Park have been included in the Company's consolidated financial statements since the acquisition date.

Argosy

On October 3, 2005, the Company acquired 100% of the stock of Argosy. The acquisition reflects the continuing efforts of the Company to diversify by reducing its dependency on individual properties and legislative jurisdictions. The transaction was accounted for as a purchase transaction, in accordance with SFAS 141. As a result, the net assets of Argosy were recorded at their fair value, with the excess of the purchase price over the fair value of the net assets acquired allocated to goodwill. The total purchase price for the acquisition was approximately $2,320.2 million, including transaction fees of $44.5 million. The price of $47.00 per share represented an approximately 16% premium over the closing price of Argosy on November 2, 2004, and an approximately 30% premium over the average closing price of Argosy over the ninety days preceding November 2, 2004. The purchase price of the acquisition was funded by the proceeds of the Company's $2.725 billion senior secured credit facility.

The Company acquired six Argosy casino entertainment facilities and one racetrack, although the Company agreed to enter into sale agreements for three of those properties to expedite the receipt of the regulatory approvals required to complete the merger. The Company completed the sale of Argosy Casino Baton Rouge to an affiliate of Columbia Sussex for approximately $148.6 million, and had until December 31, 2006 to enter into definitive sale agreements for the Argosy Casino Alton and the Empress Casino Hotel. However, on March 6, 2006, the Illinois Gaming Board agreed to allow the Company to retain the Argosy Casino Alton. In addition, the Illinois Gaming Board granted the Company an extension to the time limit by which the Company is required to reach a definitive sale agreement for the Empress Casino Hotel until June 30, 2008. On February 19, 2008, the Illinois Gaming Board resolved to allow the Company to retain the Empress Casino Hotel.

In order to assist the Company in assigning values of assets acquired and liabilities assumed in this transaction, the Company obtained a third-party valuation of significant identifiable intangible assets acquired, as well as other assets acquired. In addition, the Company recorded a current tax liability for identified tax contingencies and an estimate for the deferred tax liability arising from the acquisition due to the difference between the fair value and the tax basis of the net assets acquired.

The current and deferred tax liabilities, which increased the amount of goodwill recorded in the acquisition, are subject to change upon recognition and/or settlement of tax contingencies. These changes, if any, will also affect goodwill, and will not have a material impact on the Company's consolidated statements of income.

As part of the Argosy acquisition, the Company recorded $2.0 billion in goodwill and other intangible assets. The other intangible assets primarily consisted of a gaming license intangible asset, a trademark intangible asset, a computer software intangible asset, and a customer relationship intangible asset. In accordance with SFAS 142, the Company considers its gaming license and trademark intangible assets as indefinite-life intangible assets that do not require amortization. The computer software and customer relationship intangible assets are amortized using the straight-line method over their estimated useful lives, which are three and five years, respectively. As the acquisition of Argosy was treated as a stock purchase, the estimated goodwill balance and the other intangible assets described above were not expected to be amortized

for tax purposes.

The *pro forma* consolidated results of operations, as if the acquisition of Argosy had occurred on January 1, 2005, are as follows:

	2005 (in thousands, except per share data)
Pro Forma	
Net revenues	$ 2,109,609
Income from continuing operations	391,940
Net income from continuing operations	111,388
Basic earnings per share	1.34
Diluted earnings per share	1.30

7. Hurricane Katrina

As a result of Hurricane Katrina's direct hit on the Mississippi Gulf Coast on August 29, 2005, two of the Company's casinos, Hollywood Casino Bay St. Louis and Boomtown Biloxi, were significantly damaged, many employees were displaced and operations ceased at the two properties. Boomtown Biloxi reopened on June 29, 2006 and Hollywood Casino Bay St. Louis reopened on August 31, 2006.

The Company had significant levels of insurance in place at the time of Hurricane Katrina to cover the losses resulting from the hurricane, including an "all risk" insurance policy covering "named windstorm" damage, flood damage, debris removal, preservation of property expense, demolition and

increased cost of construction expense, and losses resulting from business interruption and extra expenses, all as defined in the policies. The comprehensive business interruption and property damage insurance policies had an overall limit of $400 million, and was subject to property damage deductibles for Hollywood Casino Bay St. Louis and Boomtown Biloxi of approximately $6.0 million and $3.5 million, respectively. The business interruption insurance component of this policy was subject to a five-day deductible.

During the year ended December 31, 2006, the Company's financial results benefited from a settlement agreement with its property and business interruption insurance providers for a total of $225 million for Hurricane Katrina-related losses at its Hollywood Casino Bay St. Louis and Boomtown Biloxi properties, as well as minor proceeds related to its National Flood Insurance coverage and auto insurance claims. Reflecting the settlement agreement, the Company recorded a pre-tax gain of $128.3 million ($81.8 million, net of taxes).

The Company recognized a pre-tax charge of $21.1 million ($13.7 million after-tax) associated with the expenses incurred from Hurricane Katrina for the year ended December 31, 2005. The costs included property insurance and business interruption policy deductible expense (approximately $10.2 million), compensation being paid to employees through November 30, 2005 that exceeded the ordinary payroll limits under the business interruption policy (approximately $6.1 million), the purchase of replacement flood insurance for coverage during the remaining insurance policy term (approximately $3.6 million), contributions to the Penn National Gaming Foundation's Hurricane Katrina Relief Project (approximately $1.0 million) and costs for insurance claim consultants (approximately $0.2 million).

During the years ended December 31, 2006 and 2005, the Company received $104.1 million and

$27.3 million, respectively, from its insurance carriers relating to Hurricane Katrina.

The $100.0 million insurance receivable recorded at December 31, 2006 represented the portion of the $225 million settlement that was received in January 2007.

In June 2007, the Company renewed its first layer of property insurance coverage in the amount of $200 million. The $200 million coverage, which is effective from August 8, 2007 through December 31, 2010, is on an "all risk" basis, including, but not limited to, coverage for "named windstorms," floods and earthquakes. Also, the Company purchased an additional $400 million of "all risk" coverage that is subject to certain exclusions including, among others, exclusions for "named windstorms," floods and earthquakes. The additional $400 million coverage is effective from August 8, 2007 through June 1, 2008. There is a $25 million deductible for "named windstorm" events, and lesser deductibles as they apply to other perils. Both layers are subject to specific policy terms, conditions and exclusions.

8. Property and Equipment

Property and equipment, net, consists of the following:

December 31,	2007	2006
	(in thousands)	
Land and improvements	$ 188,379	$ 190,002
Building and improvements	998,910	868,577
Furniture, fixtures, and equipment	503,969	423,201
Leasehold improvements	16,145	15,005
Construction in progress	423,209	187,531
Total property and equipment	2,130,612	1,684,316
Less accumulated depreciation and amortization	(442,219)	(318,445)
Property and equipment, net	$ 1,688,393	$ 1,365,871

Depreciation and amortization expense, for property and equipment, totaled $140.3 million, $117.3 million, and $69.0 million in 2007, 2006, and 2005, respectively. Interest capitalized in connection with major construction projects was $14.6 million, $8.0 million, and $1.5 million in 2007, 2006 and 2005, respectively.

9. Goodwill and Other Intangible Assets

The Company's goodwill and intangible assets had a gross carrying value of $2.8 billion and $2.6 billion at December 31, 2007 and 2006, respectively, and accumulated amortization of $27.0 million and $19.4 million at December 31, 2007 and 2006, respectively. The table below presents the gross carrying value, accumulated amortization, and net book value of each major class of goodwill and intangible asset at December 31, 2007 and 2006:

December 31,	Gross Carrying Value	2007 Accumulated Amortization	Net Book Value	Gross Carrying Value	2006 Accumulated Amortization	Net Book Value
			(in thousands)			
Goodwill	$ 2,013,139	$ —	$ 2,013,139	$ 1,869,444	$ —	$ 1,869,444
Gaming license, racing permit and trademark intangible assets	755,166	—	755,166	700,434	—	700,434
Other intangible assets	49,316	27,041	22,275	45,126	19,434	25,692
Total	$ 2,817,621	$ 27,041	$ 2,790,580	$ 2,615,004	$ 19,434	$ 2,595,570

During the year ended December 31, 2007, goodwill increased by $143.7 million, primarily due to goodwill recorded as part of the completion of the Black Gold Casino at Zia Park acquisition in April 2007 and the Sanford-Orlando Kennel Club acquisition in October 2007, offset by deferred tax adjustments relating to litigation accruals. In addition, gaming license, racing permit and trademark intangible assets increased by $54.7 million during the year ended December 31, 2007, due to the Black Gold Casino at Zia Park and Sanford-Orlando Kennel Club acquisitions and payment for the Category 1 slot machine license for the placement of slot machines at the Company's Hollywood Casino at Penn National Race Course.

During the year ended December 31, 2006, as a result of the increased asset values resulting from the reconstruction at Hollywood Casino Bay St. Louis, the Company determined that all of the goodwill associated with the original purchase of the property was impaired. Accordingly, the Company recorded a pre-tax charge of $34.5 million ($22.0 million, net of taxes) during the year ended December 31, 2006.

The Company's intangible asset amortization expense was $7.6 million, $6.7 million, and $3.5 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The following table presents expected intangible asset amortization expense based on existing intangible assets at December 31, 2007 (in thousands):

2008	$ 7,626
2009	6,626
2010	5,757
2011	2,080
2012	186
Thereafter	—
Total	$ 22,275

10. Long-term Debt

Long-term debt, net of current maturities, is as follows:

December 31,	2007	2006
	(in thousands)	
Senior secured credit facility	$ 2,496,625	$ 2,343,875
$200 million 6 7/8% senior subordinated notes	200,000	200,000
$250 million 6 3/4% senior subordinated notes	250,000	250,000
Other long-term obligations	19,810	25,041
Capital leases	8,487	10,532
	2,974,922	2,829,448
Less current maturities of long-term debt	(93,452)	(40,058)
	$ 2,881,470	$ 2,789,390

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2007 (in thousands):

2008	$ 93,452
2009	105,292
2010	683,271
2011	677,660
2012	1,163,327
Thereafter	251,920
Total minimum payments	$ 2,974,922

At December 31, 2007, the Company was contingently obligated under letters of credit issued pursuant to the $2.725 billion senior secured credit facility with face amounts aggregating $36.5 million.

Senior Secured Credit Facility

On October 3, 2005, the Company entered into a $2.725 billion senior secured credit facility to fund the Company's acquisition of Argosy, including payment for all of Argosy's outstanding shares, the retirement of certain long-term debt of Argosy and its subsidiaries, the payment of related transaction costs, and to provide additional working capital. Concurrent with this financing, the Company's previous senior credit facility was terminated, which resulted in an early extinguishment of debt charge of $4.0 million. The $2.725 billion senior secured credit facility consists of three credit facilities comprised of a $750 million revolving credit facility (of which $575.0 million was drawn at December 31, 2007), a $325 million Term Loan A Facility and a $1.65 billion Term Loan B Facility. The $2.725 billion senior secured credit facility also allows the Company to raise an additional $300 million in senior secured credit for project development and property expansion.

During the year ended December 31, 2007, the senior secured credit facility increased by $152.8 million, primarily due to the issuance of long-term debt for items such as partial funding for the Black Gold Casino at Zia Park acquisition and the payment for capital expenditures, partially offset by principal payments on long-term debt.

The senior secured credit facility is secured by substantially all of the assets of the Company.

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.

In accordance with the terms of its $2.725 billion senior secured credit facility, the Company was required to enter into interest rate swap agreements in an amount equal to 50% of the outstanding term loan balances within 100 days of the closing date of the senior secured credit facility. On October 25, 2005, the Company entered into four interest rate swap contracts with terms from three to five years, notional amounts of $224 million, $274 million, $225 million, and $237 million, for a total of $960 million, and fixed interest rates ranging from 4.678% to 4.753%. The annual weighted-average interest rate of the four contracts is 4.71%. On April 6, 2006, the Company entered into three interest rate swap contracts with a term of five years and notional amounts of $100 million each, for a total of $300 million and fixed interest rates ranging from 5.263% to 5.266%. The annual weighted-average interest rate of the three contracts is 5.26%. On September 5, 2007, the Company entered into two interest rate swap contracts with terms of nine months and notional amounts of $197 million and $181 million, for a total of $378 million, and fixed interest rates of 5.01%. Under all of these contracts, the Company pays a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31 2007, the applicable 90-day LIBOR rate was 5.01% for the $960 million swaps, 4.90% for the $300 million swaps, 4.99% for the $197 million swap, and 5.21% for the $181 million swap. On December 19, 2007, the Company entered into three monthly interest rate swap contracts, each with notional amounts of $146.25 million and fixed rates of 4.97% effective December 31, 2007, 4.47% effective January 31, 2008 and 4.40% effective February 29, 2008. Under these contracts, the Company pays a fixed interest rate against a variable interest rate based on the 30-day LIBOR rate. As of December 31, 2007, the applicable 30-day LIBOR rate was 4.85% for the $146.25 million swap.

Redemption of 8$^{7}/_{8}$% Senior Subordinated Notes

In February 2006, the Company called for the redemption of its $175 million 8$^{7}/_{8}$% senior subordinated notes. The redemption price was $1,044.38 per $1,000 principal amount, plus accrued and unpaid interest and was made on March 15, 2006. The Company recorded a $10.0 million loss on early extinguishment of debt during the year ended December 31, 2006 for the call premium and the write-off of the associated deferred financing fees. The Company funded the redemption of the notes from available cash and borrowings under its revolving credit facility.

6$^{7}/_{8}$% Senior Subordinated Notes

On December 4, 2003, the Company completed an offering of $200 million of 6$^{7}/_{8}$% senior subordinated notes that mature on December 1, 2011. Interest on the notes is payable on June 1 and December 1 of each year,

beginning June 1, 2004.

The Company may redeem all or part of the notes on or after December 1, 2007 at certain specified redemption prices.

The 6 7/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of the Company's current and future wholly-owned domestic subsidiaries. The 6 7/8% notes rank equally with the Company's future senior subordinated debt and junior to its senior debt, including debt under the Company's senior secured 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 of 1933 (the "Securities Act"). On August 27, 2004, the Company completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act having substantially identical terms.

6 3/4% Senior Subordinated Notes

On March 9, 2005, the Company completed an offering of $250 million of 6 3/4% senior subordinated notes that mature on March 1, 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005. The 6 3/4% notes are general unsecured obligations and are not guaranteed by the Company's subsidiaries. The 6 3/4% notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act.

Other Long-Term Obligations

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania off-track wagering facilities located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Second Amendment to the Purchase Agreement and Release of Claims ("Amendment and Release") with the MTGA pertaining to the October 14, 2004 Purchase Agreement (the "Purchase Agreement"), and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. The Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years, with the first payment of $7.0 million having been made in November 2007.

Covenants

The Company's $2.725 billion senior secured credit facility, $200 million 6 7/8% and $250 million 6 3/4%

senior subordinated notes require it, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, the Company's $2.725 billion senior secured credit facility, $200 million 6$^{7}/_{8}$% and $250 million 6$^{3}/_{4}$% senior subordinated notes restrict, among other things, the Company's ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

At December 31, 2007, the Company was in compliance with all required financial covenants.

11. Commitments and Contingencies

Litigation

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the normal course of business. The Company does not believe that the final outcome of these matters will have a material adverse effect on the Company's consolidated financial position or results of operations. In addition, the Company maintains what it believes is adequate insurance coverage to further mitigate the risks of such proceedings. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact the Company's consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

The following proceedings could result in costs, settlements, damages, or rulings that materially impact the Company's consolidated financial condition or operating results. In each instance, the Company believes that it has meritorious defenses, claims and/or counter-claims, and intends to vigorously defend itself or pursue its claim.

In November 2005, Capital Seven, LLC and Shawn A. Scott (collectively, "Capital Seven"), the sellers of Bangor Historic Track, Inc. ("BHT"), filed a demand for arbitration with the American Arbitration Association seeking $30 million plus interest and other damages. Capital Seven alleges a breach of contract by the Company based on the Company's payment of a $51 million purchase price for the purchase of BHT instead of an alleged $81 million purchase price Capital Seven claims is due under the purchase agreement. The parties had agreed that the purchase price of BHT would be determined, in part, by the applicable gaming taxes imposed by Maine on the Company's operations, and currently are disputing the effective tax rate. Pursuant to the dispute resolution procedures, the Company deposited $30 million in escrow, pending a resolution. This amount is included in other assets within the consolidated balance sheets at December 31, 2007 and 2006. The parties are actively involved in discovery, and arbitration is currently scheduled for April 2008.

In conjunction with the Company's acquisition of Argosy in 2005, and subsequent disposition of the Argosy Casino Baton Rouge property, the Company became responsible for litigation initiated over eight years ago related to the Baton Rouge casino license formerly owned by Argosy. On November 26, 1997, Capitol House filed an amended petition in the Nineteenth Judicial District Court for East Baton Rouge Parish, State of Louisiana, amending its previously filed but unserved suit against Richard Perryman, the person selected by the Louisiana Gaming Division to evaluate and rank the applicants seeking a gaming license for East Baton Rouge Parish, and adding state law claims against Jazz Enterprises, Inc., the former Jazz Enterprises, Inc. shareholders, Argosy, Argosy of Louisiana, Inc. and Catfish Queen Partnership in Commendam, d/b/a the Belle of Baton Rouge Casino. This suit alleged that these parties violated the Louisiana Unfair Trade Practices Act in

connection with obtaining the gaming license that was issued to Jazz Enterprises, Inc./Catfish Queen Partnership in Commendam. The plaintiff, an applicant for a gaming license whose application was denied by the Louisiana Gaming Division, sought to prove that the gaming license was invalidly issued and to recover lost gaming revenues that the plaintiff contended it could have earned if the gaming license had been properly issued to the plaintiff. On October 2, 2006, the Company prevailed on a partial summary judgment motion which limited plaintiff's damages to its out-of-pocket costs in seeking its gaming license, thereby eliminating any recovery for potential lost gaming profits. On February 6, 2007, the jury returned a verdict of $3.8 million (exclusive of statutory interest and attorneys' fees) against Jazz Enterprises, Inc.

and Argosy. After ruling on post-trial motions, on September 27, 2007, the trial court entered a judgment in the amount of $1.4 million, plus attorneys' fees, costs and interest. The Company has established an appropriate reserve and has bonded the judgment pending its appeal. Both the plaintiff and the Company have appealed the judgment to the First Circuit Court of Appeals in Louisiana. The Company has the right to seek indemnification from two of the former Jazz Enterprises, Inc. shareholders for any liability suffered as a result of such cause of action, however, there can be no assurance that the former Jazz Enterprises, Inc. shareholders will have assets sufficient to satisfy any claim in excess of Argosy's recoupment rights.

In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including the Company's Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. The casinos began paying the 3% tax surcharge during the three months ended June 30, 2006 into a protest fund which accrues interest during the pendency of the lawsuit. The accumulated funds will be returned to the casinos if they ultimately prevail in the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, the casinos will continue paying the 3% tax surcharge into the protest fund until a final order has been entered in the case. The State of Illinois has appealed the ruling to the Illinois Supreme Court, and oral arguments were heard in November 2007. The Company anticipates that a ruling on the appeal will be made in the next several months.

In August 2007, a complaint was filed on behalf of a putative class of public shareholders of the Company, and derivatively on behalf of the Company, in the Court of Common Pleas of Berks County, Pennsylvania (the "Complaint"). The Complaint names the Company's Board of Directors as defendants and the Company as a nominal defendant. The Complaint alleges, among other things, that the Board of Directors breached their fiduciary duties by agreeing to the proposed transaction with Fortress and Centerbridge for inadequate consideration, that certain members of the Board of Directors have conflicts with regard to the Merger, and that the Company and its Board of Directors have failed to disclose certain material information with regard to the Merger. The Complaint seeks, among other things, a court order: determining that the action is properly maintained as a class action and a derivative action; enjoining the Company and its Board of Directors from consummating the proposed Merger; and awarding the payment of attorneys' fees and expenses. The Company and the plaintiff have reached a tentative settlement in which the Company agreed to pay certain attorneys' fees and to make certain disclosures regarding the events leading up to the transaction with Fortress and Centerbridge in the proxy statement sent to shareholders in November 2007. Final settlement is contingent upon court approval and consummation of the transaction with Fortress and Centerbridge.

Operating Lease Commitments

The Company is liable under numerous operating leases for airplanes, automobiles, land for the property on which some of its casinos operate, other equipment and buildings, which expire at various dates through 2093. Total rental expense under these agreements was $29.6 million, $28.1 million, and $5.2 million for the years ended December 31, 2007, 2006, and 2005, respectively.

The leases for land consist of annual base lease rent payments, plus a percentage rent based on a percent of adjusted gaming wins, as described in the respective leases.

The Company has an operating lease with the City of Bangor which covers the temporary facility and the permanent facility that the Company expects to open in the third quarter of 2008. Under the lease agreement, there is a fixed rent provision, as well as a revenue-sharing provision which is equal to 3% of gross slot revenue. The lease is for an initial term of fifteen years, with three ten-year renewal options. The initial term begins with the opening of the permanent facility.

On March 23, 2007, BTN, Inc. ("BTN"), one of the Company's wholly-owned subsidiaries, entered into an amended and restated ground lease (the "Amended Lease") with Skrmetta MS, LLC. The lease amends the prior ground lease, dated October 19, 1993. The Amended Lease requires BTN to maintain a minimum gaming operation on the leased premises and to pay rent equal to 5% of adjusted gaming win after gaming taxes have been deducted. The term of the Amended Lease expires on January 1, 2093.

The future minimum lease commitments relating to the base lease rent portion of noncancelable operating leases at December 31, 2007 are as follows (in thousands):

Year ending December 31,	
2008	$ 8,550
2009	6,699
2010	4,998
2011	4,768
2012	4,126
Thereafter	28,898
Total	$ 58,039

Capital Expenditure Commitments

At December 31, 2007, the Company is contractually committed to spend approximately $201.9 million in capital expenditures for projects in progress.

Employee Benefit Plans

The Company maintains a profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended, which covers all eligible employees. The plan enables participating employees to defer a portion of their salary in a retirement fund to be administered by the Company. The Company makes a discretionary match contribution of 50% of employees' elective salary deferrals, up to a maximum of 6% of eligible employee compensation.

The Company also has a defined contribution plan, the Charles Town Races Future Service Retirement Plan, covering substantially all of its union employees at the Charles Town Entertainment Complex. The Company makes annual contributions to this plan for the eligible union employees and to the Penn National Gaming, Inc. 401(k) Plan for the eligible non-union employees for an amount equal to the amount accrued for retirement expense, which is calculated as 0.25% of the daily mutual handle and 1.0% up to a base of the net video lottery revenues and, after the base is met, it reverts to 0.5%.

The Company maintains a non-qualified deferred compensation plan that covers most management and other highly-compensated employees. This plan was effective March 1, 2001. The plan allows the participants to defer, on a pre-tax basis, a portion of their base annual salary and bonus, and earn tax-deferred earnings on these deferrals. The plan also provides for matching Company contributions that vest over a five-year period. The Company has established a Trust, and transfers to the Trust, on a

periodic basis, an amount necessary to provide for its respective future liabilities with respect to participant deferral and Company contribution amounts. The Company's matching contributions in 2007, 2006 and 2005 were $2.2 million, $1.5 million, and $1.1 million, respectively.

Agreements with Horsemen and Pari-Mutuel Clerks

The Company is required to have agreements with the horsemen at each of its racetracks to conduct its live racing and simulcasting activities, with the exception of the Company's tracks in Ohio and New Mexico. In addition, in order to operate gaming machines in West Virginia, the Company must maintain agreements with each of the Charles Town horsemen, pari-mutuel clerks and breeders.

At the Charles Town Entertainment Complex, the Company has an agreement with the Charles Town horsemen that expires on December 31, 2008, and an agreement with the breeders that expires on June 30, 2008. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2010.

The Company's agreement with the Pennsylvania thoroughbred horsemen at Penn National Race Course expires on September 30, 2011. The Company is currently involved in good faith negotiations with Local 137 of the Sports Arena Employees (AFL-CIO) at Penn National Race Course with respect to pari-mutuel clerks, admissions and Telebet personnel relative to the renewal of a contract that will expire on February 28, 2008. The parties are cooperatively working on a successor agreement and expect to briefly extend the current agreement. The Company also has an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at the Company's OTWs, which will expire on September 30, 2009.

The Company's agreement with the Maine Harness Horsemen Association at Bangor Raceway expires at the end of the 2008 racing season. Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires in May 2009.

Throughout the Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately two thousand one hundred of the Company's employees. Additionally, at Argosy Casino Alton, the Seafarer International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO represents eight of the Company's employees, the International Brotherhood of Electrical Workers represents eight of the Company's employees, the Security Police and Fire Professionals of America represents

fifty-six of the Company's employees. At the Company's Lawrenceburg Indiana property, the American Maritime Officers Union represents seventeen of the Company's employees. The Company has collective bargaining agreements with these unions that expire at various times between July 2008 and October 2015. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE"), Local 1 represents approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2010. Negotiations are expected to begin in the near term with the International Brotherhood of Electrical Workers, Local 176, who began representing fifteen slot technicians at the Empress Casino Hotel in October 2007. At Raceway Park, UNITE/HERE Local 10 represents the twenty pari-mutuel tellers under a contract which expires on May 31, 2012.

If the Company fails to maintain agreements with the horsemen at a track, it will not be permitted to conduct live racing and export and import simulcasting at that track and where applicable, the OTWs. In West Virginia, the Company will not be permitted to operate its gaming machines if it fails to maintain agreements with the Charles Town horsemen, pari-mutuel clerks and breeders. In addition, the simulcasting agreements are subject to the horsemen's approval. If the Company fails to maintain necessary agreements, this failure could have a material adverse effect on its business, financial condition and results of operations. Except for the closure of the facilities at Penn National Race Course and its OTWs from February 16, 1999 to March 24, 1999 due to a horsemen's strike, and a few

days at other times and locations, the Company has been able to maintain the necessary agreements. There can be no assurance that the Company will be able to maintain the required agreements.

New Jersey Joint Venture

On January 28, 1999, the Company, along with its joint venture partner, Greenwood Limited Jersey, Inc. ("Greenwood"), purchased certain assets and assumed certain liabilities of Freehold Racing Association, Garden State Racetrack and related entities, in a transaction accounted for as a purchase transaction.

The Company made an $11.3 million loan to the joint venture and an equity investment of $0.3 million. The loan is evidenced by a subordinated secured note, which is included in investment in and advances to unconsolidated affiliate in the consolidated financial statements. The note bears interest at prime plus 2.25% or a minimum of 10.00% (at December 31, 2007, the interest rate was 10.00%). The Company has recorded interest income in the consolidated statements of income of $1.2 million, $1.2 million and $1.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The joint venture, through Freehold Racing Association, was part of a multi-employer pension plan. For collectively bargained, multi-employer pension plans, contributions were made in accordance with negotiated labor contracts and generally were based on days worked. With the passage of the Multi-Employer Pension Plan Amendments Act of 1980, the joint venture may, under certain circumstances, become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, these liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. In June 2006, Freehold Racing Association withdrew from the multi-employer pension plan, and thereby became subject to payment of a withdrawal liability to the multi-employer pension plan. In January 2008, the Company was informed that the multi-employer pension plan experienced a mass withdrawal termination as of December 25, 2007. At December 31, 2007, the most recent date for which information is available, the joint venture withdrawal liability was approximately $2.9 million for Freehold Racing Association, which is payable through November 2028.

The Company and Greenwood entered into a Debt Service Maintenance Agreement with a bank in which each joint venture partner has guaranteed up to 50% of a $23.0 million term loan to the joint venture. The Debt Service Maintenance Agreement remains in effect for the life of the loan and is due to expire on September 30, 2009. At December 31, 2007, the outstanding balance on the loan to the joint venture amounted to $11.5 million, of which the Company's obligation under its guarantee of the term loan was limited to approximately $5.75 million. The Company's investment in the joint venture is accounted for under the equity method. The original investment was recorded at cost and has been adjusted by the Company's share of income of the joint venture and distributions received. The Company's 50% share of the income of the joint venture is included in other income (expenses) in the consolidated statements of income.

12. Income Taxes

Deferred tax assets and liabilities are comprised of the following:

Year ended December 31,	2007	2006
	(in thousands)	
Deferred tax assets:		
Stock-based compensation expense	$ 11,111	$ 5,583
Accrued expenses	18,945	21,875
FIN 48	9,458	—
State net operating losses	7,687	28,872
Accumulated other comprehensive income (loss)	12,325	(1,461)
Gross deferred tax assets	59,526	54,869
Less valuation allowance	(6,632)	(28,510)
Net deferred tax assets	52,894	26,359
Deferred tax liabilities:		
Property, plant and equipment	(165,369)	(139,418)
Intangibles	(253,535)	(252,369)
Net deferred tax liabilities	(418,904)	(391,787)
Net:	$ (366,010)	$ (365,428)
Reflected on consolidated balance sheets:		
Current deferred tax assets, net	$ 19,079	$ 22,187
Noncurrent deferred tax liabilities, net	(385,089)	(387,615)
Net deferred taxes	$ (366,010)	$ (365,428)

For income tax reporting, the Company has state net operating loss carryforwards aggregating approximately $173.1 million available to reduce future state income taxes primarily for the Commonwealth of Pennsylvania and the State of Mississippi as of December 31, 2007. The tax benefit associated with these net

operating loss carryforwards is approximately $7.7 million. Due to state tax statutes on annual net operating loss utilization limits, the availability of gaming tax credits, and income and loss projections in the applicable jurisdictions, a $6.6 million valuation allowance has been recorded to reflect the net operating losses which are not presently expected to be realized. If not used, substantially all the carryforwards will expire at various dates from December 31, 2008 to December 31, 2027.

The $6.6 million valuation allowance represents the income tax effect of state net operating loss carryforwards of the Company, which are not presently expected to be utilized. In the event that the valuation allowance is ultimately unnecessary, the majority would be treated as a reduction of tax expense.

In addition, certain subsidiaries have accumulated state net operating loss carryforwards aggregating approximately $558.1 million for which no benefit has been recorded as they are attributable to uncertain tax positions. The unrecognized tax benefits as of December 31, 2007 attributable to these net operating losses was approximately $36.4 million. Due to the uncertain tax position, these net operating losses are not included as components of deferred tax assets as of December 31, 2007. In the event of any benefit from realization of these net operating losses, $7.9 million would be treated as an increase to equity, $0.5 million would be treated as a reduction to goodwill, and the remainder would be treated as a reduction of tax expense. If not used, substantially all the carryforwards will expire at various dates from December 31, 2008 to December 31, 2027.

The provision for income taxes charged to operations was as follows:

Year ended December 31,	2007	2006	2005
		(in thousands)	
Current tax expense			
Federal	$ 75,959	$ 108,958	$ 73,463
State	28,536	33,067	12,184
Foreign	9,427	433	—
Total current	113,922	142,458	85,647
Deferred tax expense (benefit)			
Federal	16,223	16,260	(24,566)
State	2,042	(1,866)	(6,488)
Total deferred	18,265	14,394	(31,054)
Total provision	$ 132,187	$ 156,852	$ 54,593

The following table reconciles the statutory federal income tax rate to the actual effective income tax rate for 2007, 2006 and 2005:

Year ended December 31,	2007	2006	2005
Percent of pretax income			
Federal tax rate	35.0%	35.0%	35.0%
State and local income taxes	6.8%	5.5%	2.6%
Permanent differences	2.6%	1.8%	0.7%
Foreign	1.2%	0.1%	0.1%

Other miscellaneous items	(0.4)%	—	0.1%
	45.2%	42.4%	38.5%

13. Shareholders' Equity

Stock Split

On February 3, 2005, the Company announced that its Board of Directors approved a 2-for-1 split of the Company's common stock. The stock split was in the form of a stock dividend of one additional share of the Company's common stock for each share held. The additional shares were distributed on March 7, 2005 to shareholders of record on February 14, 2005. As a result of the stock dividend, the number of outstanding shares of the Company's common stock increased to approximately 82.8 million. All references in the consolidated 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 "Right" or "Rights") for each outstanding share of the Company's common stock, par value $.01 per share, payable to shareholders of record at the close of business on March 19, 1999. In addition, a Right is issued for each share of common stock issued after March 19, 1999 and prior to the Rights' expiration. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction") of the Company's Series A Preferred Stock (or another series of preferred stock with substantially similar terms), or a combination of securities and assets of equivalent value, at a purchase price of $10.00 per

Preferred Stock Fraction, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999, and amended on June 15, 2007, between the Company and Continental Stock Transfer and Trust Company as Rights Agent.

The Rights are attached to the shares of the Company's common stock until they become exercisable. Generally, the Rights will be exercisable beginning on a specified date after a person or group acquires 15% or more of the Company's common stock (the "Stock Acquisition Date"), commences a tender or exchange offer that will result in such person or group acquiring 20% or more of the outstanding common stock or a determination that a beneficial owner's ownership of a substantial amount of the Company's common stock (at least 10%) is intended to pressure the Company to take action not in the long-term best interests of the Company or may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company is entitled to redeem the Rights at a price of $.01 per Right (payable in cash or stock) at any time until 10 days following a Stock Acquisition Date or the date on which a person is determined to be an Adverse Person. Upon the occurrence of certain events described in the Rights Agreement, each holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding common stock or who is determined to be an Adverse Person, which Rights become void) will have the right to receive, upon exercise, Preferred Stock Fractions (or, in certain circumstances, Company common stock, the acquiring company's common stock, cash, property or other securities of the Company) having a market value

of twice the exercise price of each Right. Following any such event, the Company may permit holders to surrender their Rights in exchange for Preferred Stock Fractions (or other property or securities, as the case may be) equal to half the value otherwise purchasable or exchange each Right for one Preferred Share Fraction. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised, the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable until the distribution date, and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.

On June 15, 2007, immediately prior to the execution of the Merger Agreement, the Company and Continental Stock Transfer and Trust Company entered into Rights Agreement Amendment No. 1. The Company was required to enter into Rights Agreement Amendment No. 1 pursuant to Section 4.12 of the Merger Agreement in order to render the Rights Agreement inapplicable to the proposed Merger and other transactions contemplated under the Merger Agreement. Pursuant to Rights Agreement Amendment No. 1, none of Fortress, Centerbridge, PNG Holdings LLC ("Holdings" and, together with Fortress, Centerbridge, Parent and Merger Sub, the "Fortress/Centerbridge Entities"), Parent or Merger Sub will be an Acquiring Person or an Adverse Person (as such terms are defined in the Rights Agreement) to the extent any of the Fortress/Centerbridge Entities are beneficial owners of any Common Stock as a result of the approval, execution or delivery of the Merger Agreement or consummation of the Merger.

14. Stock-Based Compensation

In April 1994, the Company's Board of Directors and shareholders adopted and approved the 1994 Stock Option Plan (the "1994 Plan"). The 1994 Plan permitted the grant of options to purchase up to 12,000,000 shares of Common Stock, subject to antidilution adjustments, at a price per share no less than 100% of the fair market value of the Common Stock on the date an option is granted with respect to incentive stock options only. The price would be no less than 110% of fair market value in the case of an incentive stock option granted to any individual who owns more than 10% of the total combined voting power of all classes of outstanding stock. The 1994 Plan provided for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified stock options, which do not so qualify. The 1994 Plan terminated in April 2004, but options granted prior to the 1994 Plan's termination remain outstanding.

On April 16, 2003, the Company's Board of Directors adopted and approved the 2003 Long Term Incentive Compensation Plan (the "2003 Plan"). On May 22, 2003, the Company's shareholders approved the 2003 Plan. The 2003 Plan was effective June 1, 2003 and permits the grant of options to purchase Common Stock and other market-based and performance-based awards. Up to 12,000,000 shares of Common Stock are available for awards under the 2003 Plan. The 2003 Plan provides for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified stock options, which do not so qualify. The exercise price per share may be no less than (i) 100% of the fair market value of the Common Stock on the date an option is granted for incentive stock options and (ii) 85% of the fair market value of the Common Stock on the date an option is granted for nonqualified stock options. Unless this plan is extended, no awards shall be granted or exchanges effected under this plan after May 31, 2013. At December 31, 2007, there were 3,208,225 options available for future grants under the 2003 Plan.

Stock options that expire between January 2, 2009 and January 2, 2017 have been granted to officers, directors and employees to purchase Common Stock at prices ranging from $7.42 to $61.82 per share. All

options were granted at the fair market value of the Common Stock on the date the options were granted.

The following table contains information on stock options issued under the plans for the three-year period ended December 31, 2007:

	Number of Option Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2004	6,941,260	$ 8.78	5.45	$ 149,229
Granted	2,813,000	29.51		
Exercised	(1,932,946)	5.63		
Canceled	(87,500)	9.84		
Outstanding at December 31, 2005	7,733,814	$ 17.09	5.34	$ 122,844
Granted	1,784,400	33.34		
Exercised	(1,310,113)	9.31		
Canceled	(97,500)	22.16		
Outstanding at December 31, 2006	8,110,601	$ 21.87	4.97	$ 160,225
Granted	1,458,750	42.21		
Exercised	(1,824,071)	13.66		
Canceled	(495,375)	28.44		
Outstanding at December 31, 2007	7,249,905	$ 27.58	4.87	$ 231,837

Included in the above are common stock options that were issued in 2003 to the Company's Chairman outside of the 1994 Plan and the 2003 Plan. These options were issued at $7.95 per share, and are exercisable through February 6, 2013. At December 31, 2007 and December 31, 2006, the number of these common stock options that were outstanding was 23,750. In addition, the Company issued 160,000 restricted stock awards in 2004, which fully vest in May 2009, and issued 280,000 restricted stock awards in 2006, which fully vest by 2011. The restricted stock grants in 2004 and 2006 were made pursuant to the 2003 Plan. Due to the departure of one of the Company's senior executives, 60,000 of these awards were forfeited. The weighted-average grant-date fair value of options granted during the years ended December 31, 2007, 2006 and 2005 were $16.08, $14.58 and $12.17, respectively.

	Number of Option Shares	Weighted-Average Exercise Price
Exercisable at December 31,		
2007	3,080,480	$ 19.74
2006	2,848,451	14.11
2005	2,036,064	8.44

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2007, 2006 and 2005 was $74.6 million, $37.4 million and $53.1 million, respectively.

At December 31, 2007, there were 3,080,480 shares that were exercisable, with a weighted-average exercise price of $19.74, a weighted-average remaining contractual term of 3.88 years, and an aggregate intrinsic value of $122.6 million.

The following table summarizes information about stock options outstanding at December 31, 2007:

	Exercise Price Range			Total
	$7.42 to $29.22	$30.18 to $41.62	$42.43 to $61.82	$7.42 to $61.82
Outstanding options				
Number outstanding	4,155,491	3,002,414	92,000	7,249,905
Weighted-average remaining contractual life (years)	3.94	6.11	6.42	4.87
Weighted-average exercise price	$ 20.22	$ 37.03	$ 51.21	$ 27.58
Exercisable options				
Number outstanding	2,674,991	405,489	—	3,080,480
Weighted-average exercise price	$ 17.69	$ 33.27	$ —	$ 19.74

Compensation costs related to stock-based compensation for the years ended December 31, 2007 and December 31, 2006 totaled $25.5 million pre-tax ($18.6 million after-tax), or $.21 per diluted share, and $20.6 million pre-tax ($14.9 million after-tax), or $.17 per diluted share, respectively, and are included in the consolidated statements of income under general and administrative expense.

At December 31, 2007 and December 31, 2006, the total compensation cost related to nonvested awards not yet recognized equaled $41.6 million and $45.2 million, respectively, including $36.3 million and $38.0 million for stock options, respectively, and $5.3 million and $7.2 million for restricted stock, respectively. This cost is expected to be recognized over the remaining vesting periods, which will not exceed five years.

15. Segment Information

In accordance with SFAS No. 131, the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

16. Summarized Quarterly Data (Unaudited)

Following is a summary of the quarterly results of operations for the years ended December 31, 2007 and 2006:

	Fiscal Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
2007				
Net revenues	$ 596,258	$ 625,244	$ 629,450	$ 585,841
Income from continuing operations	124,780	128,420	133,879	110,730
Net income	42,941	38,299	46,590	32,223
Basic earnings per share	0.51	0.45	0.54	0.37
Diluted earnings per share	0.49	0.43	0.52	0.36

2006				
Net revenues	$ 547,802	$ 537,773	$ 586,111	$ 572,861
Income from continuing operations	128,901	121,837	128,055	199,048
Net income	41,983	42,695	155,060	87,350
Basic earnings per share	0.50	0.51	1.84	1.03
Diluted earnings per share	0.49	0.49	1.79	1.00

17. Related Party Transactions

Life Insurance Policies

Historically, the Company paid premiums on life insurance policies (the "Policies") on behalf of certain irrevocable trusts (the "Trusts") created by the Company's Chairman and Chief Executive Officer ("CEO"). The policies covered the Chairman and CEO's life and that of his spouse. The Trusts were the owners and beneficiaries of the policies and were 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 executed a collateral assignment of each of the Policies to the Company. As of December 31, 2007, the Trusts terminated these policies and reimbursed the Company for all but $159,000 for these payments.

Executive Office Lease

The Company currently leases 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of its Chairman and CEO. Rent expense for the years ended December 31, 2007, 2006 and 2005 amounted to $0.7 million, $0.6 million, and $0.5 million, respectively. The leases for the office space expire in March 2012, May 2012 and May 2013, and the lease for the warehouse space expires in July 2010. The future minimum lease commitments relating to these leases at December 31, 2007 equaled $3.8 million. The Company also paid $3.7 million, $1.3 million and $0.4 million in construction costs to these same affiliates for the years ended December 31, 2007, 2006 and 2005, respectively.

18. Subsidiary Guarantors

Under the terms of the $2.725 billion senior secured credit facility, all of Penn's subsidiaries are guarantors under the agreement, with the exception of several minor subsidiaries with total assets, excluding intercompany balances, of $43.9 million (approximately 0.9% of total assets at December 31, 2007). Each of the subsidiary guarantors is 100% owned by Penn. In addition, the guarantees provided by Penn's subsidiaries under the terms of the $2.725 billion senior secured credit facility are full and unconditional, joint and several, and Penn had no significant independent assets and no independent operations at, and for the year ended, December 31, 2007. There are no significant restrictions within

the $2.725 billion senior secured credit facility on the Company's ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn's ability to obtain funds from its subsidiaries.

With regard to the $2.725 billion senior secured credit facility, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of income and condensed consolidating statements of cash flows at, and for the years ended, December 31, 2007, 2006 and 2005, as Penn had no significant independent assets and no independent operations at, and for the year ended, December 31, 2007, the guarantees are full and unconditional and joint and several, and any subsidiaries of Penn other than the

subsidiary guarantors are considered minor.

Under the terms of the $200 million 6 7/8% senior subordinated notes, all of Penn's subsidiaries are guarantors under the agreement, with the exception of several minor subsidiaries with total assets, excluding intercompany balances, of $19.4 million (approximately 0.4% of total assets at December 31, 2007). Each of the subsidiary guarantors is 100% owned by Penn. In addition, the guarantees provided by Penn's subsidiaries under the terms of the $200 million 6 7/8% senior subordinated notes are full and unconditional, joint and several, and Penn had no significant independent assets and no independent operations at, and for the year ended, December 31, 2007. There are no significant restrictions within the $200 million 6 7/8% senior subordinated notes on the Company's ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn's ability to obtain funds from its subsidiaries.

With regard to the $200 million 6 7/8% senior subordinated notes, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of income and condensed consolidating statements of cash flows at, and for the years ended, December 31, 2007, 2006 and 2005, as Penn had no significant independent assets and no independent operations at, and for the year ended, December 31, 2007, the guarantees are full and unconditional and joint and several, and any subsidiaries of Penn other than the subsidiary guarantors are considered minor.

19. Discontinued Operations—Disposition of Hollywood Casino Shreveport

On August 27, 2004, the Company's unrestricted subsidiary, Hollywood Casino Shreveport ("HCS"), in cooperation with an Ad Hoc Committee representing a majority of its noteholders, entered into an agreement with Eldorado Resorts LLC ("Eldorado") providing for the acquisition of HCS by certain affiliates of Eldorado. On September 10, 2004, a group of HCS's creditors, led by Black Diamond Capital Management, LLC, filed with the U.S. Bankruptcy Court, Western District of Louisiana ("U.S. Bankruptcy Court"), located in Shreveport, Louisiana, an involuntary petition against HCS for relief under Chapter 11 of the U.S. Bankruptcy Code. On October 30, 2004, HCS agreed to the entry of an order for relief in the Chapter 11 case that had been filed against it, and HCS I, Inc., HCS II, Inc., HWCC-Louisiana, Inc. and Shreveport Capital Corporation commenced voluntary cases under Chapter 11 of the Bankruptcy Code. HCS's debt was non-recourse to the Company and its other subsidiaries.

On July 6, 2005, the U.S. Bankruptcy Court entered an order confirming a Chapter 11 plan that provided for the acquisition of HCS by certain affiliates of Eldorado and, on July 22, 2005, the acquisition was completed. As a result, the Company recorded a non-cash pre-tax gain of approximately $58.3 million, representing the aggregate amount of previously-recorded losses. The after-tax effect of the gain was approximately $37.9 million.

The Company has historically reflected the results of this transaction by classifying the assets, liabilities and results of operations of HCS as assets and liabilities held for sale and discontinued operations in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or

Disposal of Long-Lived Assets" ("SFAS 144"). The Company held no HCS assets or liabilities at December 31, 2007 and 2006. Net revenues, income from continuing operations and net loss for HCS for the year ended December 31, 2005 equaled $67.5 million, $2.9 million and ($5.5) million, respectively.

20. Discontinued Operations—Sale of The Downs Racing, Inc. and Subsidiaries

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the MTGA. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Amendment and Release with the MTGA pertaining to the Purchase Agreement, and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. As a result of the Amendment and Release, the Company recorded, in accordance with GAAP, a net book gain on the $250 million sale ($280 million initial price, less $30 million payable pursuant to the Amendment and Release) of The Downs Racing, Inc. and its subsidiaries to the MTGA of $114.0 million (net of $84.9 million of income taxes) during the year ended December 31, 2006. In addition, the Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years, with the first payment of $7.0 million having been made in November 2007.

The Company held no The Downs Racing, Inc. assets or liabilities at December 31, 2007 and 2006. Net revenues, loss from continuing operations and net loss for The Downs Racing, Inc. and its subsidiaries for the year ended December 31, 2005 equaled $1.8 million, $86,000 and $38,000, respectively.

21. Discontinued Operations—Sale of Argosy Casino Baton Rouge

On October 25, 2005, pursuant to the previously-announced Securities Purchase Agreement among Argosy, Wimar Tahoe Corporation and CP Baton Rouge Casino, L.L.C., an affiliate of Columbia Sussex Corporation, the Company completed its sale of Argosy Casino Baton Rouge to Columbia Sussex Corporation for approximately $148.6 million. The Company owned Argosy Casino Baton Rouge for twenty-four days prior to the sale. The Company did not record a gain or loss on sale of the property, as the sale price on date of disposition equaled the estimated fair value of the assets and liabilities acquired, but assigned a purchase price equal to $148.6 million.

Net revenues, income from continuing operations and net income for Argosy Casino Baton Rouge for the year ended December 31, 2005 equaled $9.9 million, $2.5 million and $1.4 million, respectively.

22. Subsequent Event

On February 19, 2008, the Illinois Gaming Board resolved to allow the Company to retain the Empress Casino Hotel. Previously, in connection with its acquisition of Argosy, the Company entered into an agreement with the Illinois Gaming Board in which it agreed, in part, to enter into an agreement to divest the Empress Casino Hotel by December 31, 2006, which date was later extended to June 30, 2008, subject to the Company having the right to request that the Illinois Gaming Board review and reconsider the terms of the agreement.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting, and concluded that it was effective as of December 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework.*

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited Penn National Gaming, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Penn National Gaming, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting

included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Penn National Gaming, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended of Penn National Gaming, Inc. and subsidiaries and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
February 22, 2008

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors and persons who own more than 10% of the Company's common stock to file reports of ownership and changes in ownership of the Company's common stock and any other equity securities of the Company with the SEC. Executive officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of Forms 3, 4 and 5 furnished to the Company, or written representations from certain reporting persons that no such Forms were required to be filed by such persons, the Company believes that all of its executive officers, directors and greater than 10% shareholders complied with all filing requirements applicable to them during 2007.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

For purposes of the following Compensation Discussion and Analysis, the terms "executives" and "executive officers" refer to the Named Executive Officers of the Company as set forth in the Summary Compensation Table, which appears beginning on page 111 of this Annual Report on Form 10-K.

Executive Summary

Pay for Performance Programs. In 2007, the Company's compensation programs for executives were revised to provide a greater link to performance. Shareholders approved the performance-based Annual Incentive Plan and, pursuant to the Annual Incentive Plan, the Company implemented:

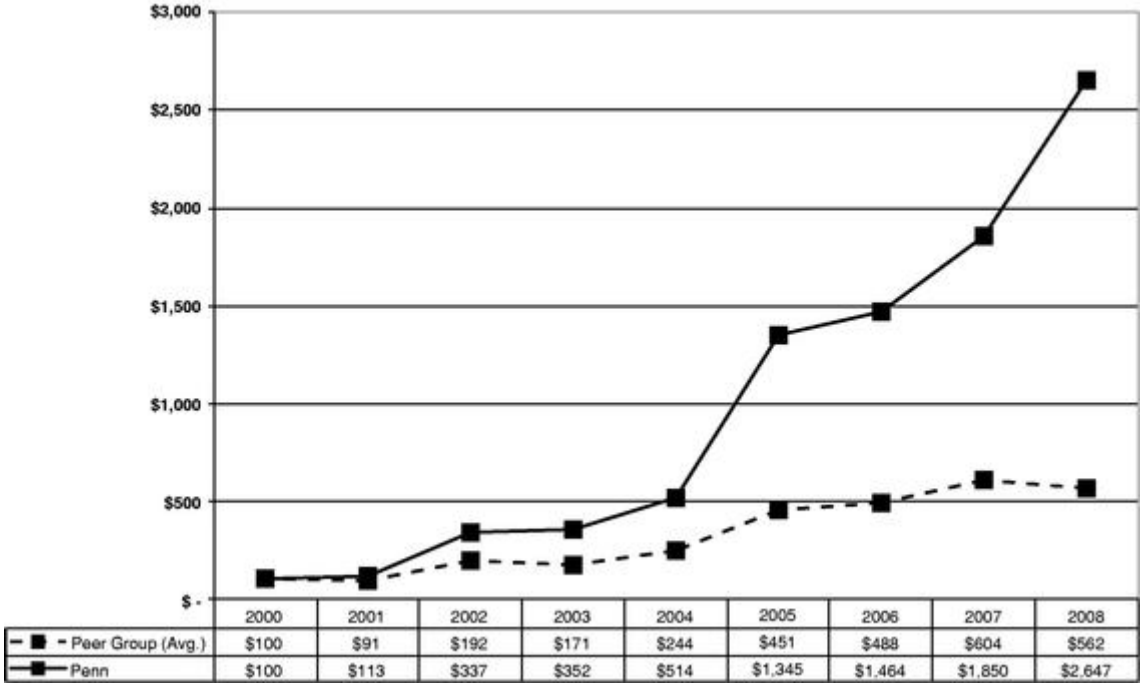
- An incentive program with pre-determined goals based on EBITDA (earnings before interest, taxes, charge for stock compensation, depreciation and amortization, and gain or loss on disposal of assets, and is inclusive of earnings from the Company's joint venture) goals (EBITDA is most common company measure of performance in the gaming industry), which replaced the prior discretionary bonus plan. This EBITDA-based measure includes:
- A minimum EBITDA goal that must be met before any award can be paid ($618,000,000);
- A target amount equal to the Company's 2007 EBITDA forecast ($633,000,000); and
- The goals for the range of payout (minimum to maximum) were set plus or minus 2% of the EBITDA forecast ($618,000,000 to $648,000,000).
- An incentive program with an external measure of performance (free cash flow results compared to peers) to reward for results better than peers. The free cash flow-based measure provides that:
- Minimum performance must rank at or above peer group median before any awards can be paid; and
- The Company must be the top performer in generation of free cash flow compared to peers for

participants to receive the maximum payout.

Performance-based awards under both incentive programs are deductible pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

Company Performance. The Company believes its compensation programs have contributed to its outstanding results, which include:

- Total Shareholder Return that is 371% above gaming industry peers since 2000 (1/1/2000-1/1/2008) and 59% for 2007:



	2000	2001	2002	2003	2004	2005	2006	2007	2008
Peer Group (Avg.)	$100	$91	$192	$171	$244	$451	$488	$604	$562
Penn	$100	$113	$337	$352	$514	$1,345	$1,464	$1,850	$2,647

- Financial results have ranked above most peer companies, including:

EBITDA Margin	Top of Third Quartile
Return on Equity	Top of Fourth Quartile
Net Income Margin	Fourth Quartile
Revenue Growth	Top of Fourth Quartile

- *Fortune* magazine recognized the Company as one of the fastest growing U.S. companies for a record 6th year.

Executive Compensation. The Compensation Committee monitors total compensation paid to executives and compares the amounts to total compensation paid to similarly-situated executives at peer companies and in relation to peer company performance. Total compensation for each executive ranked between the 50th and

60th percentile compared to similarly-situated executives in peer companies while Company performance consistently ranked above the 60th percentile compared to peer company results. The Compensation Committee believes compensation to executives is reasonable and consistent with the Company's results and its compensation philosophy.

Fiscal 2008 Compensation. Since the announcement of the Merger, the Company has not implemented any new compensation programs for executives. Based on the pending Merger:

- The Company elected to forgo its annual stock option grant to executives and all other employees;
- In January 2008, executives received a 4% salary increase to reflect the projected labor market movement and to allow the executive team to continue to receive competitive salaries; and

- In December 2007, the Company accelerated change in control payments (subject to repayment in certain situations) for three executive officers to eliminate company tax penalties (280G excess parachute payments) in 2008.

Objectives of the Compensation Program

The Company recognizes that a talented management group plays a key role in achieving above average results. Therefore, the Company believes it must attract and retain key talent to continue its outstanding performance, and that the compensation program is crucial to its continued success.

The Company views other large companies in the gaming industry as its primary competition for executive talent. The gaming industry is a highly competitive business, and, as such, the Company recognizes that it needs a competitive compensation program to attract and retain the top talent necessary for it to continue to achieve outstanding results. Many executives have joined the Company from other gaming operations. The following compensation philosophy has been developed to support the Company and its businesses.

Compensation Philosophy

To support its objectives, the Compensation Committee has adopted and annually reviews and confirms a compensation philosophy which serves as the guide for all executive compensation decisions.

Compensation Philosophy Statement. The Company intends to maintain an executive compensation program that will help it attract and retain the executive talent needed to grow and further the strategic interests of the business. To this end, the Company provides a compensation and benefits program that will be sufficiently attractive to provide talented executives with good reason for remaining with the Company and continuing in their efforts to improve shareholder value. The Company's program is designed to motivate and reward executives to achieve and exceed targeted results. Pay received by the executives will be commensurate with the performance of the Company, the business unit they are part of, and their own individual contribution.

Compensation Program Design. Consistent with the compensation philosophy, the compensation program is designed to support the marketplace positioning for each element of compensation to equate the level of pay with the comparable targeted market position for results, thereby creating a consistent pay for performance environment. Below is an outline of the design the Company's compensation program for 2007:

- Base Salary
  - Designed to be competitive, to attract qualified executives and to be fair
- Total Cash Opportunity (base salary plus annual incentive compensation) and Total Compensation Opportunity (base salary plus annual incentive compensation plus stock options)
  - Designed so that executives receive compensation in the third quartile of the peer group for third quartile performance and in the fourth quartile of the peer group for fourth quartile performance
- Benefits and Perquisites
  - Designed to be competitive

The peer group used by the Compensation Committee in setting compensation for the Company's executives for 2007 includes: Ameristar Casinos, Inc., Boyd Gaming Corporation, Harrah's Entertainment, Inc., Isle of Capri Casinos, Inc., Las Vegas Sands Corp., MGM Mirage, Pinnacle Entertainment, Inc., Station Casinos, Inc., Trump Entertainment Resorts, Inc., and Wynn Resorts, Ltd.

In setting all elements of compensation for 2007—base salary, annual incentive compensation, stock options, benefits and perquisites—the Compensation Committee relied on the same peer group.

To ensure a competitive compensation program, the Company and the Compensation Committee, with the assistance of its compensation consultant, closely monitor the compensation practices of other gaming companies to ensure the programs assist in attracting and retaining executives. The Compensation Committee reviewed the following financial results of the Company compared to the peer group and, as indicated below, the Company consistently outperformed the median of the peer group in 2007:

Measure	Company results
EBITDA margin	Top of Third Quartile
Net Income margin	Top of Fourth Quartile
Revenue growth	Fourth Quartile
Return on equity	Top of Fourth Quartile

Total compensation (base salary, annual incentive and the value of the stock options granted) for executives of the Company compared to similar situated executives in the peer group ranks between the 50th and 75th percentile, consistent with the financial results for the Company.

Elements of the Compensation Program

Base Salary. Consistent with the compensation philosophy, base salaries are targeted to approximate the 50th percentile (median) of the peer group. The Compensation Committee targets the 50th percentile because it

seeks to set salaries that are competitive in the gaming industry and that will attract and retain qualified executives. Salaries are also reviewed and compared to market rates and internal relationships for fairness. Salaries are then reviewed and set based on judgments of the Compensation Committee, which can include consideration of external and internal relationships, specific position duties and responsibilities, and assessment of individual contribution and position value to the Company.

Set forth below are base salary increases for executive officers for 2007:

Executive	2007 Salary	Percentage Increase over 2006 Salary
Chief Executive Officer	$ 1,500,000	7.1%
Chief Financial Officer	$ 700,000	19.7%
Executive Vice President of Operations	$ 750,000	15.4%
Senior Vice President and General Counsel	$ 405,000	3.8%
Vice President, Secretary and Treasurer	$ 270,000	3.8%

After a review of chief executive officer salaries in the peer group, the Chief Executive's salary increase was based on a determination by the Compensation Committee that the increase was appropriate to meet its goal of providing a fair base salary. However, the Chief Executive Officer's salary for 2007 fell in the second quartile of the peer group. Similarly, for the other executive officers, in determining 2007 base salaries, the Compensation Committee took into consideration the base salaries of similarly situated executives in the peer group and internal equity issues. The Compensation Committee set 2007 salaries that it believed met its fairness and competitiveness goals based on the facts that the salaries approximated the median salaries of similarly situated executives at companies in the peer group and that variation among the executives corresponded with the executives' position and authority. In addition to the previously mentioned factors, the Chief Financial Officer's salary increase also reflects consideration of his performance and increased responsibility in connection with the rapid

growth of the Company and the Executive Vice President of Operations's salary increase also reflects his increased operational responsibility following the departure of the Chief Operating Officer. Pursuant to the terms of his employment agreement, the Executive Vice President of Operations' salary was increased to $750,000 in late 2006 with the understanding that his base salary would not increase during the initial term of his employment agreement (July 31, 2006 to July 31, 2009). In agreeing to set the Executive Vice President of Operations' base salary at $750,000, the Compensation Committee took into consideration that the salary would be for a three year period and, therefore, would need to be set higher than a base salary amount expected to be increased annually.

For 2008, since salaries for each executive were viewed as competitive and fair based on the analysis in setting the 2007 base salaries for executives, all executives received a 4% salary increase, which was determined based on a projection of the labor market movement so the Company would continue to pay competitive salaries to its executive team. The Executive Vice President of Operations did not receive a salary increase in 2008 because, pursuant to the terms of his employment agreement, his late 2006 salary increase was meant to cover the initial term of his employment agreement (July 31, 2006 to July 31, 2009).

Annual Incentive. Working with its compensation consultant, the Compensation Committee approved a new performance-based Annual Incentive Plan for 2007 which provided two measures: an internal measure, EBITDA versus plan, and an external measure, free cash flow versus peer group results. The Company believes that ensuring its executives are incentivized to meet or exceed forecasted EBITDA is critical to the Company's

continued growth in a manner that rewards shareholders and enables the Company to retain its credibility in the capital markets, which in turn is critical to fund capital intensive future growth opportunities at the lowest possible cost of capital. The new performance-based Annual Incentive Plan for 2007, which incorporates EBITDA results with an annual cash incentive and free cash flow growth rates, was adopted by the Compensation Committee because it aligns the executives' interests with the interests of the Company's shareholders. Stated another way, if the Company grows free cash flow per share, which requires the Company's management team to factor in the cost of capital, cost of acquisitions, operating results, legislative risk, cost of maintaining our assets, and taxes, then the shareholders will be satisfied with the fundamental direction of the Company and the executives will be appropriately rewarded.

Prior to 2007, bonus compensation amounts were not based on predetermined performance targets but, rather, were set based upon the Chief Executive Officer's and Board of Directors' assessment of EBITDA results and the Chief Executive Officer's assessment of individual contribution for each executive officer.

To further a pay for performance environment, the plan was approved by shareholders at the Company's 2007 annual meeting so that awards under the plan qualify as performance-based compensation that is exempt from the federal income tax $1,000,000 deduction limitation imposed under Section 162(m) of the Code. By obtaining shareholder approval, the Company may more efficiently provide its executive officers with performance-based compensation.

Internal Measure. The internal measure portion of the Company's Annual Incentive Plan for 2007 provided for the payment of incentive compensation upon the Company's achievement of pre-established EBITDA goals. EBITDA is earnings before interest, taxes, charges for stock compensation, depreciation and amortization, and gain or loss on disposal of assets, and inclusive of earnings from the Company's joint venture.

The following sets forth the EBITDA goals of the internal measure portion of the Company's Annual Incentive Plan for 2007, as well as the Company's actual EBITDA for 2007:

	% of Achievement of 2007 EBITDA Budget	EBITDA
• Threshold	98%	$ 618,000,000
• Target	100%	$ 633,000,000
• Maximum	102%	$ 648,000,000
• Actual	106%	$ 672,727,000

The Company's 2006 EBITDA was $629,200,000. The Company's 2007 EBITDA budget was set in a process where the Company used 2006 estimated EBITDA as a starting point and then (i) adjusted upward for anticipated performance improvements at the Company's existing properties (to the extent that competitive forces and penetration rates reasonably permit) and the expected benefits from a pending acquisition of the Black Gold Casino at Zia Park property in New Mexico and (ii) adjusted downward to account for higher liability insurance costs, an incremental tax increase in Illinois, the decrease in Hurricane Katrina-related business at the Company's Gulf properties not impacted by the hurricane and pre-opening expenses for the integrated racing and gaming property in Grantville, Pennsylvania.

The range for the EBITDA goals was set between $618,000,000 and $648,000,000 based upon the Company's 2007 EBITDA budget ($633,000,000) and a 2% increase or decrease from that budgeted amount. The Compensation Committee based the 2007 threshold, target and maximum with reference to record EBITDA achieved in 2006 and the significant challenges from certain events expected to occur in 2007

(e.g., significant increases in insurance costs and gaming taxes increases) which could have negatively effected financial performance, even after giving effect to expected increases in market penetration and growth.

The range of awards payable pursuant to the internal measure for each executive is as follows:

Executive	Threshold Bonus (as a percentage of salary)	Target Bonus (as a percentage of salary)	Maximum Bonus (as a percentage of salary)
Chief Executive Officer	50%	100%	150%
Chief Financial Officer	37.5%	75%	112.5%
Executive Vice President of Operations	37.5%	75%	112.5%
Senior Vice President and General Counsel	25%	50%	75%
Vice President, Secretary and Treasurer	25%	50%	75%

The Compensation Committee set the range of bonuses payable under the internal measure, as a percentage of salary, for executives to reflect the standard competitive practice in the gaming industry for such incentive programs.

Based on record actual EBITDA of $672,727,000, the executives received the maximum payout under the internal measure portion of the Company's Annual Incentive Plan for 2007. The award for meeting internal measure goals was paid in cash.

External Measure. The external measure portion of the Company's Annual Incentive Plan for 2007 provided for the payment of incentive compensation upon the Company's achievement of pre-established goals regarding the Company's free cash flow (ranking results versus the peer group from unadjusted data reported in the Standard & Poors Research Insight database). Free cash flow is EBITDA less interest, taxes, and maintenance capital expenditures. Because the Company's competitors do not publicly disclose the breakdown between project and maintenance capital expenditures (a key

component of free cash flow), in comparing the Company's free cash flow performance to that of its competitors, the Company defines maintenance capital expenditures as 50% of the total depreciation reported by each of the Company's competitors.

The following sets forth the free cash flow goals (in relation to the free cash flow of the Company's peers) of the external measure portion of the Company's Annual Incentive Plan for 2007:

- Threshold: 50th percentile (median) performance
- Target: 75th percentile performance
- Maximum: Highest of peers

Since the Company is a top performer, the Compensation Committee wanted to continue to encourage and reward executives for achieving outstanding results and encourage executive retention. So, the Committee approved an external measure pursuant to which, before any award would be paid, the Company must have results that rank in the top half compared to competitor results (median/50th percentile). The target is set at a ranking equal to at least the middle of the top half of competitor results (75th percentile). Maximum payout is for outperforming all peers. The plan is designed to reward for top industry performance.

The range of awards payable pursuant to the external measure for each executive is as follows:

Executive	Threshold Bonus (as a percentage of salary)	Target Bonus (as a percentage of salary)	Maximum Bonus (as a percentage of salary)
Chief Executive Officer	50%	100%	150%
Chief Financial Officer	37.5%	75%	112.5%
Executive Vice President of Operations	37.5%	75%	112.5%
Senior Vice President and General Counsel	25%	50%	75%
Vice President, Secretary and Treasurer	25%	50%	75%

Like the internal measure, the Compensation Committee set the range of bonuses payable under the external measure, as a percentage of salary, for executives to reflect the standard competitive practice in the gaming industry for such incentive programs.

Because the external measure is calculated using publicly available information regarding the peer group and information regarding 2007 financial performance of all of the companies in the peer group has not yet been published, the amount of bonus payable under the external measure portion of the Company's Annual Incentive Plan for 2007 has not yet been determined. The amount of external measure bonus payable, if any, is expected to be calculated in the Spring of 2008 once the database information is available sometime after the competitors make their Annual Report on Form 10-K filings. Any amounts payable under the external measure will be payable in cash, restricted stock or some combination thereof.

Stock Options. The Company believes that the stock option program is the most important element of the executive compensation program since it most directly rewards executives for the increase in shareholder value, for which performance historically ranks above the 90th percentile of general industry results. The Company believes that stock option grants have assisted the Company in attracting and retaining executives. In setting the number of shares of stock to be granted, the Compensation Committee looks to set stock option grants consistent with its compensation philosophy and considers general gaming industry practices as well as other relevant considerations, which can include individual performance and contribution to results. The options vest at the rate of 25% per year to assist in retaining executives.

For 2007, the Company granted stock options to executive officers as follows:

Executive	Number of Option Awards
Chief Executive Officer	300,000
Chief Financial Officer	100,000
Senior Vice President and General Counsel	50,000
Vice President, Secretary and Treasurer	40,000

The Executive Vice President of Operations, whose option grant in 2006 was made pursuant to the terms of his employment agreement, dated July 31, 2006, did not receive a grant in 2007 because, pursuant to the terms of his employment agreement, his option grant in 2006 was meant to represent his stock option compensation for the initial term of his employment agreement (July 31, 2006 to July 31, 2009). There was no expectation that the Executive Vice President of Operations would receive additional stock option grants during

the initial term of his employment agreement. Because the Executive Vice President of Operations' option grant in 2006 represented compensation over a three year period, the Compensation Committee agreed to the grant of a number of stock options it considered appropriate to incentivize the Executive Vice President of Operations to perform during the three year period.

The Committee granted the same fixed amount of shares (adjusted for stock splits) to the Chief Executive Officer from 2000 through 2007 with the exception of 2005 when Mr. Carlino received additional options in recognition of the Argosy acquisition. In granting the fixed stock option award to the Chief Executive Officer for 2007, the Compensation Committee considered the extent to which the stock option grant would reward the Chief Executive Officer for increasing shareholder value and the Chief Executive's central role in overseeing the Company's success. The 2007 option grant to the Chief Executive Officer was also reviewed in the context of his total compensation (base salary plus annual incentive plus stock option grants) compared to peer group results to ensure that the Chief Executive Officer's total compensation reflects the Compensation Committee's pay for performance philosophy and was in the third quartile of total compensation for chief executive officers of peer group companies to the extent that the Company had third quartile performance in the peer group. Based on the strong increase in shareholder value in recent years and the fact that the grant of 300,000 shares results in the Chief Executive Officer's total compensation being in the third quartile of total compensation for chief executives in the peer group, the Committee determined, as it had in previous years, that the fixed grant of 300,000 stock options was appropriate to reward and incentivize the Chief Executive Officer to increase shareholder value.

The Committee determined the size of the stock options granted to the other executives (other than the Executive Vice President of Operations, who did not receive a grant for 2007) with input from the Chief Executive Officer and also upon review of the total compensation amounts (base salary plus annual incentive and long-term incentives) of the executives in comparison to similarly-situated executives in the peer group. The Chief Executive Officer's input on grants to other executives includes consideration of internal equity concerns. The Committee believes the stock option grants to the executives other than the Chief Executive Officer were appropriate because they provided sufficient incentive to increase shareholder value (amounts for 2007 were in line with grants to such executives in previous years and the Company has seen a significant increase in shareholder value in recent years), the amounts, when added to base salary and annual incentive, represent total compensation in line with the Committee's pay for performance philosophy (above average performance in comparison to the peer group will result in above average compensation) and, finally, internal equity concerns were addressed (grant amounts appropriately varied by the executive's position and responsibility).

Because of the pending Merger, the Company elected to defer its annual stock option grants to executives and all other employees for 2008, but the Committee may reconsider option grants if the Merger is not consummated.

The Company believes that stock option grants have assisted the Company in attracting and retaining executives. Because stock options are designed to align the executives' interests with those of the Company's stockholders and reward future increases in shareholder value, the Compensation Committee did not consider the executives' gains realized upon vesting of previous equity awards, any other element of compensation for 2007, or in compensation set for previous years in determining stock option grants.

Benefits and Perquisites. In 2007, certain executive officers received the following supplemental benefits and perquisites: Company match on voluntary deferred compensation, Company contribution to 401(k) plan,

life insurance coverage, country club membership, reimbursement for automobile allowance, and personal use of Company aircraft. These programs are described in more detail beginning on page 112 of this Annual Report on Form 10-K. These programs are consistent with competitive practice in the gaming industry and the objectives of the compensation philosophy.

Deferred Compensation. The Company does not offer a formal defined benefit pension program. Instead, the Company provides executives with a voluntary deferred compensation program with a Company match of up to 5% of annual salary and/or bonus. The program is described in more detail beginning on page 115 of this Annual Report on Form 10-K. This program is consistent with competitive practices in the gaming industry.

Employment Agreements. Executive officers have employment agreements with the Company. The main purpose of these agreements is to protect the Company from certain business risks (threats from competitors, loss of confidentiality or trade secrets and solicitation of customers and employees) and to define the Company's right to terminate the employment relationship. The employment agreements also protect the executive from certain risks, such as termination without cause or a change in control of the Company. As previously discussed, the intent of the Company's compensation program is to help the Company attract and retain the appropriate executive talent. The practice in the gaming industry is for executive officers to enter into employment agreements with termination and severance benefits. Termination and severance packages available to similarly situated executives at other gaming companies were considered before deciding upon termination and severance packages included as part of the employment agreements of the Company's executives. Each employment agreement was individually negotiated so there are some minor variations in the terms among executive officers. However, generally, the termination and severance packages provided to the executive officers provide termination and change in control benefits that, based on a review of benefits being offered in the industry, were consistent with industry practices for similarly situated executives. As a result, the Committee believes, in addition to protecting the Company from certain business risks, the termination and severance packages help retain the current executive talent by providing them with a competitive employment arrangement and protection against certain unknowns (such as change in control or termination without cause) that go along with the position.

In the event of termination without cause, the executive officers are entitled to cash compensation equal to two years salary and bonus (three years in the case of the Chief Executive Officer). The termination without cause benefit was set at an amount comparable with similarly situated executive in the gaming industry. The Chief Executive Officer receives a larger benefit because that is consistent with the practice at the Company's competitors. If an executive officer is terminated without cause, he also becomes a non-executive officer of the Company for a period of time so that his options vest. This feature was included because option grants are central to the Company's compensation philosophy and, therefore, the Compensation Committee considered protecting an executive's option grants in the event

of termination without cause to be central to providing termination benefits that serve the purpose of retaining executive talent.

In the event of a change in control, executive officers receive a cash payment equal to three times the sum of their annual base salary and highest annual cash bonus over the two years preceding the change in control. If any change in control payment results in an excise tax under the Code, then the executive officer is entitled to a gross-up payment so that the net amount paid equals the change in control payment less ordinary and normal taxes. The change in control payment amount (and the excise tax gross-up) was set to be competitive with practices in the gaming industry. The determination to trigger payment upon a change in control, as opposed to

termination of employment following a change in control, was meant to promote an orderly transition of senior management in the event of a change in control. This provision was intended to encourage executives to remain with the Company during the time between agreeing to a change in control transaction and the closing of the transaction, which can be lengthy due to regulatory approval requirements, and for a reasonable transition period after the change in control occurs. The executives are not entitled to the change in control payment until the change in control occurs. Because of the uncertainty associated with a second trigger, executives often believe they need to terminate their employment immediately following a change in control in order to receive the change in control payment. The single trigger mechanism was chosen to encourage retention by removing that ambiguity and avoiding having senior management terminate immediately upon a change in control. In addition, to encourage the executive officers to stay for a 90-day transition period after a change in control, the executive officers receive 75% of this change in control payment on the effective date of the change in control, but the remaining 25% is not paid until 90 days after a change in control. The agreements are described in more detail beginning on page 117 of this Annual Report on Form 10-K.

The executive officers' current termination and severance package did not impact the Compensation Committee's compensation decisions (salary, total cash opportunity or benefits and perquisites) for 2007 and 2008.

On December 26, 2007, the Company entered into a Change in Control Payment Acknowledgement and Agreement (the "Acknowledgement and Agreement") with the Chief Financial Officer, the Executive Vice President of Operations and the Senior Vice President and General Counsel. Pursuant to the Acknowledgement and Agreement, a portion of the payment due on a change in control was accelerated and paid on or before December 31, 2007. The Acknowledgement and Agreements are described in more detail in "Potential Payments Upon Termination or Change in Control" below and were entered into as part of actions taken to reduce the amount of "gross-up" payments pertaining to federal excise taxes that may have otherwise been owed to such executives under the terms of their existing employment agreements in connection with the change in control payments due upon the consummation of the Merger.

Other Compensation Policies

- *Restatements.* The Company does not currently have a policy requiring a specific course of action with respect to compensation adjustments following later restatements of financial results. Under those circumstances, the Compensation Committee would evaluate whether compensation adjustments are appropriate based upon the facts and circumstances surrounding the restatement and existing laws.
- *Timing of Option Grants.* In December 2006, the Compensation Committee adopted a stock option grant procedure, pursuant to which, for annual stock option awards to eligible executive officers, the grant date will be the first trading day of the calendar year provided that such grants are approved by the Committee after the completion of the Company's budget for such year but in advance of the beginning of such year. The options awarded in 2007 to the

executives were granted in accordance with this procedure. In addition, with respect to executive officers subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, grants made by the Compensation Committee upon commencement of employment, promotions and upon the renewal of employment contracts are made on the day employment commences, the promotion is effective or the employment contract is renewed, respectively, which had been the Committee's practice prior to the adoption of the procedure. The stock option procedure

is designed to make the timing of option grants predictable and prevent grant timing abuses and, therefore, option awards can be granted in accordance with the procedure regardless of whether or not the Board of Directors or Compensation Committee is in possession of material non-public information.

Impact of Regulatory Requirements

Under Code Section 162(m), a company generally may not deduct compensation in excess of $1,000,000 paid to the chief executive officer and the other four most highly compensated officers, subject to certain exemptions. While the Compensation Committee takes the availability of Section 162(m) exemptions into consideration when establishing executive compensation programs, in order to design compensation programs that address the Company's needs, neither the Compensation Committee nor Company has established a policy that mandates that all compensation must be exempt from the Section 162(m) deduction limitation.

Report of the Compensation Committee

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth on pages 99 through 109 of this Annual Report on Form 10-K (the "Compensation Discussion and Analysis") with the management of the Company.

Based on the review and discussions described above, the Compensation Committee has recommended to the Company's Board of Directors that the Company's Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K.

The information disclosed in the Company's Report of the Compensation Committee shall not be deemed to be "soliciting material," or to be "filed" with the SEC or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934.

Compensation Committee of the Board of Directors

Harold Cramer, Chairman
David A. Handler
Barbara Z. Shattuck

Summary Compensation Table

The following table sets forth information concerning the compensation earned during the fiscal years ended December 31, 2007 and 2006 by the Company's Chief Executive Officer, Chief Financial Officer, and three other most highly compensated individuals serving as executive officers on December 31, 2007 (collectively, the "Named Executive Officers"):

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(4)	All Other Compensation ($)(5)	Total ($)
Peter M.	2007	1,500,000	—	877,479	4,557,912	2,250,000	462,166	9,647,557
Carlino	2006	1,400,000	1,400,000	864,424	3,556,757	—	450,797	7,671,978

Chairman and Chief Executive Officer								
William J. Clifford Sr. Vice President and Chief Financial Officer	2007	700,000	—	264,735	1,820,343	787,500	3,606,593	7,179,171
	2006	585,000	585,000	256,031	1,486,624	—	141,346	3,054,001
Leonard M. DeAngelo Executive Vice President of Operations	2007	750,000	—	264,735	1,987,806	843,750	3,770,592	7,616,883
	2006	650,000	625,000	256,031	1,606,786	—	63,450	3,201,267
Jordan B. Savitch Senior Vice President and General Counsel	2007	405,000	—	132,367	905,877	303,750	1,334,092	3,081,086
	2006	390,000	260,000	128,016	808,306	—	23,876	1,610,198
Robert S. Ippolito Vice President, Secretary and Treasurer	2007	270,000	—	132,367	832,811	202,500	42,204	1,479,882
	2006	260,000	182,000	128,016	711,351	—	34,100	1,315,467

(1) These amounts reflect bonuses earned for 2006.

(2) The amounts reflect the dollar value recognized, in accordance with SFAS 123(R), for financial statement reporting purposes during 2007 for all existing awards of restricted stock awards, excluding forfeitures. Assumptions used in the calculation of these amounts are included in footnote 4 to the Company's audited financial statement beginning on page 67 of this report.

(3) The amounts reflect the dollar value recognized, in accordance with SFAS 123(R), for financial statement reporting purposes during 2007 for all existing stock option awards, excluding forfeitures. Assumptions used in the calculation of these amounts are included in footnote 4 to the Company's audited financial statements beginning on page 67 of this report.

(4) These amounts reflect awards pursuant to the internal measure portion of the Company's Annual Incentive Plan for 2007, which provided for the payment of incentive compensation upon the Company's

achievement of pre-established EBITDA goals. Based on the Company's EBITDA performance for 2007, the executives received the maximum payout pursuant to the internal measure portion of the Company's Annual Incentive Plan for 2007. See discussion in "Compensation Discussion and Analysis" beginning on page 99. The amount of award payable pursuant to the external portion of the Company's Annual Incentive Plan for 2007, which provides for incentive compensation based upon the Company's free cash flow in comparison to that of its competitors, can not yet be calculated. The external bonuses are expected to be determined by March 2008, and will be reported on a Form 8-K. See discussion in "Compensation Discussion and Analysis" beginning on page 99.

(5)

See All Other Compensation Table below for more information.

All Other Compensation Table

The following table describes each component of the All Other Compensation column of the Summary Compensation Table:

Name	Year	Company Contributions to Defined Compensation Plan ($)(1)	Company Contributions to 401(k) ($)(2)	Company-Paid Insurance Premiums ($)(3)	Perquisites Club Memberships ($)	Perquisites Personal Use of Company Vehicle ($)(4)	Perquisites Personal Use of Company Airplane ($)(5)	Other ($)(6)	Total ($)
Peter M.	2007	264,459	4,500	—	2,606	—	190,601	—	462,166
Carlino	2006	119,615	4,400	124,406	3,724	2,459	196,193	—	450,797
William J.	2007	104,885	4,500	—	—	—	87,333	3,409,875	3,606,593
Clifford	2006	54,168	4,400	—	—	—	82,778	—	141,346
Leonard	2007	111,104	4,500	1,550	—	—	—	3,653,438	3,770,592
M.	2006	57,500	4,400	1,550	—	—	—	—	63,450
DeAngelo									
Jordan B.	2007	48,454	4,500	—	—	—	—	1,281,138	1,334,092
Savitch	2006	19,476	4,400	—	—	—	—	—	23,876
Robert S.	2007	32,872	4,500	2,769	—	2,063	—	—	42,204
Ippolito	2006	24,981	4,400	2,769	—	1,950	—	—	34,100

(1)

This column reports the Company's matching contribution under the Company's Deferred Compensation Plan.

(2)

This column reports the Company's contributions to the Named Executive Officer's 401(k) savings accounts.

(3)

This column reports term life insurance policy premiums paid by the Company on behalf of Leonard M. DeAngelo and split dollar life insurance policy premiums paid by the Company on behalf of Mr. Ippolito and certain irrevocable trusts created by Peter M. Carlino. For further discussion of the split dollar life insurance policies, see the description under "Transactions with Related Persons" beginning on page 128.

(4)

The amount allocated for personal use of a company vehicle is calculated based upon the lease value of the vehicle and an estimate of personal usage provided by the executive.

(5) The amount allocated for personal aircraft usage is calculated based on the incremental cost to the Company for fuel, landing fees and other variable costs of operating the airplane. Since the Company's aircraft are primarily used for business travel, the Company does not include fixed costs that do not change based on usage, such as pilots' salaries, depreciation of the purchase cost of the aircraft and the cost of general maintenance.

(6) Amounts represent the accelerated payment of a portion of the payment due to Messrs. Clifford, DeAngelo and Savitch on a change in control pursuant to the terms of their employment agreements with the Company. The accelerated change in control payments were made in December 2007 in accordance with a Change in Control Payment Acknowledgement and Agreement (the "Acknowledgement and Agreement") the Company entered into with Messrs. Clifford, DeAngelo and Savitch on December 26, 2007, and are subject to repayment in certain situations. The Acknowledgement and Agreements are described in more detail in "Potential Payments Upon Termination or Change in Control" below and were entered into as part of actions taken to reduce the amount of "gross-up" payments pertaining to federal excise taxes that may have otherwise been owed to such executives under the terms of their existing employment agreements in connection with the change in control payments due upon the consummation of the Merger.

Grants of Plan-Based Awards

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards					
Name	Grant Date	Grant Board Approval Date	Threshold ($)	Target ($)	Maximum ($)	All Other Option Awards: Number of Securities Underlying Options (#)(1)	Exercise or Base Price of Option Awards ($/Sh)(2)	Grant Date Fair Value of Stock and Option Awards ($)(3)
Peter M. Carlino—Options	1/2/2007	12/26/2006	—	—	—	300,000	41.62	4,755,600
Peter M. Carlino—EBITDA(4)	—	—	750,000	1,500,000	2,250,000	—	—	—
Peter M. Carlino—Free Cash Flow(5)	—	—	750,000	1,500,000	2,250,000	—	—	—
William J. Clifford—Options	1/2/2007	12/26/2006	262,500	525,000	787,500	100,000	41.62	1,585,200
William J. Clifford—EBITDA(4)	—	—	262,500	525,000	787,500	—	—	—
William J. Clifford—Free Cash Flow(5)	—	—				—	—	—
Leonard M. DeAngelo—Options	—	—	281,250	562,500	843,750	—	—	—
Leonard M. DeAngelo—EBITDA(4)	—	—	281,250	562,500	843,750	—	—	—
Leonard M. DeAngelo—Free Cash Flow(5)	—	—				—	—	—

Jordan B. Savitch—Options	1/2/2007	12/26/2006	101,250	202,500	303,750	50,000	41.62	792,600
Jordan B. Savitch—EBITDA(4)	—	—	101,250	202,500	303,750	—	—	—
Jordan B. Savitch—Free Cash Flow(5)	—	—				—	—	—
Robert S. Ippolito—Options	1/2/2007	12/26/2006	67,500	135,000	202,500	40,000	41.62	634,080
Robert S. Ippolito—EBITDA(4)	—	—	67,500	135,000	202,500	—	—	—
Robert S. Ippolito—Free Cash Flow(5)	—	—				—	—	—

(1) Options granted to the Named Executive Officers vest over four years, 25% on the first anniversary of the date of grant and 25% on each succeeding anniversary.

(2) The exercise price of each stock option is equal to the fair market value of a share of the Company's common stock on the date of grant. Pursuant to the terms of the Company's 2003 Long Term Incentive Compensation Plan, under which the options were granted, fair market value is equal to the closing price of the Company's common stock on the business day immediately preceding the date of grant.

(3) Represents the full grant date fair value of awards under SFAS 123(R). Generally, the full grant date fair value is the amount the Company would expense in its financial statements over the award's vesting period. Assumptions used in the calculation of these amounts are included in footnote 4 to the Company's audited financial statements beginning on page 67 of this report.

(4) These amounts reflect awards pursuant to the internal measure portion of the Company's Annual Incentive Plan for 2007, which provided for the payment of incentive compensation upon the Company's achievement of pre-established EBITDA goals. Based on the Company's EBITDA performance for 2007, the executives received the maximum payout pursuant to the internal measure portion of the Company's Annual Incentive Plan for 2007, which is reflected in the Summary Compensation Table on page 111. See discussion in "Compensation Discussion and Analysis" beginning on page 99.

(5) These amounts reflect awards pursuant to the external measure portion of the Company's Annual Incentive Plan for 2007, which provided for the payment of incentive compensation upon the Company's achievement of pre-established free cash flow goals. Because the external free cash flow measure is calculated using publicly-available information regarding the peer group, which has not yet been published, this bonus amount has not yet been determined. See discussion in "Compensation Discussion and Analysis" beginning on page 99.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards						Stock Awards	
		Number of Securities Underlying Unexercised Options:						
Name	Option Grant Date (1)	Exercisable (#)	Unexercisable (#)(1)	Option Exercise Price($)	Option Expiration Date	Stock Award Grant Date	Number of Shares or Units of Stock Held that Have Not Vested (#)(2)	Market Value of Shares or Units of Stock Held that Have Not Vested ($)(3)
Peter M. Carlino	02/06/03	75,000	—	7.95	02/06/13	05/26/04	160,000	9,528,000
	01/29/04	75,000	75,000	12.15	01/29/14	01/12/06	60,000	3,573,000
	01/06/05	261,300	300,000	29.22	01/06/15			
	01/12/06	75,000	225,000	33.12	01/12/16			
	01/02/07	—	300,000	41.62	01/02/17			
William J. Clifford	01/02/02	19,776	—	7.42	01/02/09	01/12/06	40,000	2,382,000
	02/06/03	87,422	—	7.95	02/06/10			
	01/29/04	75,000	25,000	12.15	01/29/11			
	01/06/05	150,000	150,000	29.22	01/06/12			
	01/12/06	25,000	75,000	33.12	01/12/13			
	01/02/07	—	100,000	41.62	01/02/14			
Leonard M. DeAngelo	07/21/03	95,619	—	10.06	07/21/10	01/12/06	40,000	2,382,000
	01/29/04	52,500	17,500	12.15	01/29/11			
	01/06/05	80,000	80,000	29.22	01/06/12			
	01/12/06	25,000	75,000	33.12	01/12/13			
	07/31/06	62,500	187,500	33.43	07/31/13			
Jordan B. Savitch	09/03/02	44,260	—	8.73	09/03/09	01/12/06	20,000	1,191,000
	01/29/04	40,500	17,500	12.15	01/29/11			
	01/06/05	70,000	70,000	29.22	01/06/12			
	01/12/06	12,500	37,500	33.12	01/12/13			
	01/02/07	—	50,000	41.62	01/02/14			
Robert S. Ippolito	01/02/02	1,524	—	7.42	01/02/09	01/12/06	20,000	1,191,000
	02/06/03	12,422	—	7.95	02/06/10			
	01/29/04	45,000	15,000	12.15	01/29/11			
	01/06/05	60,000	60,000	29.22	01/06/12			
	01/12/06	15,000	45,000	33.12	01/12/13			
	01/02/07	—	40,000	41.62	01/02/14			

(1) Options vest over four years, 25% on the first anniversary of the date of grant and 25% on each succeeding anniversary. In the event of a change of control options vest immediately.

(2) Represents restricted stock awards. Except for the May 26, 2004 grant to Mr. Carlino, which vests in full on May 26, 2009, the restricted stock awards granted vest 50% on each of the fourth and fifth anniversary of the date of grant. In the event of a change of control restricted stock vests immediately.

(3) Calculated based on the closing price of the Company's common stock on December 31, 2007 ($59.55), which was the last trading day of 2007.

Option Exercises and Stock Vested

The following table sets forth information concerning options exercised during fiscal 2007 (no restricted stock awards held by the Named Executive Officers vested during 2007):

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)
Peter M. Carlino	—	—
William J. Clifford	61,802	2,773,564
Leonard M. DeAngelo	151,425	7,496,001
Jordan B.Savitch	—	—
Robert S. Ippolito	19,054	828,067

Nonqualified Deferred Compensation

The following table sets forth information concerning nonqualified deferred compensation of the Named Executive Officers:

Name	Executive Contributions in Last Fiscal Year ($)(1)	Company Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings in Last Fiscal Year ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)(4)
Peter M. Carlino	528,918	264,459	143,652	(2,090)	2,745,075
William J. Clifford	209,771	104,885	(7,184)	(916)	1,456,580
Leonard M. DeAngelo	222,209	111,104	49,893	(1,083)	978,037
Jordan B. Savitch	96,908	48,454	13,231	(526)	221,658
Robert S. Ippolito	142,644	32,872	98,089	(327)	825,088

(1) For each Named Executive Officer, the entire contribution is included in the Named Executive Officer's salary and/or bonus for 2007, as reported in the Summary Compensation Table.

(2) For each Named Executive Officer, the entire contribution is included in the Named Executive Officer's other compensation for 2007, as reported in the Summary Compensation Table.

(3) Amounts are not reported in Summary Compensation Table because earnings are not above market or preferential.

(4) The amount of each Named Executive Officer's aggregate balance at fiscal year-end that was reported as compensation in the Company's Summary Compensation Table for previous years is set forth below:

Name	Amount Previously Reported ($)*
Peter M. Carlino	1,810,136
William J. Clifford	1,150,024
Leonard M. DeAngelo	595,914
Jordan B. Savitch	63,591
Robert S. Ippolito	551,810

*

Except in the case of Mr. Ippolito, for each Named Executive Officer, the amount in the table represents all contributions to the Named Executive Officer's deferred compensation account by the executive and the Company for fiscal years 2001 through 2006. 2006 and 2007 contributions are included in the Summary Compensation Table of this Annual Report on Form 10-K. Mr. Ippolito was not a Named Executive Officer for 2003, 2004 or 2005, and, therefore, neither his nor the Company's contributions to his deferred compensation account were reported for 2003, 2004 or 2005.

Penn National Gaming, Inc. Deferred Compensation Plan. Pursuant to the Company's Deferred Compensation Plan, as amended, most management and certain other highly compensated employees selected by the Compensation Committee may elect to defer, on a pre-tax basis, a percentage of his or her salary and/or bonus. The minimum amount deferrable is $3,000 and the maximum is 90% of his or her base annual salary and/or bonus. Generally, deferral elections must be made before the beginning of the year in which compensation will be deferred. The Company's contributions under the plan are equal to 50% of the participant's for the first 10% of the salary and/or bonus deferred, subject to a maximum annual Company contribution equal to 5% of the participant's salary and/or bonus. With the Board of Directors' approval, the Company is also permitted to make discretionary contributions. Participants are always 100% vested in their own contributions, but Company contributions vest 20% per year of service with the Company. Therefore, employees with five or more years of service are fully vested in Company contributions under the plan. However, for employees with less than five years of service, all Company contributions become immediately and fully vested upon death, retirement (on or

after age 65) or a change in control of the Company, as defined in the Deferred Compensation Plan. The Compensation Committee may accelerate vesting of the Company's contributions if a participant terminates his or her employment because of disability. For the purposes of the Company's Deferred Compensation Plan, generally, a change in control occurs when a person, entity or group acquires 25% or more of the Company's common stock; the Company reorganizes, merges or consolidates, except under circumstances, described in the plan, where control of the Company and its successor remains relatively consistent before and after such transaction; the Company's shareholders approve a complete liquidation or disposition of all of the assets of the Company, except under circumstances, described in the plan, where control of the Company and its successor remains relatively consistent before and after such transaction; and any time the incumbent directors on March 1, 2001, or subsequent directors approved by a majority of the incumbent directors, do not constitute a majority of the Board.

Participants in the Deferred Compensation Plan may invest deferred amounts, including Company contributions, in mutual funds selected by the Compensation Committee. The table below shows the funds available under the plan in 2007 and their rate of return for the calendar year ended December 31, 2007.

Name of Fund	Rate of Return in 2007
GWL-Fidelity VIP Money Mkt SC2	4.96%
Vanguard Federal Mkt (VMFXX)	5.10%
GWL-PIMCO VIT Short-Term: AC	4.52%
GWL-Vanguard VIF Ttl Bond Idx	6.98%
GWL-PIMCO VIT Tot Return: AC	8.78%
GWL-PIMCO VIT Real Ret: AC	10.65%
GWL-T.Rowe PerStrat Bal	7.61%
GWL-DWS VS II Dreman HiRet Eq A	-1.86%

DWS Dreman HiRet Eq R (KDHRX)	-1.43%
GWL-Dreyfus Stock Idx	5.30%
GWL-Fidelity VIP Contrafund SC 2	17.30%
GWL-Vanguard VIF Total Stk Mkt Index	5.16%
GWL-Neuberger AMT Partners	9.34%
GWL-Janus AS Forty IS	36.99%
GWL-Fidelity VIP MidCap SC2	15.34%
GWL-Neuberger AMT Regency CI I	3.30%
GWL-DWS VS II Dreman SmCap Val CI A	3.06%
GWL-AIM V.I. Small Cap Eq I	5.19%
GWL-Janus AS Int'l Growth IS	28.32%
GWL-Vanguard VIF Int'l	17.41%
GWL-Dreyfus Int'l Eq	17.11%
GWL-AIM VI Gib Real Estate SI	-5.54%

Participants may change their investment elections at any time.

Subject to the exceptions discussed below, participants in the Deferred Compensation Plan, or their beneficiaries, receive distributions upon retirement, death or termination. Participants can elect to receive distributions following retirement or death in the form of a lump sum payment or payment in five or ten annual installments. Distributions following retirement can be deferred for up to five years. For purposes of the plan, termination of employment as a result of a disability will be considered retirement. Distributions following termination of employment other than as a result of retirement or death will be in the form of a lump sum payment or payment in five or ten annual installments, at the election of the Compensation Committee. Participants can also elect to receive a scheduled distribution with respect to an annual deferral amount, which is payable in a lump sum at the beginning of any subsequent calendar year, subject to certain limitations. In the event of an unforeseeable financial emergency and with the approval of the Compensation Committee, a participant can suspend deferrals

or receive a partial or full payout under the plan. In addition, participants can withdraw sums at any time subject to a 10% withdrawal penalty.

Employment Agreements

Peter M. Carlino. On May 26, 2004, the Company entered into an employment agreement with Peter M. Carlino, its Chairman and Chief Executive Officer. The agreement has an initial term of five years and automatically renews for five year periods unless either party gives written notice of the desire to terminate at least 60 days prior to the renewal date. The agreement sets a base salary, which shall be reviewed annually and is subject to increase by the Compensation Committee, and provides for additional compensation, including equity compensation and bonuses, as may be awarded from time to time by the Compensation Committee, and certain other benefits, including health, vacation and deferred compensation benefits. Mr. Carlino's annual base salary for 2008 is $1,560,000. The agreement also provides for the continued payment of certain life insurance premiums on Mr. Carlino's behalf and provides Mr. Carlino with a Company car. Mr. Carlino's employment agreement prohibits him from competing with the Company during the greater of the term of his employment agreement (including any remainder of the term after his termination) or the Severance Term. However, if Mr. Carlino is terminated other than for Cause, he can terminate the non-competition agreement after one year if he waives his right to his remaining severance payments under the agreement. The employment agreement

also prohibits the disclosure of confidential information of the Company and includes a non-solicitation prohibition, which runs for a reasonable transition period equal to the greater of one year or the period during which Mr. Carlino is prohibited from competing with the Company under his employment agreement.

For a detailed description of the payments that Mr. Carlino is entitled to upon termination or change in control under his employment agreement, see "Potential Payments Upon Termination or Change in Control," beginning on page 118 of this Annual Report on Form 10-K.

William J. Clifford, Leonard M. DeAngelo, Jordan B. Savitch and Robert S. Ippolito. On June 10, 2005, the Company entered into employment agreements with William J. Clifford, Senior Vice President, Finance and Chief Financial Officer, Jordan B. Savitch, Senior Vice President and General Counsel, and Robert S. Ippolito, Vice President, Secretary and Treasurer. On July 31, 2006, the Company entered into an employment agreement with Leonard M. DeAngelo, Executive Vice President, Operations. All four agreements have an initial term of three years and automatically renew for three-year periods unless either party gives written notice of the desire to terminate at least 60 days prior to the renewal date. The agreements set a base salary, which shall be reviewed annually and is subject to increase by the Board or the Compensation Committee, and provide for additional compensation, including equity compensation and bonuses as may be awarded from time to time by the Compensation Committee, and certain other benefits, including health, vacation and deferred compensation benefits. Mr. DeAngelo's agreement provides for $1 million in life insurance paid for by the Company and provided for the grant to Mr. DeAngelo of options to purchase 250,000 shares of the Company's common stock in connection with his entry into the agreement. Mr. Ippolito's agreement provides for the continued payment of certain life insurance premiums on Mr. Ippolito's behalf and provides Mr. Ippolito with a Company car.

Mr. DeAngelo's employment agreement also includes a restrictive covenant pursuant to which Mr. DeAngelo has agreed not to compete with the Company for 90 days following termination, except if Mr. DeAngelo terminates his employment without good reason, in which case the restriction period shall continue for the remainder of the term of the agreement.

Similarly, under their employment agreements, Messrs. Clifford, Savitch and Ippolito are prohibited from competing with the Company during the greater of the term of their employment agreements (including any remainder of the term after their termination) or the Severance Term except

with the prior written consent of the Company. However, if any of the officers is terminated other than for cause or due to death or a total disability or in the event that the Company elects not to renew his agreement, the officer may terminate the non-competition agreement after one year if he waives his right to his remaining severance payments.

Each employment agreement includes a non-solicitation prohibition, which runs for a period equal to the greater of one year from termination or the period (described above) during which the prohibition on competing with the Company is in effect under the employment agreement. Each employment agreement also prohibits the disclosure of confidential information of the Company.

The base salaries for 2008 are as follows:

Name	2008 Base Salary
William J. Clifford	$ 728,000

Leonard DeAngelo	$	750,000
Jordan B. Savitch	$	421,200
Robert S. Ippolito	$	280,800

For a detailed description of the payments that Messrs. Clifford, DeAngelo, Savitch and Ippolito are entitled to upon termination or change in control under their employment agreements, see "Potential Payments Upon Termination or Change in Control," below.

Timothy J. Wilmott. On February 5, 2008, the Company entered into an employment agreement with Timothy J. Wilmott, its President and Chief Operating Officer. Pursuant to the terms of his Employment Agreement, Timothy J. Wilmott will receive an annual base salary of $1,250,000, will participate in the Company's incentive compensation plan for senior management and will receive other benefits and perquisites made available to similarly situated employees of the Company. In the event that Mr. Wilmott is terminated without cause (as defined in the Employment Agreement), he terminates his employment for good reason (as defined in the Employment Agreement), he voluntarily terminates his employment if the Company does not appoint him as Chief Executive Officer within three years after the commencement of his employment, or the Company does not elect to renew the Employment Agreement after its term, Mr. Wilmott will be entitled to twelve monthly payments each equal to 1.5 times the sum of (i) his monthly base salary at the highest rate in effect during the preceding twenty-four months and (ii) his monthly bonus value (determined by dividing the highest amount of annual cash bonus compensation paid to Mr. Wilmott in respect of either the first or second full calendar year immediately preceding the effective date of termination by twelve). If, within twelve months after a change in control (as defined in the Employment Agreement), Mr. Wilmott is terminated without cause or he resigns for good reason, he will be entitled to receive a lump sum cash payment equal to two times the sum of (i) his annual base salary at the highest rate in effect during the preceding twenty-four month period and (ii) the highest amount of annual cash bonus compensation paid to Mr. Wilmott in respect of either the first or second full calendar year immediately preceding the date of termination. The consummation of the transactions contemplated by the Merger Agreement by and among the Company, PNG Acquisition Company Inc. and PNG Merger Sub Inc. will not constitute a change in control for purposes of Mr. Wilmott's Employment Agreement. Mr. Wilmott's Employment Agreement also contains customary non-compete and non-solicitation provisions during its term and for a twelve-month period after his employment with the Company is terminated.

Potential Payments Upon Termination or Change in Control

The information below describes and quantifies compensation that would become payable under existing arrangements in the event of a termination of such Named Executive Officer's employment under several different circumstances or a change in control. The amounts shown assume that such termination or change in control was effective as of December 31, 2007, and thus include amounts earned through such time and are estimates of the amounts that would be paid to the Named Executive Officers upon their termination or a change in control. The actual amounts to be paid can only be determined at the time of such Named Executive Officer's separation from the Company or a change in control.

The following tables quantify the amounts payable to each of the Named Executive Officers under the described termination circumstances and upon a change in control. Following the table is a description of the various policies and plans.

Post-Employment Payments—Peter M. Carlino

Executive Payments	Voluntary Termination by Executive ($)	Termination without Cause by Company ($)	Termination for Cause by Company ($)	Termination Upon Death ($)	Termination upon Disability ($)	Change in Control ($) (1)	Change in Control Termination without Cause ($)
Cash Severance Benefit(2)	0	8,700,000	0	0	8,700,000	11,430,000	11,430,000
Benefit Continuation(3)	0	25,494	0	0	25,494	0	25,494
Restricted Shares(4)	0	0	0	13,101,000	13,101,000	13,101,000	13,101,000
Unvested Stock Options(5)	0	22,635,000(6)	0	0	22,635,000(6)	23,979,750	23,979,750
Vested Stock Options(5)	17,332,479	17,332,479	17,332,479	17,332,479	17,332,479	17,332,479	17,332,479
Vested Deferred Compensation Balance(7)	2,745,075	2,745,075	2,745,075	2,745,075	2,745,075	0	2,745,075
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a	0	0
Total	$ 20,077,554	$ 51,438,048	$ 20,077,554	$ 33,178,554	$ 64,539,048	$ 65,843,229	$ 68,613,798

Post-Employment Payments—William J. Clifford

Executive Payments	Voluntary Termination by Executive ($)	Termination without Cause by Company ($)	Termination for Cause by Company ($)	Termination Upon Death ($)	Termination upon Disability ($)	Change in Control ($) (1)	Change in Control Termination without Cause ($)
Cash Severance Benefit(2)	0	2,570,000	0	2,570,000	2,570,000	4,546,500	4,546,500
Benefit Continuation(3)	0	20,941	0	20,941	20,941	0	20,941
Restricted Shares(4)	0	0	0	2,382,000	2,382,000	2,382,000	2,382,000
Unvested Stock Options(5)	0	7,952,500(6)	0	7,952,500(6)	7,952,500(6)	9,509,750	9,509,750
Vested Stock Options(5)	14,307,148	14,307,148	14,307,148	14,307,148	14,307,148	14,307,148	14,307,148
Vested Deferred Compensation Balance(7)	1,456,580	1,456,580	1,456,580	1,456,580	1,456,580	0	1,456,580

Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a	2,659,548	2,673,812
Total	$ 15,763,728	$ 26,307,169	$ 15,763,728	$ 28,689,169	$ 28,689,169	$ 33,404,946	$ 34,896,731

Post-Employment Payments—Jordan B. Savitch

Executive Payments	Voluntary Termination by Executive ($)	Termination without Cause by Company ($)	Termination for Cause by Company ($)	Termination Upon Death ($)	Termination upon Disability ($)	Change in Control ($) (1)	Change in Control Termination without Cause ($)
Cash Severance Benefit(2)	0	1,330,000	0	1,330,000	1,330,000	2,174,850	2,174,850
Benefit Continuation(3)	0	14,641	0	14,641	14,641	0	14,641
Restricted Shares(4)	0	0	0	1,191,000	1,191,000	1,191,000	1,191,000
Unvested Stock Options(5)	0	4,061,600(6)	0	4,061,600(6)	4,061,600(6)	4,840,225	4,840,225
Vested Stock Options(5)	6,622,468	6,622,468	6,622,468	6,622,468	6,622,468	6,622,468	6,622,468
Vested Deferred Compensation Balance(7)	221,658	221,658	221,658	221,658	221,658	0	221,658
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a	1,167,036	1,175,977
Total	$ 6,844,126	$ 12,250,367	$ 6,844,126	$ 13,441,367	$ 13,441,367	$ 15,995,579	$ 16,240,819

Post-Employment Payments—Leonard DeAngelo

Executive Payments	Voluntary Termination by Executive without Good Reason ($)	Termination without Cause by Company or with Good Reason by the Executive ($)	Termination for Cause by Company ($)	Termination Upon Death ($)	Termination upon Disability ($)	Change in Control ($) (1)	Change in Control Termination without Cause ($)
Cash Severance Benefit(2)	0	2,750,000	0	2,750,000	2,750,000	4,781,250	4,781,250
Benefit Continuation(	0	14,641	0	14,641	14,641	0	14,641

3)							
Restricted Shares(4)	0	0	0	2,382,000	2,382,000	2,382,000	2,382,000
Unvested Stock Options(5)	0	7,842,400(6)	0	7,842,400(6)	7,842,400(6)	10,135,650	10,135,650
Vested Stock Options(5)	11,940,717	11,940,717	11,940,717	11,940,717	11,940,717	11,940,717	11,940,717
Unvested Deferred Compensation Balance(7)	0	0	0	65,169	0	0	65,169
Vested Deferred Compensation Balance(7)	912,868	912,868	912,868	912,868	912,868	0	912,868
Life Insurance Payment	n/a	n/a	n/a	1,000,000	n/a	n/a	n/a
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a	3,250,532	3,262,197
Total	$ 12,853,585	$ 23,460,626	$ 12,853,585	$ 26,907,795	$ 25,842,626	$ 32,490,149	$ 33,494,492

Post-Employment Payments—Robert S. Ippolito

ExecutivePayments	Voluntary Termination by Executive ($)	Termination without Cause by Company ($)	Termination for Cause by Company ($)	Termination Upon Death ($)	Termination upon Disability ($)	Change in Control ($) (1)	Change in Control Termination without Cause ($)
Cash Severance Benefit(2)	0	1,020,000	0	1,020,000	1,020,000	1,592,400	1,592,400
Benefit Continuation(3)	0	14,641	0	14,641	14,641	0	14,641
Restricted Shares(4)	0	0	0	1,191,000	1,191,000	1,191,000	1,191,000
Unvested Stock Options(5)	0	3,682,300(6)	0	3,682,300(6)	3,682,300(6)	4,437,350	4,437,350
Vested Stock Options(5)	5,069,671	5,069,671	5,069,671	5,069,671	5,069,671	5,069,671	5,069,671
Vested Deferred Compensation Balance(7)	825,088	825,088	825,088	825,088	825,088	0	825,088
Life Insurance Payment	n/a	n/a	n/a	200,000(9)	n/a	n/a	n/a
Excise Tax	n/a	n/a	n/a	n/a	n/a	0	0

Gross-Up(8)							
Total	$ 5,894,759	$ 10,611,700	$ 5,894,759	$ 12,002,700	$ 11,802,700	$ 12,290,421	$ 13,130,150

(1) Upon the occurrence of a change in control, the change in control payment is made, and the stock options and restricted stock accelerate; no termination of employment is required. Pursuant to an agreement with the Company entered into on December 26, 2007, each of Messrs. Clifford, DeAngelo and Savitch has been paid a portion of his change in control payment, but such payment is subject to repayment. See the discussion of the change in control payment advances in "Employment Agreements—Change in Control" below.

(2) In light of the pending Merger, basis for cash severance benefit upon a change in control is 2008 salary plus highest bonus earned over years 2007 and 2006. Other cash severance benefits are based upon 2007 salary plus highest bonus earned over years 2006 and 2005.

(3) Represents employer cost of medical and dental coverage. Assumes cost of benefit increasing 10% annually.

(4) Restricted stock award values were computed based on the closing stock price of the Company's common stock on December 31, 2007 ($59.55), the last trading day of 2007.

(5) Amounts represent the difference between the exercise price of each Named Executive Officer's options and the closing price of Company's common stock on December 31, 2007 ($59.55).

(6) Unvested options continue to vest over three years (Mr. Carlino) and two years (other executives) following termination. Restrictions lapse upon death or a change in control.

(7) Company contributions to the Deferred Compensation Plan vest 20% per year during the first five years of service, although vesting is accelerated upon death, change in control and, at the option of the Compensation Committee, disability. Because Mr. DeAngelo joined the Company in July 2003, at December 31, 2007, the Company's contributions to his deferred compensation account was only 80% vested. As a result, if, on December 31, 2007, Mr. DeAngelo voluntarily terminated his employment or was terminated without cause by the Company, then, unless a change in control had occurred prior to such termination, the unvested portion of the Company's

contributions to his deferred compensation account would be forfeited. If a change in control occurred prior to such termination, the Company's contributions would vest in full (resulting in a total distribution of $978,037 for Mr. DeAngelo). Similarly, if Mr. DeAngelo's employment was terminated due to disability on December 31, 2007, the unvested portion of the Company's contributions to his deferred compensation account would be forfeited unless the Compensation Committee determined otherwise.

(8) The amounts in the table are based on a Section 280G of the Code excise tax rate of 20% and effective income and payroll tax rates of approximately 39.8%.

(9) Assuming the benefit became payable on December 31, 2007, the beneficiaries of the insurance policy

would be required to reimburse the Company for $50,283 in premiums on the policy previously paid by the Company. For a discussion of the split life insurance policies, see page 128 of this Annual Report on Form 10-K.

Employment Agreements. As described above, the Company has entered into Employment Agreements with each of the Named Executive Officers. Under the agreements, in the event of a termination, the following benefits would be provided to the Named Executive Officers:

Termination Without Cause or Due to Death or Total Disability. If the Company elects not to renew the Named Executive Officer's employment agreement or the Named Executive Officer is terminated (i) without cause; (ii) due to total disability; (iii) in the case of the Named Executive Officers other than Mr. Carlino, death; or (iv) in the case of Mr. DeAngelo, if Mr. DeAngelo terminates his employment with good reason, in addition to the obligations accrued or earned and vested (if applicable) by the Named Executive Officer as of the date of termination, the Named Executive Officer will:

- be entitled to receive two years (three years in the case of Mr. Carlino) base salary, based on the highest salary and bonus the Named Executive Officer received during the two years prior;
- be entitled to receive health benefits coverage during the Severance Term; and
- become a non-executive employee of the Company so his options continue to vest.

Payments are made: 75% within 15 days of termination and the balance in accordance with payroll practices, unless the Company elects to make the whole payment in a single lump sum. The Named Executive Officer is subject to the confidentiality, non-competition and non-solicitation provisions of the employment agreement, described beginning on page 117 of this Annual Report on Form 10-K. In addition, the Named Executive Officer must execute a separation agreement and general release in order to receive the benefits described above. The separation agreement and general release generally has a three year term, includes a mutual release and covenant not to sue regarding all claims between the Company and the Named Executive Officer, non-disparagement and confidentiality provisions, and provides that the Named Executive Officer will provide reasonable transition assistance to the Company for one year without charge.

Termination for Cause or by the Named Executive Officer. If (i) a Named Executive Officer other than Mr. DeAngelo terminates his employment for any reason; (ii) Mr. DeAngelo terminates his employment other than for good reason (as described above); (iii) any Named Executive Officer's employment is terminated by the Company for cause or, in the case of Mr. Carlino, his employment is terminated because of death, the Named Executive Officer, or the legal beneficiaries of Mr. Carlino in the case of Mr. Carlino's death, will receive obligations accrued or earned and vested by the Named Executive Officer as of the date of termination (e.g., earned salary).

Cause. For the purposes of the employment agreements, the Company has "cause" if the Named Executive Officer is convicted of crimes involving allegations of fraud, theft, perjury or conspiracy, the Named Executive Officer is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where such executive is required to be found qualified, suitable or licensed, the Named Executive Officer materially breaches the employment agreement or any material Company policy or the Named Executive Officer misappropriates corporate funds.

Good Reason. For the purposes of the employment agreements, a Named Executive Officer has "good reason" if the Named Executive Officer is assigned to duties inconsistent with his position or authority, the Named Executive Officer's compensation is reduced, the Named Executive Officer's travel requirements are materially reduced or the Named Executive Officer's employment agreement is materially

breached by the Company.

Change in Control. In the event of a change in control, the Named Executive Officer is entitled to receive a cash payment equal to three times the sum of the highest annual base salary he received during the past two years and highest annual bonus the officer received with respect to the last two calendar years. Three quarters of this change in control payment is due on the effective date of the change in control and the balance is due on the 90th day thereafter, but is payable immediately if the Named Executive Officer employment is terminated or the executive terminates his employment for good reason. The Named Executive Officer is subject to the confidentiality, non-competition and non-solicitation provisions of the employment agreement, described beginning on page 117 of this Annual Report on Form 10-K, and the Company can require the executive to execute a release in order to receive the change in control benefit. For the Named Executive Officers other than Mr. DeAngelo, if, in the two year period prior to a change in control, the executive is terminated by the Company without cause or due to total disability or the Company elects not to renew the employment agreement, then the executive is still eligible for the change in control benefit. In case the of Mr. DeAngelo, he will be entitled to the change in control benefit if he is terminated by the Company without cause in the period between the Company's public announcement of a definitive agreement with respect to a change in control and the effective date of the change in control.

For the purposes of Messrs. Carlino, Clifford, Savitch and Ippolito's employment agreements, a change in control is defined as the occurrence of one or more of the following events:

- any sale or other transfer of all or substantially all of the assets of the Company;
- the election of two or more persons to the Board who were not nominated for election or elected to the Board with the affirmative vote of a majority of directors comprising the Board or, if applicable, the Nominating Committee; or
- a person or group becomes the beneficial owner of more than 40% of the Company's common stock.

Mr. DeAngelo's employment agreement uses the same definition of change in control contained in the Company's 2003 Long Term Incentive Plan, which is described below under the heading "Stock Options."

On December 26, 2007, the Company entered into a Change in Control Payment Acknowledgement and Agreement (the "Acknowledgement and Agreement") with Messrs. Clifford, DeAngelo and Savitch. The consummation of the acquisition of the Company by certain funds managed by affiliates of Fortress Investment Group LLC and Centerbridge Partners LP (the "Merger") pursuant to the terms of the Agreement and Plan of Merger, dated as of June 15, 2007, by and among the Company, PNG Acquisition Company Inc. (the "Parent") and PNG Merger Sub Inc. will represent a change in control triggering a payment under the Named Executive Officers' employment agreements. Pursuant to the Acknowledgement and Agreement, a portion of the payment due on a change in control was accelerated and paid on or before December 31, 2007. The accelerated portion of the change in control payment for each of the Messrs. Clifford, DeAngelo and Savitch is $3,409,875, $3,653,438 and $1,281,138, respectively. However, each of Messrs. Clifford, DeAngelo and Savitch is required to return the accelerated portion of the change in control payment in the event the Merger is terminated pursuant to the terms of the Merger Agreement or the closing of the Merger otherwise fails to occur or if his employment with the Company is terminated prior to the effective date of the Merger under circumstances where he is not entitled to receive the remainder of his change in control payment under the terms of his employment

agreement. The Acknowledgement and Agreements were entered into as part of actions taken to reduce the amount of "gross-up" payments pertaining to federal excise taxes that may have otherwise been owed to certain of its officers under the terms of their existing employment agreements.

Excise Tax Gross Up. If the Named Executive Officer is entitled to receive any payments upon termination or change in control pursuant to the employment agreement or under any plan or

arrangement providing for payments under similar circumstances and any of such payments result in excise tax under the Code, then the Named Executive Officer is entitled to a gross-up payment so that the net amount he retains will be equal to his payment or payments less ordinary and normal taxes (but not less the excise tax).

Life Insurance. The Company pays term life insurance policy premiums on behalf of Mr. DeAngelo and split dollar life insurance policy premiums on behalf of Mr. Ippolito. For further discussion of the split dollar life insurance policies, see the description under "Transactions with Related Persons" beginning on page 128 of this Annual Report on Form 10-K.

Deferred Compensation Plan. The Named Executive Officers participate in the Company's Deferred Compensation Plan. A description of the Deferred Compensation Plan, including the impact of termination of employment and change in control, can be found beginning on page 115 of this Annual Report on Form 10-K.

Stock Options. As of December 31, 2007, all of the Named Executive Officers held unvested stock option awards granted under the Company's 2003 Long Term Incentive Compensation Plan. In the event of a change in control, all unvested stock option awards vest immediately. A Named Executive Officer's separation from the Company, by retirement, termination or otherwise, would not result in an acceleration of unvested options.

For the purposes of the Company's 2003 Long Term Incentive Plan, a change in control is defined as the occurrence of one or more of the following events:

- any sale or other transfer of all or substantially all of the assets of the Company;
- there is generally a change in a majority of the Board;
- a person or group becomes the beneficial owner of shares representing more than 50% of Company's common stock;
- the shareholders of the Company approve the liquidation, dissolution or winding up of the Company; or
- the occurrence of certain corporate reorganizations, where, as a result of the corporate reorganization, the Company's common stock is changed or exchanged into other assets or securities.

Restricted Stock Awards. The Named Executive Officers received restricted stock awards under the Company's 2003 Long Term Incentive Compensation Plan. Restricted stock is not generally awarded to the Company's employees. Upon retirement at or after age 65 (none of the Named Executive Officers had reached 65 at December 31, 2007) or termination because of death or disability, the restricted stock awards fully vest.

Upon termination other than retirement or termination as a result of death or disability, all unvested restricted stock awards are forfeited. In the event of a change in control, as defined in the 2003 Long Term Incentive Plan, all restricted stock awards vest immediately. In addition, the Named Executive Officers' currently outstanding restricted stock will vest in full if a change in control, as defined in the Named Executive Officers' employment agreements, occurs. As described above, with the exception of Mr. DeAngelo's employment agreement, the definition of change in control in the Named Executive Officers' employment agreements is different from the definition of change in control in the 2003 Long Term Incentive Compensation Plan.

Accrued Pay and Regular Termination Benefits. In addition to the benefits described above, the Named Executive Officers are also entitled to certain payments and benefits upon termination of employment that are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

- Accrued salary, vacation pay and unreimbursed expenses;
- Disability insurance; and

- Distributions of plan balances under the Company's 401(k) plan.

Similarly, except as described above, upon termination of employment, a Named Executive Officer's options are subject to the terms applicable to all recipients of such awards under the Company's applicable plans. The Company is not obligated to provide any special accelerated vesting of Named Executive Officer's options other than as described above.

Fortress/Centerbridge Acquisition. On June 15, 2007, the Company announced that it had entered into a merger agreement that would ultimately result in our shareholders receiving $67.00 per share. Specifically, the Company, Parent and Merger Sub announced that they entered into the Merger Agreement, which provides, among other things, for Merger Sub to be merged with and into the Company (the "Merger"), as a result of which the Company will continue as the surviving corporation and will become a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds managed by affiliates of Fortress Investment Group LLC and Centerbridge Partners, L.P. As described above, the consummation of the Merger will represent a change in control triggering a payment under the Named Executive Officers' employment agreements. The consummation of the Merger will also constitute a change in control under the Company's Deferred Compensation Program and the Company's 2003 Long Term Incentive Compensation Plan. The timing of any closing of the Merger is subject to obtaining certain regulatory approvals and satisfying other customary closing conditions. See "Risk Factors—Risks Related to the Consummation of the Merger Agreement" on page 17 of this Annual Report on Form 10-K for a discussion of the risk in connection with the consummation of the Merger.

Compensation of Directors

The Company pays director's fees to each director who is not an employee of the Company. During the year ended December 31, 2007, each outside director received an annual retainer fee of $50,000 and reimbursement for out-of-pocket expenses in connection with their attendance at meetings. In addition, members of the Audit Committee and Compensation Committee each received an annual retainer fee of $10,000 and $5,000, respectively. Non-employee directors did not receive a separate retainer fee for

membership on the Nominating Committee or the Compliance Committee. In addition, in 2007, the Compensation Committee approved a grant to each non-employee director of options to purchase 30,000 shares of common stock of the Company. The exercise price of the options granted to non-employee directors is equal to the fair market value of the Company's common stock on the date of the grant. The options vest over four years, 25% on the first anniversary of date of grant and 25% on each succeeding anniversary, but accelerate immediately upon a change in control. Pursuant to the terms of the Company's 2003 Equity Compensation Plan, under which the options were granted, fair market value is equal to the closing price of the Company's common stock on the business day immediately preceding the date of grant.

On April 25, 2007, the Company's Board of Directors established stock ownership guidelines for non-employee directors of the Company. Each non-employee director is expected to own and hold shares of common stock equal in value to at least three times the annual cash retainer for non-employee directors. Current non-employee directors have a period of three years from April 25, 2007 to achieve this ownership level. New non-employee directors will have a period of three years from the date of initial election to achieve this ownership guideline.

In deference to the pending Merger, for 2008, the non-employee directors are receiving a fixed amount of cash compensation (with no special payment, meeting fees or equity grants). Each non-employee director will receive $150,000, 50% of which was paid on January 25, 2008, and the balance of which is being paid in equal monthly installments throughout 2008 (with the total balance payable at the time of closing of the Merger). If the Merger is not consummated, the Board will consider whether equity awards are appropriate.

Director Compensation Table

The following table sets forth information with respect to all compensation awarded the Company's non-employee directors during the last completed fiscal year:

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)	Total ($)
Harold Cramer	65,000	502,998	567,998
David A. Handler	55,000	502,998	557,998
John M. Jacquemin	60,000	502,998	562,998
Robert P. Levy	50,000	502,998	552,998
Barbara Z. Shattuck	65,000	498,145	563,145

(1) The amounts listed above reflect the dollar value recognized, in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"), for financial statement reporting purposes during 2007 for all existing stock option awards. Assumptions used in the calculation of these amounts are included in footnote 4 to the Company's audited financial statements beginning on page 67. In fiscal 2007, each non-employee director received options to purchase 30,000 shares of the Company's common stock, which had a grant date fair value of $475,560. At December 31, 2007, the aggregate number of outstanding stock options held by each non-employee director was: Mr. Cramer—180,000; Mr. Handler—240,000; Mr. Jacquemin—195,000; Mr. Levy—97,500; and Ms. Shattuck—150,000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes certain information with respect to our compensation plans and individual compensation arrangements under which our equity securities have been authorized for issuance as of the fiscal year ended December 31, 2007:

Plan Category	(a) Number of securities to be issued upon exercise of oustanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights ($)	(c) Number of securities remaining available for future issance under equity compnsation plans (excluding securities reflected in column (a)
Equity compensastion plans approved by shareholders	7,226,155	$ 29.6396	3,208,225
Equity compensation plans not approved by shareholders	23,750	7.95	—
Total	7,249,905	$ 27.5751	3,208,225

Option Grant to the Company's Chairman

On February 6, 2003, the Compensation Committee granted Peter M. Carlino stock options to purchase 95,000 shares of the Company's common stock at an exercise price of $7.95 per share (adjusted to reflect the Company's March 7, 2005 two-for-one stock split), which was the closing price of the Company's common stock on the day before the options were granted. These stock options, which were granted prior to the adoption of the Company's 2003 Equity Compensation Plan, were not granted under the 1994 Stock Option Plan because sufficient shares did not remain available for grant

under such plan. The stock options vested 25% on each of February 6 of 2004, 2005, 2006 and 2007 and expire on February 6, 2013. The terms of the stock options may be amended only by a written agreement between Peter M. Carlino and the Company that is approved by the Compensation Committee.

SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

The following table sets forth certain information with respect to beneficial ownership of the Company's common stock as of February 15, 2008, by each person known to the Company to own beneficially more than 5% of the Company's outstanding common stock, each director, the CEO and each of the four other most highly compensated executive officers of the Company and all of the executive officers and directors of the Company as a group. The persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them except as otherwise shown in the footnotes to the table. Unless otherwise indicated in the footnotes to the table, the address of each such person is c/o the Company, 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610.

Beneficial ownership is determined in accordance with the rules of the SEC. Shares of common stock subject to options currently exercisable or exercisable within 60 days of February 15, 2008 are deemed outstanding for computing the percentage beneficially owned by such holder, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Except as otherwise indicated, the Company believes that the beneficial owners of the common stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable, and that there are no other affiliations among the shareholders listed in the table. The percentage for each beneficial owner is calculated based on (i) the aggregate number of shares reported to be owned by such group or individual and (ii) the aggregate number of shares of common stock outstanding as of February 15, 2008 (86,886,020 shares).

Name and Address	Number of Shares Beneficially Owned	Percentage of Class
Peter M. Carlino(1)(2)	2,866,335	3.27%
Peter D. Carlino(1)(3)	10,043,414	11.56%
Richard J. Carlino(1)(4)	9,553,607	11.00%
David E. Carlino(1)(4)	9,568,459	11.01%
Carlino Family Trust(1)	9,533,604	10.97%
Harold Cramer(1)(5)	10,223,316	11.75%
David A. Handler(6)	212,500	*
John M. Jacquemin(6)	144,900	*
Robert P. Levy(7)	51,600	*
Barbara Z. Shattuck(8)	107,115	*
William J. Clifford(6)(9)	594,360	*
Leonard M. DeAngelo(6)(9)	467,951	*
Jordan B. Savitch(6)(9)	276,760	*
Robert S. Ippolito(6)(9)	257,400	*
All executive officers and directors as a group (10 persons)(6)(9)	5,668,633	6.32%
Akre Capital Management, LLC(10)	7,173,138	8.26%

Notes to Security Ownership of Principal Shareholders and Management Table

* Less than 1%.

1. 9,533,604 shares of the Company's common stock are owned by an irrevocable trust, which we refer to as the Carlino Family Trust, among Peter D. Carlino, his eight children and the former spouse of one of his children, as settlors, and certain trustees, as to which Peter M. Carlino has sole voting power for the election of directors and certain other matters. Peter D. Carlino, Peter M. Carlino, David E. Carlino, Richard J. Carlino and Harold Cramer have shared investment power and shared voting power with respect to certain matters. On February 4, 2008, Peter M. Carlino irrevocably delegated to Harold Cramer and, in certain instances, to the other three trustees of the Carlino Family Trust his authority to vote and/or dispose of the shares of Common Stock owned by the Carlino Family Trust until the earlier of (i) the termination of the Merger Agreement or the closing of the Merger otherwise failing to occur on the Closing Date (as defined in the Merger Agreement); (ii) any actual or proposed amendment to the Merger Agreement that would be adverse to any shareholder of the Company; or (iii) the consummation of the Merger.

Accordingly, Mr. Carlino disclaims beneficial ownership of the shares of the Company's common stock held by the Carlino Family Trust and Mr. Carlino's aggregate beneficial ownership of the Company's common stock does not include the 9,533,604 shares held by the Carlino Family Trust.

2. The number of shares in the table includes 363,468 shares owned solely owned by Mr. Carlino, 231,380 shares owned by the Grantor Retained Annuity Trust of Peter M. Carlino dated September 23, 2005 of which Peter M. Carlino is the trustee and has sole voting and investment power, 331,904 shares owned by the 2006 Grantor Retained Annuity Trust of Peter M. Carlino dated May 19, 2006 of which Peter M. Carlino is the trustee and has sole voting and investment power, 263,003 shares owned by the 2007 Grantor Retained Annuity Trust of Peter M. Carlino dated June 14, 2007 of which Peter M. Carlino is the trustee and has sole voting and investment power, 126,491 shares owned jointly with Mr. Carlino's wife, 266,453 shares owned by Mr. Carlino's wife, 220,000 shares of restricted stock under which Mr. Carlino has voting rights but his disposition rights are currently restricted, and 861,300 shares that may be acquired upon the exercise of outstanding options. This amount also includes 202,336 shares of the Company's Common Stock acquired on December 26, 2007 by PNG Holdings LLC. As a result of the transactions in connection with the proposed Merger, Mr. Carlino may have been deemed to form a group with PNG Holdings LLC, FIF V Voteco LLC and Centerbridge Voteco LLC (together, the "Fortress/Centerbridge Entities") and to have acquired, for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, beneficial ownership of the shares of the Company's common stock beneficially owned by the Fortress/Centerbridge Entities. Mr. Carlino expressly disclaims beneficial ownership of the shares owned by the Fortress/Centerbridge Entities.

3. The number of shares in the table includes 9,533,604 shares owned by the Carlino Family Trust and 502,212 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino and Peter D. Carlino's children as to both of which Peter D. Carlino has shared investment power and shared voting power.

4. The number of shares in the table includes 9,533,604 shares of common stock owned by the Carlino Family Trust.

5. The number of shares in the table includes 9,533,604 shares owned by the Carlino Family Trust, an aggregate of 502,212 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino and Peter D. Carlino's children as to both of

which Harold Cramer has shared investment power and shared voting power and 127,500 shares that may be acquired upon the exercise of outstanding options.

6. Includes shares that may be acquired upon the exercise of outstanding options, as follows: William J. Clifford, 507,198 shares; Leonard M. DeAngelo, 398,119 shares; Jordan B. Savitch, 244,760 shares; Robert S. Ippolito, 203,946 shares; David A. Handler, 187,500 shares; and John M. Jacquemin, 142,500 shares; and all executive officers and directors as a group, 2,815,323 shares.

7. Includes 41,000 shares that may be acquired upon the exercise of outstanding options and 600 shares owned by Mr. Levy's spouse, as to which shares Mr. Levy disclaims beneficial ownership.

8. Includes 97,500 shares that may be acquired upon the exercise of outstanding options and 2,000 shares

owned by Ms. Shattuck's spouse, as to which shares Ms. Shattuck disclaims beneficial ownership.

9. Includes restricted shares issued as follows: William J. Clifford, 40,000 shares; Leonard M. DeAngelo, 40,000 shares; Jordan B. Savitch, 20,000 shares; Robert S. Ippolito, 20,000 shares; and all executive officers and directors as a group, 340,000 shares, under which each of them has voting rights but his disposition rights are currently restricted.

10. According to their 13G/A filed with the SEC on February 14, 2008, consists of shares beneficially owned as of December 31, 2007 by Akre Capital Management, LLC, which we refer to as ACM, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, and Chares T. Akre, Jr., and represents shares to which ACM and Mr. Akre have shared voting and dispositive power. Mr. Akre is the managing member of ACM. The address of ACM and Mr. Akre is 2 West Marshall Street, P.O. Box 998, Middleburg, VA 20118.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH RELATED PERSONS

In August 1994, the Company signed a consulting agreement with Peter D. Carlino, former Chairman of the Company. Pursuant to the consulting agreement, as amended, Peter D. Carlino receives an annual fee of $135,000. Peter D. Carlino is the father of Peter M. Carlino, the Chairman of the Board and CEO of the Company.

Historically, the Company paid premiums on life insurance policies (the "Policies") on behalf of certain irrevocable trusts (the "Trusts") created by the Company's Chairman and Chief Executive Officer ("CEO"). The policies covered the Chairman and CEO's life and that of his spouse. The Trusts were the owners and beneficiaries of the policies and were 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 executed a collateral assignment of each of the Policies to the Company. As of December 31, 2007, the Trusts terminated these policies and reimbursed the Company for all but $159,000 for these payments. In addition, the Company has historically paid the premiums on a life insurance policy that covers the life of Mr. Ippolito. The beneficiaries of Mr. Ippolito's policy are obligated to reimburse the Company for all premiums paid when the insurance matures or upon death. At December 31, 2007 and 2006, the Company has recorded a receivable in other assets from the beneficiaries of Mr. Ippolito's policy in the amount of $50,283 and 47,515, respectively.

The Company currently leases 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of its Chairman and CEO. Rent expense for the years ended December 31, 2007, 2006 and 2005 amounted to $0.7 million, $0.6 million, and $0.5 million, respectively. The leases for the office space expire in March 2012, May 2012 and May 2013, and the lease for the warehouse space expires in July 2010. The future minimum lease

commitments relating to these leases at December 31, 2007 equaled $3.8 million. The Company also paid $3.7 million, $1.3 million and $0.4 million in construction costs to these same affiliates for the years ended December 31, 2007, 2006 and 2005, respectively. Based on its research, the Company believes that the lease terms of the leases are not less favorable than lease terms available from an unaffiliated third party. In addition, the Company believes that construction services were performed on terms no less favorable than the terms that

could have been obtained from an unaffiliated third party.

Eric Schippers, the Vice President, Public Affairs & Government Relations of the Company is the son-in-law of our CEO. Mr. Schippers joined the Company in 2003. From 1998 to 2003, Mr. Schippers was President of the Alexandria, Virginia-based Center for Individual Freedom, a non-partisan constitutional advocacy group. Mr. Schippers has also worked for Burson-Marsteller, one of the world's largest international public relations firms, representing numerous Fortune 500 clients in the areas of media relations, public affairs, crisis communications and constituency relations. In 2007, Mr. Schippers received a salary of $260,000, a bonus of $255,000 (representing bonus awards for performance in 2006 and 2007) and options to purchase 25,000 shares of the Company's common stock.

John Walborn, the Vice President, Quality Assurance of the Company is the brother-in-law of our CEO. Mr. Walborn joined the Company in 1998 as Director of Quality and Facility Operations where he was responsible for overseeing off track wagering business needs and opportunities. Mr. Walborn was promoted in January 2002 to his present position of Vice President of Quality Assurance. Prior to joining the Company, Mr. Walborn held positions as President of Pretzel Gourmet, President of Scarborough Fair, and President and Chief Executive Officer of Ko-Ord Services, an operational division of a chain of Arby's Roast Beef franchises. In 2007, Mr. Walborn received a salary of $141,960, a bonus of $69,615 (representing bonus awards for performance in 2006 and 2007) and options to purchase 25,000 shares of the Company's common stock. As a result of his retirement plans, on February 14, 2008, Mr. Walborn executed an employment agreement under which he will remain employed at a substantially reduced salary through January 30, 2009, while he transitions his current responsibilities to his successor.

Review and Approval of Transactions with Related Persons

Pursuant to the terms of its charter, the Company's Audit Committee reviews and pre-approves all conflicts of interest and related party transactions. For the purposes of Audit Committee review, a related party transaction is a transaction that meets the minimum threshold for disclosure in the Company's proxy statement or Annual Report on Form 10-K under the rules of the SEC. The Company's Code of Business Conduct has a broad definition of conflict of interest, which includes related party transactions, and requires employees to report potential conflicts to the Chief Compliance Officer. All potential conflicts of interest involving an executive officer, director or 5% or greater shareholder of the Company are communicated by the Chief Compliance Officer (or other members of Company management) to the Vice President of Internal Audit. The Vice President of Internal Audit then consults with members of the legal and finance staffs to determine whether the proposed transaction represents a conflict of interest or a related party transaction that must be presented to the Audit Committee. For the purposes of the Audit Committee's review, related party transactions are transactions, arrangements or relationships where the Company is a participant and in which an executive officer, a director or an owner of more than 5% of the Company's common stock (or any immediate family member of the foregoing persons) has a direct or indirect material interest.

For transactions determined to require Audit Committee review, the Vice President of Internal Audit collaborates with members of the legal and finance staffs to prepare and present the transaction to the Audit Committee. There is no dollar threshold for transactions subject to the Audit Committee's review and pre-approval—all related party transactions are reviewed. In terms of standards applied by the Audit Committee in reviewing related party transactions, a director will not participate in the review of transactions in which he or she or his or her immediate family member has an interest, the

Audit Committee will only approve related party transactions that are in, or not inconsistent with, the best interests of the Company and its shareholders based on a review of (i) the benefits to the Company of the transaction and (ii) the terms of the transaction and the terms available to or from unrelated third parties, as applicable.

Currently, the policy to review related party transactions is evidenced in the Audit Committee charter and the Company's Code of Business Conduct and certain of the procedures followed in considering related party transactions are based on past practice and the advice of counsel.

Compensation Committee Interlocks and Insider Participation

During 2007, the members of the Company's Compensation Committee were Messrs. Cramer and Handler and Ms. Shattuck. No executive officer of the Company has served as a director or member of the Compensation Committee (or other committee serving an equivalent function) of any other entity whose executive officers served as a director or member of the Compensation Committee of the Company.

GOVERNANCE OF THE COMPANY

Board of Directors

The Company's Board of Directors currently consists of six members: Peter M. Carlino, Harold Cramer, David A. Handler, John M. Jacquemin, Robert P. Levy and Barbara Z. Shattuck. The Board has determined that all of the directors, other than Mr. Carlino, are independent under the current Marketplace Rules or NASDAQ (the "Marketplace Rules").

The Board of Directors held 16 meetings during the fiscal year ended December 31, 2007. Each of the Company's directors attended at least 75% of the aggregate of all meetings of the Board and all meetings of all committees of the Board of which he or she was a member held during the fiscal year ended December 31, 2007.

The Company has four standing committees: the Audit Committee, the Compensation Committee, the Compliance Committee and the Nominating Committee.

Audit Committee. John M. Jacquemin (Chairman), Harold Cramer and Barbara Z. Shattuck are the members of the Audit Committee. The Board has determined that Messrs. Jacquemin and Cramer and Ms. Shattuck are independent under the current Marketplace Rules and U.S. Securities and Exchange Commission (the "SEC") regulations. During 2007, The Audit Committee operates under a written charter adopted by the Board of Directors that complies with the current Marketplace Rules, which is available at *http://www.pngaming.com/main/corporategovernance.shtml* and met 9 times in 2007.

The Board has determined that Mr. Jacquemin, the Chairman of the Audit Committee, satisfies the SEC criteria of a "financial expert" and is "financially sophisticated" for the purposes of Marketplace Rules. Because of his position as one of five trustees for the Carlino Family Trust, an irrevocable trust (see "Security Ownership of Principal Shareholders and Management" beginning on page 126 of this Annual Report on Form 10-K), Harold Cramer falls outside the SEC safe harbor providing that a person will not be deemed an affiliate for purposes of determining audit committee member independence if he or she beneficially owns 10% or less of an issuer's voting stock. Mr. Cramer's voting and investment power in connection with the shares of the Company's common stock held by the Carlino Family Trust is, however, shared with the other trustees. Peter M. Carlino has the sole power to vote the shares held by the Carlino Family Trust, except in the case of a sale of all or substantially all of the Company's assets, a merger where the Company will not be the surviving entity or a

liquidation where the manner in which the trust's shares are voted is determined by a vote of all five trustees. On February 4, 2008, Peter M. Carlino irrevocably delegated to Harold Cramer and, in certain instances, to the other three trustees of the Carlino Family Trust his authority to vote and/or

dispose of the shares of the Company's common stock owned by the Carlino Family Trust until the earlier of (i) the termination of the Merger Agreement or the closing of the Merger otherwise failing to occur on the Closing Date (as defined in the Merger Agreement); (ii) any actual or proposed amendment to the Merger Agreement that would be adverse to any shareholder of the Company; or (iii) the consummation of the Merger. The Board considered Mr. Cramer's beneficial ownership as a result of being a trustee of Carlino Family Trust. In light of the limited duration of Mr. Carlino's delegation to Mr. Cramer, as well as the beneficiaries and purposes of the Carlino Family Trust, the Board has determined that Mr. Cramer is independent for the purpose of the SEC regulations and the Marketplace Rules.

The principal functions of the Audit Committee are to serve as an independent and objective party to monitor the integrity of the Company's financial reporting process and internal control system; appoint, compensate and, where appropriate, discharge and replace the Company's independent registered public accounting firm; oversee, review and appraise the audit efforts of the Company's independent registered public accounting firm; and maintain free and open communication with and among the independent registered public accounting firm, financial and senior management, and the Board of Directors. In addition, the Audit Committee is responsible for reviewing and appraising the audit efforts of the Company's internal auditors.

Compensation Committee. Harold Cramer (Chairman), David A. Handler and Barbara Z. Shattuck are members of the Compensation Committee. The Board has determined that Messrs. Cramer and Handler and Ms. Shattuck are independent for the purposes of the Marketplace Rules. The Compensation Committee operates under a written charter adopted by the Board of Directors, which is available at *http://www.pngaming.com/main/corporategovernance.shtml* and met 6 times in 2007.

The Compensation Committee has authority to evaluate the annual performance of the Chief Executive Officer ("CEO") and other executive officers and set their annual compensation, which includes:

- setting salary, bonus, stock options and other benefits; and
- reviewing and approving, consist with the compensation philosophy adopted by the Committee, any annual incentive compensation plan for the CEO and other executive officers, and the related review and approval of the performance criteria, goals and objectives provided for in such plan.

The Compensation Committee is in charge of reviewing executive compensation programs annually to determine whether they are properly coordinated and achieving their intended purposes as well as periodically reviewing the policies for administration of the Company's executive compensation programs.

The Compensation Committee is also responsible for:

- assessing the Company's management succession planning;
- approving the number of option awards that the CEO may grant to employees other than executive

officers; and

- administering and interpreting the Company's Amended and Restated 1994 Stock Option Plan, as amended (the "1994 Stock Option Plan") and 2003 Long Term Incentive Compensation Plan (the "2003 Equity Compensation Plan").

The Board of Directors is responsible for setting director compensation as well as adopting the Company's equity compensation plans and any amendments thereto. The Compensation Committee assists the Board in this role by reviewing and recommending the structure and amount of director

compensation as well as by reviewing and recommending new equity compensation plans and changes to existing equity compensation plans.

The Compensation Committee has the authority to engage independent compensation consultants or advisors, as it may deem appropriate in its sole discretion, and to approve related fees and retention terms of such consultants or advisors. The Committee routinely holds executive sessions without management.

The Chairman of the Compensation Committee is responsible for leadership of the Committee and sets meeting agendas. The Committee may form subcommittees and delegate authority to them, as it deems appropriate.

The CEO gives performance assessments and compensation recommendations for each executive officer of the Company (other than himself). The Compensation Committee considers the CEO's recommendations with the assistance of a compensation consultant and sets the compensation of the executive officers (other than the CEO) based on such deliberations. The Compensation Committee sets the CEO's compensation in executive session without any member of management present. The CEO and the Senior Vice President, Human Resources, generally attend Compensation Committee meetings, but neither are present for executive sessions or any discussion of their own compensation. The Compensation Committee has engaged Strategic Apex Group LLC ("Strategic Apex"), an independent executive compensation consulting firm, to provide advice and assistance to them and to management in the area of executive and non-employee director compensation for the Company. The consultant reports directly to the Compensation Committee and has been authorized by them to work with certain executive officers of the Company as well as other employees in the Company's human resources, legal, and finance departments in connection with the consultant's work for the Committee. Strategic Apex attends the majority of the compensation committee meetings and provides assistance and advice regarding executive and director compensation to the compensation committee, which includes accumulating and summarizing market data at the request of the compensation committee regarding compensation of the Company's executives in comparison to its competitors. Strategic Apex also gathers data and provides advice regarding the Company's performance relative to the appropriate peer group of competitor companies, the structure of annual and long-term incentive compensation, the appropriateness of financial and other performance measures and the design of equity incentive plans.

Compliance Committee. The Compliance Committee has three members. David A. Handler and Robert P. Levy are the current Board members of the Compliance Committee. Steve Ducharme, a consultant to the Company who served as a member of the Nevada State Gaming Control Board from January 1991 to January 2001, including two years as Chairman, is the Chairman of the Compliance Committee. The Compliance Committee was established to ensure, through self-regulatory procedures, compliance with applicable laws relating to the Company's gaming and racing businesses and to prevent, to the fullest extent possible, any

involvement by the Company in any activities that would pose a threat to the reputation and integrity of the Company's gaming and racing operations. The Compliance Committee operates under a written charter adopted by the Board of Directors and met 9 times in 2007.

Nominating Committee. Harold Cramer (Chairman), David A. Handler and Barbara Z. Shattuck are the members of the Nominating Committee. The Board has determined that Messrs. Cramer and Handler and Ms. Shattuck are independent under the Marketplace Rules. The Nominating Committee is responsible for identifying and recommending, for the Board's selection, nominees for election to the Board and advising the Board with respect to Board structure, composition and size of the Board and its committees. The Nominating Committee operates under a written charter adopted by the Board of Directors that complies with the current Marketplace Rules, which is available at *http://www.pngaming.com/main/corporategovernance.shtml* and met 1 time in 2007.

The Nominating Committee considers candidates for Board membership suggested by, among others, its members, other Board members and management. The Nominating Committee has authority to retain a search firm to assist in the identification of director candidates. In selecting nominees for director, the Nominating Committee considers a number of factors, including, but not limited to:

- whether a candidate has demonstrated business and industry experience that is relevant to the Company, including recent experience at the senior management level (preferably as chief executive officer or a similar position) of a company as large or larger than the Company;
- a candidate's ability to meet the suitability requirements of all relevant regulatory agencies;
- a candidate's ability to represent the interests of the shareholders;
- a candidate's independence from management and freedom from potential conflicts of interest with the Company;
- a candidate's financial literacy, including whether the candidate will meet the audit committee membership standards set forth in the Marketplace Rules;
- whether a candidate is widely recognized for his or her reputation, integrity, judgment, skill, leadership ability, honesty and moral values;
- a candidate's ability to work constructively with the Company's management and other directors; and
- a candidate's availability, including the number of other boards on which the candidate serves, and his or her ability to dedicate sufficient time and energy to his or her board duties.

During the process of considering a potential nominee, the Nominating Committee may request additional information about, or an interview with, the potential nominee.

The Nominating Committee will also consider recommendations of nominees for directors by shareholders who have owned beneficially at least 1% of the Company's common stock for a continuous period of not less than 12 months before making such recommendation, provided that such recommendation is in proper written

form and timely received by the Secretary of the Company. To be timely, a shareholder's notice to the secretary must be delivered to or mailed and received at the principal executive offices of the corporation not less than 120 nor more than 150 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. However, in the event that the annual meeting is called or a date that is not within 60 days before or after the anniversary date, notice must be received not later than the close of business on the tenth day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a shareholder's notice to must contain (i) the name, age, business address and residence address of the recommended nominee, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder. In addition, the shareholder's notice must contain (i) the name and record address of such shareholder, (ii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder and each recommended nominee and any other person or persons (including their names) pursuant to which the recommendations are to be made by such shareholder and (iv) any other information relating to such shareholder that would be

required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must also be accompanied by a written consent of each recommended nominee to provide all information necessary to respond fully to any suitability inquiry conducted under the executive, administrative, judicial and/or legislative rules, regulations, laws and orders of any jurisdiction to which the corporation is then subject and such additional information concerning the nominee as may be requested by the Nominating Committee and/or Board of Directors and being named as a nominee and to serve as a director if nominated and if elected. In evaluating recommendations received from shareholders, the Committee will apply the criteria and follow the process described above.

Employee Code of Conduct. The Company has a Code of Business Conduct (the "Code of Conduct"), which is applicable to all employees of the Company, including the Company's principal executive officer, the principal financial officer and the principal accounting officer. The Code of Conduct is designed, among other things, to deter wrongdoing and promote ethical conduct, full and accurate reporting in the Company's SEC filings, and compliance with applicable laws. A copy of the current Code of Conduct has been included as Exhibit 14.1 to this Annual Report on Form 10-K and is available on the Company's website at http://www.pngaming.com/main/corporategovernance.shtml. Compliance personnel at the Company's properties report to the Chief Compliance Officer and the property executive or general manager.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors, which is composed entirely of non-employee directors who are independent under the current Marketplace Rules, has appointed Ernst & Young LLP ("E&Y") as the

independent registered public accounting firm to audit the books, records and accounts of the Company and its subsidiaries for the year ending December 31, 2008. E&Y audited the books, records and accounts of the Company and its subsidiaries for the year ended December 31, 2007 and 2006.

E&Y has advised the Audit Committee that it has no direct or material indirect interest in the company or its affiliates.

A summary of aggregate fees for professional services billed by E&Y are as follows:

	Fiscal 2007	Fiscal 2006
Audit Fees(1)	$ 1,838,722	$ 2,618,724
Audit-Related Fees(2)	110,799	94,031
Tax Fees(3)	—	243,073
Total Fees	$ 1,949,521	$ 2,955,828

(1) Audit fees include fees associated with the annual audit, reviews of the Company's quarterly reports on Form 10-Q, annual audits required by law for certain jurisdictions, comfort letters, and other audit and attestation services related to statutory or regulatory filings. Audit fees also include the audit of the Company's internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Audit-related fees primarily include fees for the audit of the Company's 401(k) plans.

(3) Tax fees include fees in connection with preparation of U.S. federal and state income tax returns for the Company and other tax compliance matters.

The Audit Committee's Audit and Non-Audit Services Pre-Approval Policy provides for the pre-approval of audit and non-audit services performed by the Company's independent auditor. Under the policy, the Audit Committee may pre-approve specific services, including fee levels, by the independent auditor in a designated category (audit, audit-related, tax services and all other services). The Audit Committee may delegate, in writing, this authority to one or more of its members, provided that the member or members to whom such authority is delegated must report their decisions to the Audit Committee at its next scheduled meeting. In 2007, all audit services provided by E&Y were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1 and 2. Financial Statements and Financial Statement Schedules. The following is a list of the Consolidated Financial Statements of the Company and its subsidiaries and supplementary data filed as part of Item 8 hereof:

Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets as of December 31, 2007 and 2006
Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005
Consolidated Statements of Change in Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005
All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits, Including Those Incorporated by Reference.

The exhibits to this Report are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of this annual report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PENN NATIONAL GAMING, INC.
By: /s/ PETER M. CARLINO

Peter M. Carlino
Chairman of the Board and Chief Executive Officer

Dated: February 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PETER M. CARLINO Peter M. Carlino	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	February 29, 2008
/s/ WILLIAM J. CLIFFORD William J. Clifford	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 29, 2008
/s/ HAROLD CRAMER Harold Cramer	Director	February 29, 2008
/s/ DAVID A. HANDLER David A. Handler	Director	February 29, 2008
/s/ JOHN M. JACQUEMIN John M. Jacquemin	Director	February 29, 2008

/s/ ROBERT P. LEVY Robert P. Levy	Director	February 29, 2008
/s/ BARBARA Z. SHATTUCK Barbara Z. Shattuck	Director	February 29, 2008

EXHIBIT INDEX

Exhibit	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of August 7, 2002, by and among Hollywood Casino Corporation, Penn National Gaming, Inc. and P Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, dated August 7, 2002).
2.2	Purchase Agreement by and among PNGI Pocono Corp., PNGI, LLC, and the Mohegan Tribal Gaming Authority, dated October 14, 2004. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed October 20, 2004).
2.2(a)	Amendment No. 1 to Purchase Agreement, dated as of January 7, 2005, by and among PNGI Pocono Corp., PNGI, LLC, and The Mohegan Tribal Gaming Authority. (Incorporated by reference to Exhibit 2.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).
2.2(b)	Second Amendment to Purchase Agreement and Release of Claims, dated as of August 7, 2006, between PNGI Pocono Inc. and The Mohegan Tribal Gaming Authority, and joined in by Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).
2.3	Agreement and Plan of Merger, dated as of November 3, 2004, among Penn National Gaming, Inc., Argosy Gaming Company and Thoroughbred Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed November 5, 2004).
2.4	Agreement to Execute Securities Purchase Agreement, dated June 20, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C. and Columbia Sussex Corporation. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed June 22, 2005).
2.4(a)	Letter agreement, dated October 3, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C., Columbia Sussex Corporation and Wimar Tahoe Corporation amending Agreement to Execute Securities Purchase Agreement. (Incorporated by reference to Exhibit 10.3 to the Company's current report on Form 8-K, filed October 4, 2005).
2.5	Securities Purchase Agreement, dated October 3, 2005, among Argosy Gaming Company, Wimar Tahoe Corporation and CP Baton Rouge Casino, L.L.C. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K, filed October 4, 2005).
2.6	Asset Purchase Agreement, dated as of November 7, 2006, by and among Zia Partners, LLC, Zia Park, LLC and (solely with respect to Section 2.6 and Articles VI and XII thereof) Penn National Gaming, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed November 9, 2006).
2.6(a)	First Amendment to Asset Purchase Agreement, dated as of April 13, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's current report on Form 8-K filed on April 18, 2007).
2.6(b)	Second Amendment to Asset Purchase Agreement, dated as of April 16, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.3 to the Company's current report on Form 8-K filed on April 18, 2007).
2.7	Agreement and Plan of Merger, dated as of June 15, 2007, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc. and PNG Merger Sub Inc. (Incorporated by reference to Exhibit 2.1 to

the Company's current report on Form 8-K filed on June 15, 2007).

3.1 Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on October 15, 1996. (Incorporated by reference to Exhibit 3.1 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).

3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on November 13, 1996. (Incorporated by reference to Exhibit 3.2 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).

3.3 Statement with respect to shares of Series A Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on March 16, 1999. (Incorporated by reference to Exhibit 3.3 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).

3.4 Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 23, 2001. (Incorporated by reference to Exhibit 3.4 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).

3.5 Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on December 28, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K, filed on January 2, 2008).

3.6 Second Amended and Restated Bylaws of Penn National Gaming, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2004).

4.1 Specimen copy of Common Stock Certificate (Incorporated by reference to Exhibit 3.6 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003).

4.2 Rights Agreement dated as of March 2, 1999, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 1 to the Company's current report on Form 8-K, dated March 17, 1999).

4.2(a)* Amendment No. 1 to Rights Agreement, dated June 15, 2007, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company.

4.3 Indenture dated as of December 4, 2003 by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6 7/8% Senior Subordinated Notes due 2011 (Incorporated by reference to exhibit 4.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).

4.4 Form of Penn National Gaming, Inc. 6 7/8% Senior Subordinated Note due 2011. (Included as Exhibit A to Exhibit 4.3).

4.5 Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6 7/8% Senior Subordinated Notes due 2011. (Included as Exhibit F to Exhibit 4.3).

4.6 Indenture dated as of March 9, 2005 by and among Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6 3/4% Senior Subordinated Notes due 2015. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed March 15, 2005).

4.6(a) First Supplemental Indenture dated as of July 5, 2005 between Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6 3/4% Senior Subordinated Notes due 2015. (Incorporated by reference to exhibit 10.37 to the Company's registration statement on Form S-4, filed July 7, 2005 (File #333-125274)).

4.7 Form of Penn National Gaming, Inc. 6 3/4% Senior Subordinated Note due 2015. (Included as Exhibit A to Exhibit 4.6).

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).

9.1(a) Trust Letter Agreement, dated February 4, 2008. (Incorporated by reference to exhibit 5 to a Schedule 13D filed on February 5, 2008 by PNG Holdings LLC, FIF Voteco LLC and Centerbridge Voteco LLC regarding Penn National Gaming, Inc.)

10.1# Penn National Gaming, Inc. 1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).

10.2# Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Appendix A of the Company's Proxy Statement dated April 22, 2003 filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended).

10.2(a)# Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).

10.2(b)# Form of Incentive Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).

10.2(c)# Form of Restricted Stock Award for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(c) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).

10.3# Employment Agreement dated May 26, 2004 between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2004).

10.4# Employment Agreement dated June 10, 2005 between Penn National Gaming, Inc. and William Clifford. (Incorporated by reference to Exhibit 10.1 the Company's current report on Form 8-K, filed on June 16, 2005).

10.5# Employment Agreement dated June 10, 2005 between Penn National Gaming, Inc. and Jordan B. Savitch. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K, filed on June 16, 2005).

10.6# Employment Agreement dated July 31, 2006 between Penn National Gaming, Inc. and Leonard DeAngelo. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on August 2, 2006).

10.7# Employment Agreement dated June 10, 2005 between Penn National Gaming, Inc. and Robert S. Ippolito. (Incorporated by reference to Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2007).

10.8 Form of Change in Control Payment Acknowledgement and Agreement between Penn National Gaming, Inc. and Certain Executive Officers of Penn National Gaming, Inc. (Incorporated by reference to Exhibit 10.1 the Company's current report on Form 8-K, filed on January 2, 2008).

10.8(a)* Schedule of executive officers entering into Change in Control Payment Acknowledgement and Agreement.

10.9 Consulting Agreement dated August 29, 1994, between Penn National Gaming, Inc. and Peter D. Carlino. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1994).

10.10 Amended and Restated Lease dated April 5, 2005 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on April 8, 2005).

10.11 Lease dated January 25, 2002 between Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.11(a) Commencement Agreement, dated May 21, 2002, in connection with Lease dated January 25, 2002

Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.11(b) First Lease Amendment, dated December 4, 2002, to Lease dated January 25, 2002 Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.12 Lease dated April 5, 2005 between Wyomissing Professional Center, Inc. and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on April 8, 2005).

10.13 Letter Agreement for the Construction of Certain Improvements, dated April 5, 2005, in connection with the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.3 to the Company's current report on Form 8-K, filed on April 8, 2005).

10.14 Lease dated August 22, 2003 between The Corporate Campus at Spring Ridge 1250, L.P. and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.13 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.15 Agreement dated April 7, 2006 by and between PNGI Charles Town Gaming Limited Liability Company and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL—CIO. (Incorporated by reference to exhibit 10.1 to the Company's current report on Form 8-K, filed on April 24, 2006).

10.16 Agreement dated December 21, 2004 between PNGI Charles Town Gaming, LLC and Charles Town H.B.P.A., Inc. (Incorporated by reference to Exhibit 10.18 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).

10.17 Credit Agreement, dated October 3, 2005 by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed October 4, 2005).

10.17(a) Amendment, dated September 18, 2006, to the Credit Agreement by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on September 21, 2006).

10.18 Ground Lease dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant. (Incorporated by reference to Exhibit 10.4 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).

10.19 Letter Agreement dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant (relating to Ground Lease). (Incorporated by reference to Exhibit 10.5 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).

10.20 Assignment of Lease and Assumption Agreement dated as of May 31, 1994 between SRCT and STP (relating to Ground Lease). (Incorporated by reference to Exhibit 10.7 of HWCC-Tunica, Inc.'s

registration statement on Form S-1, File #33-82182, dated August 1, 1994).

10.21# Penn National Gaming, Inc. Nonqualified Stock Option granted to Peter M. Carlino, dated February 6, 2003. (Incorporated by reference to Exhibit 10.26 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).

10.22 Ground Lease, dated March 23, 2007, between Skrmetta MS, LLC as Landlord and BTN, Inc., a wholly-owned subsidiary of Penn National Gaming, Inc., as Tenant. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2007).

10.23 Penn-Argosy Merger Approval Agreement between the Illinois Gaming Board and Penn National Gaming, Inc., effective September 29, 2005. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2005).

10.23(a) First Amendment to the September 29, 2005 Penn-Argosy Merger Approval Agreement, dated April 25, 2006, between Penn National Gaming, Inc. and the Illinois Gaming Board. (Incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2006).

10.24 Riverboat Gaming Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company, L.P. dated as of April 13, 1994, as amended by Amendment Number One to Riverboat Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company L.P., dated as of December 28, 1995 (Incorporated by reference to Argosy Gaming Company's annual report on Form 10-K for the fiscal year ended December 31, 1995 (File #00-21122)).

10.24(a) Second Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated August 20, 1996. (Incorporated by reference to Exhibit 10.23(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).

10.24(b) Third Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated June 24, 2004. (Incorporated by reference to Exhibit 10.2 of Argosy Gaming Company's quarterly report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-11853)).

10.25 Claim Settlement Agreement among Penn National Gaming, Inc. and the insurance providers severally underwriting share of the Company's all-risk property insurance program, completed January 22, 2007. (Incorporated by reference to exhibit 10.24 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006).

10.26#* Compensatory Arrangements with Certain Executive Officers.

10.27# Penn National Gaming, Inc. Deferred Compensation Plan, as amended. (Incorporated by reference to Exhibit 10.27 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006).

10.28# Description of Penn National Gaming, Inc. Annual Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on June 12, 2007).

10.29# Employment Agreement by and between Penn National Gaming, Inc. and Tim Wilmott dated February 5, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on June 12, 2007).

14.1 Penn National Gaming, Inc. Code of Business Conduct. (Incorporated by reference to Exhibit 14.1 to the Company's current report on Form 8-K, filed on April 24, 2006).

21.1* Subsidiaries of the Registrant.

23.1* Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.

23.2* Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm.

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.

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Exhibit 4.2(a)

AMENDMENT NO. 1 TO RIGHTS AGREEMENT

THIS AMENDMENT NO. 1 (this "Amendment"), dated as of June 15, 2007, to the Rights Agreement, dated as of March 2, 1999 (the "Rights Agreement") between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company") and Continental Stock Transfer and Trust Company, a New York corporation (the "Rights Agent").

R E C I T A L S

WHEREAS, the Company and the Rights Agent have heretofore executed and entered into the Rights Agreement;

WHEREAS, the Company desires to amend the Rights Agreement in accordance with Section 27 thereof;

WHEREAS, the Company, PNG Acquisition Company Inc., a Delaware corporation ("Parent") and PNG Merger Sub Inc., a Pennsylvania corporation and wholly owned subsidiary of Parent ("Merger Sub") have entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (as amended and supplemented from time to time, the "Merger Agreement"), pursuant to which Merger Sub will merge with and into the Company (the "Merger"), with the Company as the surviving entity in the Merger; and

WHEREAS, at a special meeting of the Board of Directors of the Company held on June 15, 2007, the Board approved the amendment of the Rights Agreement as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements set forth in the Rights Agreement and herein, the parties hereto agree as follows:

A G R E E M E N T

1. Amendment of the Definition of "Acquiring Person". Section 1.1 of the Rights Agreement is hereby amended by adding the following sentence to the end thereof:

"The foregoing or any provision to the contrary in this Agreement notwithstanding, none of Fortress Investment Group LLC ("Fortress"), Centerbridge Partners, L.P. ("Centerbridge"), PNG Holdings LLC, a Delaware limited liability company ("Holdings"), PNG Acquisition Company Inc., a Delaware corporation and wholly owned subsidiary of Holdings ("Parent") or PNG Merger Sub Inc., a Pennsylvania corporation and wholly owned subsidiary of Parent ("Merger Sub") is, nor are any of their Affiliates and Associates, nor shall any of Fortress, Centerbridge, Holdings, Parent or Merger Sub or their respective Affiliates or Associates be deemed to be, an Acquiring Person to the extent each is a Beneficial Owner as result of (i) the approval, execution

or delivery of that certain Agreement and Plan of Merger, dated as of June 15, 2007, between the Company, Parent and Merger Sub (as it may be amended and supplemented from time to time, the "Merger Agreement") or (ii) the

consummation of the Merger (as defined in the Merger Agreement) or any other transaction contemplated by the Merger Agreement."

2. Amendment of the Definition of "Adverse Person". Section 11.1.1.4 of the Rights Agreement is hereby amended by adding the following sentence to the end thereof:

"The foregoing or any provision to the contrary in this Agreement notwithstanding, none of Fortress, Centerbridge, Holdings, Parent or Merger Sub is, nor are any of their Affiliates and Associates, nor shall any of Fortress, Centerbridge, Holdings, Parent or Merger Sub or their respective Affiliates or Associates be deemed to be, an Adverse Person to the extent each is a Beneficial Owner as result of (i) the approval, execution or delivery of the Merger Agreement or (ii) the consummation of the Merger (as defined in the Merger Agreement) or any other transaction contemplated by the Merger Agreement."

3. Amendment of Section 20. Section 20 of the Rights Agreement is hereby amended by adding a new Section 20.12 to the end thereof to read in its entirety as follows:

"The Rights Agent shall not be subject to, nor be required to comply with, or determine if any person or entity has complied with, the Merger Agreement or any other agreement between or among the parties to the Merger Agreement, even though reference to the Merger Agreement may be made in this Amendment, or to comply with any notice, instruction, direction, request or other communication, paper or document other than as expressly set forth in this Amendment and in the Rights Agreement."

4. Amendment of Section 30. Section 30 of the Rights Agreement is hereby amended by adding the following sentence to

the end thereof:

> "Nothing in this Agreement shall be construed to give any holder of Rights or any other Person any legal or equitable rights, remedies or claims under this Agreement by virtue of (i) the approval, execution or delivery of the Merger Agreement or any related agreements, (ii) the consummation of the Merger, (iii) the consummation of any of the other transactions contemplated by the Merger Agreement and related agreements or (iv) the public announcement of any of the foregoing."

5. Effectiveness. This Amendment shall be deemed effective as of the date first written above, as if executed on such date. Except as specifically amended by this Amendment, all other terms and conditions of the Rights Agreement shall remain in full force and effect and are hereby ratified and confirmed.

6. Miscellaneous. This Amendment shall be deemed to be a contract made under the laws of the Commonwealth of Pennsylvania and for all purposes shall be governed by and construed in accordance with the laws of such commonwealth applicable to contracts to be made and performed entirely within such State. This Amendment may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original, and all such counterparts shall together constitute one and the same instrument. If any term, provision,

covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired or invalidated. Except as otherwise expressly provided herein, or unless the context otherwise requires, capitalized terms used herein shall have the respective meanings assigned to them in the Rights Agreement. The Rights Agent and the Company hereby waive any notice requirement under the Rights Agreement pertaining to the matters covered by this Amendment.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment has been duly executed by the Company and the Rights Agent as of the day and year first written above.

PENN NATIONAL GAMING, INC.

By: /s/Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

CONTINENTAL STOCK TRANSFER AND TRUST COMPANY

By: /s/Steven Nelson
Name: Steven Nelson
Title: Chairman

Exhibit 10.8(a)

Schedule of Executive Officers entering into Change in Control Payment Acknowledgement and Agreement

The following executive officers of Penn National Gaming, Inc. have entered into Change in Control Payment Acknowledgement and Agreement in the form of Exhibit 10.1 to Penn National Gaming, Inc.'s current report on Form 8-K, filed on January 2, 2008:

Name	Amount of Accelerated Change in Control Payment	
William J. Clifford	$	3,409,875
Leonard DeAngelo	$	3,653,438
Jordan B. Savitch	$	1,281,138

Exhibit 10.26

Compensatory Arrangements with Certain Executive Officers

Set forth below are the 2008 salaries of Penn National Gaming, Inc.'s named executive officers and its recently appointed President and Chief Operating Officer:

Name and Title	Salary for Fiscal 2008
Peter M. Carlino Chairman and Chief Executive Officer	$ 1,560,000
Timothy J. Wilmott President and Chief Operating Officer	$ 1,250,000
Leonard M. DeAngelo Executive Vice President of Operations	$ 750,000
William J. Clifford Senior Vice President-Finance and Chief Financial Officer	$ 728,000
Jordan B. Savitch Senior Vice President and General Counsel	$ 421,200
Robert Ippolito Vice President, Secretary and Treasurer	$ 280,800

Exhibit 21.1

Subsidiaries of Penn National Gaming, Inc.

Name of Subsidiary	State or Other Jurisdiction of Incorporation
Penn National Gaming, Inc.	Pennsylvania
Bangor Historic Track, Inc.	Maine
BSL, Inc.	Mississippi
BTN, Inc.	Mississippi
CHC Casinos Canada Limited	Nova Scotia
CHC Casinos Corp.	Florida
CHC (Ontario) Supplies Limited	Nova Scotia
CRC Holdings, Inc.	Florida
Casino Rama Services, Inc.	Ontario
Hollywood Casino Corporation	Delaware
HWCC□Tunica, Inc.	Texas
Hollywood Casino□Aurora, Inc.	Illinois
Louisiana Casino Cruises, Inc.	Louisiana
Mountainview Thoroughbred Racing Association	Pennsylvania
PNGI Charles Town Gaming Limited Liability Company	West Virginia
Penn Bullpen, Inc.	Colorado
Penn Bullwhackers, Inc.	Colorado
Penn National GSFR, LLC	Delaware
Penn National Holding Company	Delaware
Pennsylvania National Turf Club, Inc.	Pennsylvania
Pennwood Racing, Inc.	Delaware
Penn Bullwhackers Retail, LLC	Colorado
Penn Sanford, LLC	Delaware
SOKC, LLC	Delaware
Zia Park LLC	Delaware
Argosy Gaming Company	Delaware
Alton Gaming Company	Illinois
The Indiana Gaming Company	Indiana
Indiana Gaming Holding Company	Indiana
Iowa Gaming Company	Iowa
Argosy of Iowa, Inc.	Iowa
The Missouri Gaming Company	Missouri
Empress Casino Joliet Corporation	Illinois
Indiana Gaming II, L.P.	Indiana
Indiana Gaming Company, L.P.	Indiana
Belle of Sioux City, L.P.	Iowa
Ohio Racing Company	Ohio
Raceway Park, Inc.	Ohio
Crazy Horses, Inc.	Ohio

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-98640, 333-61684, 333-108173 and 333-125928) of our reports dated February 22, 2008, with respect to the consolidated financial statements of Penn National Gaming, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Penn National Gaming, Inc., included in the Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
February 22, 2008

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

Penn National Gaming, Inc. and Subsidiaries
Wyomissing, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-98640, 333-61684, 333-108173 and 333-125928) of Penn National Gaming, Inc. and Subsidiaries of our report dated March 7, 2006, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BDO Seidman, LLP
Philadelphia, Pennsylvania

February 27, 2008

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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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2008 /s/ PETER M. CARLINO

Name: Peter M. Carlino
Title: *Chief Executive Officer*

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Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, William J. Clifford, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2008 /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, 2007 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
February 29, 2008

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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, 2007 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
February 29, 2008

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Exhibit 99.1

Description of Governmental Regulations

General

The ownership and operation of our gaming and racing facilities are subject to pervasive regulation under the laws and regulations of each of the jurisdictions in which we operate. Gaming laws are generally based upon declarations of public policy designed to protect gaming consumers and the viability and integrity of the gaming industry. Gaming laws also may be designed to protect and maximize state and local revenues derived through taxes and licensing fees imposed on gaming industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, gaming laws establish procedures to ensure that participants in the gaming industry meet certain standards of character and fitness. In addition, gaming laws require gaming industry participants to:

- Establish procedures designed to prevent cheating and fraudulent practices;
- Establish and maintain responsible accounting practices and procedures;
- Maintain effective controls over their financial practices, including establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- Maintain systems for reliable record keeping;
- File periodic reports with gaming regulators;
- Ensure that all contracts and financial transactions are commercially reasonable, reflect fair market value and are arms-length transactions; and
- Establish programs to promote responsible gaming.

Typically, a state regulatory environment is established by statute and is administered by a regulatory agency with broad discretion to regulate the affairs of owners, managers, and persons with financial interests in gaming operations. Among other things, gaming authorities in the various jurisdictions in which we operate:

- Adopt rules and regulations under the implementing statutes;
- Interpret and enforce gaming laws;
- Impose disciplinary sanctions for violations, including fines and penalties;
- Review the character and fitness of participants in gaming operations and make determinations regarding their suitability or qualification for licensure;
- Grant licenses for participation in gaming operations;
- Collect and review reports and information submitted by participants in gaming operations;
- Review and approve transactions, such as acquisitions or change-of-control transactions of gaming industry participants, securities offerings and debt transactions engaged in by such participants; and
- Establish and collect fees and taxes.

Any change in the laws or regulations of a gaming jurisdiction could have a material adverse effect on our gaming operations.

Licensing and Suitability Determinations

Gaming laws require us, each of our subsidiaries engaged in gaming operations, certain of our directors, officers and employees, and in some cases, certain of our shareholders and holders of our debt securities, to obtain licenses from gaming authorities. Licenses typically require a determination that the applicant qualifies or is suitable to hold the license. Gaming authorities have very broad discretion in determining whether an applicant qualifies for licensing or should be deemed suitable. Criteria used in determining whether to grant a license to conduct gaming operations, while varying between jurisdictions, generally include consideration of factors such as:

- The financial stability, integrity and responsibility of the applicant, including whether the operation is adequately capitalized in the state and exhibits the ability to maintain adequate insurance levels;
- The quality of the applicant's casino facilities;
- The amount of revenue to be derived by the applicable state from the operation of the applicant's casino;
- The applicant's practices with respect to minority hiring and training; and
- The effect on competition and general impact on the community.

In evaluating individual applicants, gaming authorities consider the individual's business experience and reputation for good character, the individual's criminal history and the character of those with whom the individual associates.

Many gaming jurisdictions limit the number of licenses granted to operate casinos within the state, and some states limit the number of licenses granted to any one gaming operator. Licenses under gaming laws are generally not transferable. Licenses in most of the jurisdictions in which we conduct gaming operations are granted for limited durations and require renewal from time to time. Our management agreement through which we operate Casino Rama extends until 2011, with the Province of Ontario possessing the option to extend the agreement for two successive periods of five years each. There can be no assurance that any of our licenses will be renewed or that our management agreement in Ontario will be extended beyond 2011. The failure to renew any of our licenses or to obtain an extension to our management agreement in Ontario could have a material adverse effect on our gaming operations. In addition, Iowa law requires that a qualified nonprofit organization hold the gaming license. At Argosy Casino Sioux City, we are the operator of the property. We own the assets (other than the land) and we manage the facility for Missouri River Historical Development, Inc. (the licensed nonprofit organization).

In addition to us and our direct and indirect subsidiaries engaged in gaming operations, gaming authorities may investigate any individual who has a material relationship to or material involvement with, any of these entities to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Our officers, directors and certain key employees must file applications with the gaming authorities and may be required to be licensed, qualify or be found suitable in many jurisdictions. Gaming authorities may deny an application for licensing for any cause which they deem reasonable. Qualification and suitability determinations require submission of detailed personal and financial information followed by a thorough investigation. The applicant must pay all the costs of the investigation. Changes in licensed positions must be reported to gaming authorities and in addition to their authority to deny an application for licensure,

qualification or a finding of suitability, gaming authorities have jurisdiction to disapprove a change in a corporate position.

If one or more gaming authorities were to find that an officer, director or key employee fails to qualify or is unsuitable for licensing or unsuitable to continue having a relationship with us, we would be required to sever all relationships with such person. In addition, gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications.

Moreover, in many jurisdictions, certain of our stockholders or holders of our debt securities may be required to undergo a suitability investigation similar to that described above. Many jurisdictions require any person who acquires beneficial ownership of more than a certain percentage of our voting securities, typically 5%, to report the acquisition to gaming authorities, and gaming authorities may require such holders to apply for qualification or a finding of suitability. Most gaming authorities, however, allow an "institutional investor" to apply for a waiver. An "institutional investor" is generally defined as an investor acquiring and holding voting securities in the ordinary course of business as an institutional investor, and not for the purpose of causing, directly or indirectly, the election of a majority of the members of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or those of any of our gaming affiliates, or the taking of any other action which gaming authorities find to be inconsistent with holding our voting securities for investment purposes only. Even if a waiver is granted, an institutional investor generally may not take any action inconsistent with its status when the waiver was granted without once again becoming subject to the foregoing reporting and application obligations.

Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period after being advised it is required by gaming authorities may be denied a license or found unsuitable, as applicable. Any stockholder found unsuitable or denied a license and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Furthermore, we may be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any of our subsidiaries, we: (i) pay that person any dividend or interest upon our voting securities; (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; (iii) pay remuneration in any form to that person for services rendered or otherwise; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

The gaming jurisdictions in which we operate also require that suppliers of certain goods and services to gaming industry participants be licensed and require us to purchase and lease gaming equipment, supplies and services only from licensed suppliers.

Violations of Gaming Laws

If we or our subsidiaries violate applicable gaming laws, our gaming licenses could be limited, conditioned, suspended or revoked by gaming authorities, and we and any other persons involved could be subject to substantial fines. Further, a supervisor or conservator can be appointed by gaming authorities to operate our gaming properties, or in some jurisdictions, take title to our gaming assets in the jurisdiction, and under certain circumstances, earnings generated during such appointment could be forfeited to the applicable state or states. Furthermore, violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. As a result, violations by us of applicable gaming laws could have a material adverse effect on our gaming operations.

Some gaming jurisdictions prohibit certain types of political activity by a gaming licensee, its officers, directors and key people. A violation of such a prohibition may subject the offender to criminal and/or disciplinary action.

Reporting and Record-keeping Requirements

We are required periodically to submit detailed financial and operating reports and furnish any other information about us and our subsidiaries which gaming authorities may require. Under federal law, we are required to record and submit detailed reports of currency transactions involving greater than $10,000 at our casinos as well as any suspicious activity that may occur at such facilities. We are required to maintain a current stock ledger which may be examined by gaming authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to gaming authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Gaming authorities may require certificates for our securities to bear a legend indicating that the securities are subject to specified gaming laws.

Review and Approval of Transactions

Substantially all material loans, leases, sales of securities and similar financing transactions by us and our subsidiaries must be reported to and in some cases approved by gaming authorities. Neither we nor any of our subsidiaries may make a public offering of securities without the prior approval of certain gaming authorities. Changes in control through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or otherwise are subject to receipt of prior approval of gaming authorities. Entities seeking to acquire control of us or one of our subsidiaries must satisfy gaming authorities with respect to a variety of stringent standards prior to assuming control. Gaming authorities may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

Because of regulatory restrictions, our ability to grant a security interest in any of our gaming assets is limited and subject to receipt of prior approval by gaming authorities.

License Fees and Gaming Taxes

We pay substantial license fees and taxes in many jurisdictions, including some of the counties and cities in which our operations are conducted, in connection with our casino gaming operations, computed in various ways depending on the type of gaming or activity involved. Depending upon the particular fee or tax involved, these fees and taxes are payable with varying frequency. License fees and taxes are based upon such factors as:

- a percentage of the gross gaming revenues received;
- the number of gaming devices and table games operated; and
- admission fees for customers boarding our riverboat casinos.

In many jurisdictions, gaming tax rates are graduated such that they increase as gross gaming revenues increase. Furthermore, tax rates are subject to change, sometimes with little notice, and such changes could have a material adverse effect on our gaming operations.

In addition to taxes specifically unique to gaming, we are required to pay all other applicable taxes.

Operational Requirements

In most jurisdictions, we are subject to certain requirements and restrictions on how we must conduct our gaming operations. In many states, we are required to give preference to local suppliers and include minority and women-owned businesses as well as organized labor in construction projects to the maximum extent practicable as well as in general vendor business activity. Similarly, we may be required to give employment preference to minorities, women and in-state residents in certain jurisdictions.

Some gaming jurisdictions also prohibit a distribution, except to allow for the payment of taxes, if the distribution would impair the financial viability of the gaming operation. Moreover, many jurisdictions require a gaming operation to maintain insurance and post bonds in amounts determined by their gaming authority.

In addition, our ability to conduct certain types of games, introduce new games or move existing games within our facilities may be restricted or subject to regulatory review and approval. Some of our operations are subject to restrictions on the number of gaming positions we may have and the maximum wagers allowed to be placed by our customers.

In Maine, we are a party to a development agreement with the City of Bangor which requires that either we or an alternative developer construct a hotel when gaming revenues at the Bangor facility exceed $60 million in a calendar year.

In Mississippi, we are required to include a 500 car parking facility in close proximity to each casino complex and infrastructure facilities that will amount to at least twenty five percent of the casino cost. This requirement has recently been increased for any new casinos in Mississippi.

In Pennsylvania, the holder of a Category 1 license is required to create a fund to be used for the improvement and maintenance of the backside area of the racetrack. A Category 1 licensee must deposit into the fund $5,000,000 over the initial five year period of the license and an amount not less than $250,000 or more than $1,000,000 annually for the five years thereafter.

Riverboat Casinos

In addition to all other regulations generally applicable to the gaming industry generally, our riverboat casinos are also subject to regulations applicable to vessels operating on navigable waterways, including regulations of the U.S. Coast Guard. These requirements set limits on the operation of the vessel, mandate that it must be operated by a minimum complement of licensed personnel, establish periodic inspections, including the physical inspection of the outside hull, and establish other mechanical and operations rules. In addition, the riverboat casinos may be subject to future U.S. Coast Guard regulations designed to increase homeland security which could affect some of our properties and require significant expenditures to bring such properties into compliance.

Racetracks

We conduct horse racing operations at our thoroughbred racetracks in Charles Town, West Virginia and Grantville, Pennsylvania, at our harness racetracks in Bangor, Maine and Toledo, Ohio and at our quarter/thoroughbred racetrack in Hobbs, New Mexico. We also have a 50% ownership interest in a harness racetrack in Freehold, New Jersey through a joint venture agreement. In Longwood, Florida we own and

operate the Sanford Orlando Kennel Club, a greyhound pari-mutuel racetrack. In Pennsylvania we operate six off track wagering facilities and conduct account wagering operations. We currently operate video lottery terminals at the Charles Town, West Virginia racetrack and commenced slot machine operations at the Grantville, Pennsylvania racetrack in February, 2008. We also conduct slot operations in Bangor, Maine at a temporary facility located near the racetrack. Generally, our slot operations at racetracks are regulated in the same manner as our gaming operations in other jurisdictions. In some jurisdictions, our ability to conduct gaming operations may be conditioned on the maintenance of agreements or certain arrangements with horsemen's or labor groups.

Regulations governing our racing operations are administered separately from the regulations governing gaming operations, with separate licenses and license fee structures. The racing authorities responsible for regulating our racing operations have broad oversight authority, which may include: annually reviewing and granting racing licenses and racing dates; approving the opening and operation of off track wagering facilities; approving simulcasting activities; licensing all officers, directors, racing officials and certain other employees of a racing licensee; and approving all contracts entered into by a racing licensee affecting racing, pari-mutuel wagering, account wagering and off track wagering operations.

Exhibit 4.3-1

Penn National Gaming, Inc.

Affiliated Operating Racing and/or Gaming Entities

		Location				
Enterprise Name	**DBA Name**	**Address**	**City**	**State**	**Zip**	**Licensing Agency**
GAMING ONLY						
Empress Casino Joliet Corporation	Empress Casino Joliet	2300 Empress Dr.	Joliet	Illinois	60436	Illinois Gaming Board
Alton Gaming Company	Argosy Casino Alton	1 Piasa St	Alton	Illinois	62002	Illinois Gaming Board
Hollywood Casino-Aurora, Inc	Hollywood Casino Aurora	49 West Galena Blvd	Aurora	Illinois	60506	Illinois Gaming Board
Belle of Sioux City, L.P.	Argosy Casino Sioux City	100 Larsen Park Rd	Sioux City	Iowa	51102	Iowa Racing & Gaming Commission
BSL, Inc.	Hollywood Casino Bay St. Louis	711 Hollywood Blvd	Bay St. Louis	Mississippi	39520	Mississippi Gaming Commission
BTN, Inc	Boomtown Casino Biloxi	676 Bayview Av.	Biloxi	Mississippi	39530	Mississippi Gaming Commission
Louisiana Casino Cruises	Hollywood Casino Baton Rouge	1717 River Rd. North	Baton Rouge	Louisiana	70802	Louisiana Gaming Control Board
Indiana Gaming Company, LP	Argosy Lawrenceburg	777 Argosy Parkway	Lawrenceburg	Indiana	47025	Indiana Gaming Commission
HWCC-Tunica, Inc	Hollywood Casino Tunica	1150 Casino Strip Blvd.	Tunica Resorts	Mississippi	38664	Mississippi Gaming Commission
Penn Bullpen, Inc.	Bullwhackers Casinos	101 Gregory St.	Black Hawk	Colorado	80422	Colorado Division of Gaming
Penn Silver Hawk, Inc.	Bullwhackers Casinos	101 Gregory St.	Black Hawk	Colorado	80422	Colorado Division of Gaming
Penn Bullwhackers, Inc.	Bullwhackers Casinos	101 Gregory St.	Black Hawk	Colorado	80422	Colorado Division of Gaming
The Missouri Gaming Company	Argosy Casino Riverside	777 N.W. Argosy Casino Parkway	Riverside	Missouri	64150	Missouri Gaming Commission
CHC Casinos Canada Limited	Casino Rama (PNG manages but does not own this property)	5899 Rama Rd.	Rama	Ontario	L0K1T0	Alcohol & Gaming Commission of Ontario
Penn Cecil Maryland, Inc. (Currently under construction)	Hollywood Casino Perryville	1200 Chesapeake Overlook Parkway	Perryville	Maryland	21903	Maryland Lottery
Kansas Entertainment, Inc (Currently under Construction)	Hollywood Casino Kansas (50 % joint venture with affiliate of International	At the Speedway. Address TBD	Kansas City	Kansas	66111	Kansas Racing & Gaming Commission and Kansas Lottery
GAMING AND RACING						
Bangor Historic Track, Inc.	Hollywood Slots at Bangor	427 Main St.	Bangor	Maine	04401	Maine Gambling Control Board & Maine State Harness Racing Commission

		Location				
Enterprise Name	**DBA Name**	**Address**	**City**	**State**	**Zip**	**Licensing Agency**
Mountainview Thoroughbred Racing Assn.	Hollywood Casino at Penn National Race Course	777 Hollywood Blvd	Grantville	Pennsylvania	17028	Pennsylvania Gaming Control Board & Pennsylvania State Horse Racing Commission
PNG Charles Town Gaming, LLC	Charles Town Races & Slots	US Route 340	Charles Town	West Virginia	25414	West Virginia Lottery & West Virginia Racing Commission
Zia Park, LLC	Black Gold Casino, Zia Park	3901 W. Millen Dr.	Hobbs	New Mexico	88240	New Mexico Gaming Control Board & New Mexico Racing Commission
RACING ONLY						
SOKC, LLC	Sanford Orlando Kennel Club	301 Dog Track Road	Longwood	Florida	32750	Florida State Racing Commission
Raceway Park, Inc.	Raceway Park	5700 Telegraph Rd.	Toledo	Ohio	43612	Ohio State Racing Commission
FR Park Racing, L.P.	Freehold Race (49.95% owned by PNG but not managed by PNG)	130 Park Av.	Freehold	New Jersey	07728	New Jersey Racing Commission

NEW DEVELOPMENTS

Kansas

A subsidiary of the Applicant (Penn Hollywood Kansas, Inc) in a 50/50 joint ownership agreement with a subsidiary of International Speedway Corporation was recently selected by the State of Kansas to be a Lottery Gaming Facility Manager for a new casino in Wyandotte County, Kansas. Preliminary design and construction work on this $410 million facility is currently underway with the facility expected to open in the first quarter of 2012. The construction of this facility is being managed by the Penn National Gaming, Inc. construction/development staff.

Maryland

In 2009, a subsidiary of the Applicant (Penn Cecil Maryland, Inc.) was selected by the State of Maryland to be a Lottery Gaming Facility Manager for a new casino in Cecil County Maryland. Construction of this $ 98 million facility is nearing completion with the facility expected to open in September 2010. The construction of the facility is being managed by the Penn National Gaming, Inc. construction/development staff.

Ohio

Subsidiaries of Penn National Gaming, Inc. are in the early development stages to build casino facilities in Columbus and Toledo, Ohio. Design and preliminary site work for both of these facilities has begun. The development and construction of these facilities is being managed by the Penn National Gaming, Inc. construction/development staff.

New Pari-Mutuel Racing Facilities

Subsidiaries of the Applicant are currently awaiting regulatory approval to purchase the Beulah Park Racetrack near Columbus, Ohio and a 49% interest in the Pimlico and Laurel racetracks in Maryland. Both sales are expected to close by the end of June, 2010.

Exhibit 4.3-2

Resumes of Penn's Executive Management

Peter Carlino - Chairman and CEO

Peter M. Carlino serves as Chairman and CEO of Penn National Gaming, Inc. He served as president of Mountainview Thoroughbred Racing Association, predecessor to Penn National Gaming, from 1972 until 1976 when he formed Carlino Financial Corporation as a holding company to own and operate various Carlino family businesses, including Mountainview. From 1982 until the Penn National Initial Public Offering, Peter devoted most of his business time to developing, building and operating residential and commercial real estate projects, primarily in central Pennsylvania. He remains Chairman of the Carlino Development Group. He was elected Chairman and CEO of Penn National in April 1994, just prior to its IPO. Peter is a graduate of the Pennsylvania State University. He serves on the boards of The Milton S. Hershey Medical Center and Mooring Financial Corporation. He and his wife reside in Reading, Pennsylvania. Peter has four children and five grandchildren.

Tim Wilmott - President and COO

Tim Wilmott joined PENN as President/COO in February 2008. He brought to Penn National over 20 years of experience in managing and developing gaming operations in diverse regulated jurisdictions. Tim most recently served as Chief Operating Officer of Harrah's Entertainment, a position he held for approximately four years. In this position, he oversaw the operations of all of Harrah's revenue-generating businesses, including 48 casinos, 38,000 hotel rooms and 300 restaurants. Tim earned a Masters in Business Administration in corporate finance from the Wharton School of Business in 1987 and Bachelor's and Master's Degrees in Industrial Engineering from Lehigh University in 1980 and 1981, respectively.

Thomas Auriemma - Vice President, Chief Compliance Officer

Thomas N. Auriemma became Vice President/Chief Compliance Officer of Penn National Gaming Inc. in March 2007. Previously, Tom served as a Casino Regulator in New Jersey for over 28 years. From 2002 to 2007, he was the Director of the New Jersey Division of Gaming Enforcement and served as that agency's Deputy Director for over a decade. Tom received his Bachelor of Arts Degree from Seton Hall University, where he was a history major, and entered the practice of law after graduating second in his class from Seton Hall University School of Law. Tom is a member of the New Jersey and New York bars, and admitted to practice before the Third Circuit Court of Appeals and the United States Supreme Court. He previously served as Secretary, Vice Chair and most recently, Chair of the International Association of Gaming Regulators.

Robert Ippolito - VP, Secretary/Treasurer

Robert Ippolito has been with Penn National Gaming since 1987 and was elected Secretary and Treasurer of PENN in April 1994. Prior to his current appointment, he served as Corporate Controller and Secretary of Carlino Financial and certain of its affiliates. Robert was engaged in public accounting prior to joining Carlino Financial. Robert is a Certified Public Accountant. Robert and his family reside in Wyomissing.

Steve Snyder - Sr. VP, Corporate Development

Steve Snyder joined Penn National Gaming in 1998 and from 1998 - 2001 served as Vice President of Corporate Development. In 2003, he accepted the position of Senior Vice President of Corporate Development and is responsible for identifying and conducting internal and industry analysis of potential acquisitions, partnerships and other opportunities. Prior to joining PENN, Steve was partner with Hamilton Partners, Ltd., as well as Managing Director of Municipal and Corporate Investment Banking for Meridian Capital Markets. Steve began his career in finance at Butcher & Singer, where he served as First Vice President of public finance. Steve earned a Masters of Science in Industrial Administration at the Graduate School of Administration at Carnegie Mellon University and a Bachelor of Arts from Dickinson College.

Bill Clifford - Chief Financial Officer

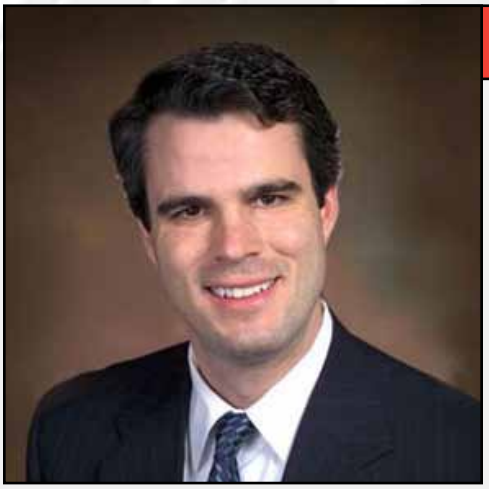
Bill Clifford joined PENN in August 2001. Prior to PENN, Bill served as Chief Financial Officer and Senior Vice President of Finance with Sun International Bahamas, Paradise Island. Other positions held include roles as Financial, Hotel and Operations Controller for Treasure Island Hotel and Casino in Las Vegas; Controller for Golden Nugget Hotel and Casino, Las Vegas; and Property Operations Analyst with Aladdin Hotel and Casino, Las Vegas. Bill and his family reside in Wyomissing, PA

Walter Bogumil - VP/Financial Analysis

Walter Bogumil joined PENN in April of 2002. Prior to joining the company, Walter's experience includes various positions in finance and operations at Microsoft, Sun International Resorts and Walt Disney World. He holds a MBA degree from Rollins College and a Bachelor's degree in Finance from the University of Central Florida. Walter and his family reside in Sinking Spring, PA.

Desiree Burke - V.P. & Chief Accounting Officer

Desiree Burke joined PENN as V.P. & Chief Accounting Officer in November 2005 and brings with her eighteen years of accounting experience. Prior to joining the company, Ms. Burke was the Executive Vice President/ Director of Financial Reporting and Control for MBNA America Bank, N.A., the world's largest independent credit card lender. At MBNA she was responsible for Sarbanes-Oxley compliance, SEC reporting and periodic filings, and regulatory reporting to the Federal Reserve and Office of the Comptroller of the Currency. She joined MBNA in 1994 and held positions of ascending responsibilities in the finance department including Executive Vice President/Assistant Controller and Executive Vice President/Director of Control. During her tenure with MBNA she was also responsible for merger and acquisition accounting and reporting. Prior to her work at MBNA, Desiree spent four years as a senior accountant at Scott Paper in Philadelphia as well as three years as a senior auditor at Coopers and Lybrand (now PriceWaterhouseCoopers) also in Philadelphia. She earned a Masters in Accounting from Widener University in 1996 and a Bachelor's Degree in Accounting from The University of Delaware in 1987. Desiree and her family reside in Chadds Ford, PA.



Eric Schippers - Sr. VP, Public Affairs

Eric Schippers began his career with PENN as Vice President Public Affairs & Government Relations in September 2003. Eric is responsible for PENN's government affairs, corporate communications, media relations and serves as spokesperson for the company. Eric brought over 12 years of public affairs, public relations and public advocacy experience to his position at Penn National Gaming, including the presentation of many issues to the U.S. Congress and state legislatures. Prior to joining PENN, Eric was president of the Center for Individual Freedom. Throughout his career, he has provided commentary on political and legal matters for TV news and has been a regular guest on a number of nationally syndicated radio shows. Eric received his Bachelor of Arts degree in International Affairs from George Washington University in Washington, D.C. Eric and his family reside in Wyomissing, PA.

Gene Clark - Sr. VP, Human Resources

Gene Clark joined PENN in August 2005 and brings nine years of gaming industry experience to his new position. He is responsible for recruiting, training, organizational development, compensation and benefits administration activities. Before joining the company, Gene held various human resources positions at Caesar's Entertainment, most recently serving as Corporate Vice President, Organizational Development. He also served as Senior Vice President, Human Resources for Caesars Eastern region before moving to the corporate role. Prior to his work in the gaming industry, Gene spent 10 years in human resources with the international consulting firm PriceWaterhouse Coopers in the Philadelphia and Washington, D.C. offices. Gene holds a Master's degree in Human Resources Administration from the University of Scranton. He lives in Radnor, PA with his wife and daughter.

Tom Beauchamp - VP/Chief Information Officer

Tom joins Penn National Gaming in August 2009 as the new VP/Chief Information Officer. Tom brings to Penn National over 25 years of experience in Information Technology, with several reputable organizations including Limited Stores, Montgomery Ward, Woolworth Corporation, Columbia House and CMI Marketing Inc. Tom most recently served as the CIO for Hot Topic Inc. a California based retail organization with 844 stores operating under the Hot Topic or Torrid brands. Tom has extensive operational and marketing experience, and a proven track record of transforming technology departments in various consumer related industries.

Gregg Hart - VP, Internal Audit

Gregg Hart joined PENN as VP, Internal Audit in October 2004. Mr. Hart has over 20+ years of casino industry experience and 15+ years of internal audit experience. Prior to joining the Company, Mr. Hart was responsible for the Internal Audit function @ Isle of Capri Casinos, Inc. from 1998-2004. His prior experience also includes various internal audit and accounting roles at Boyd Gaming, Caesar's World, Carnival Corporation, Harrah's Entertainment, Norwegian Cruise Line, and Westward Ho Hotel & Casino. Mr. Hart is a Certified Internal Auditor and a Certified Fraud Examiner. Gregg and his family reside in Wyomissing, PA.

Jordan Savitch - Sr. VP, General Counsel

Jordan Savitch joined PENN in his position of Sr. Vice President and General Counsel in September 2002 and is responsible for PENN's legal, government and regulatory affairs. Prior to joining PENN, Jordan served as a director and held several senior management positions at iMedium, Inc., an early stage software company. From 1995 to 1999, Jordan served as corporate counsel at Safeguard Scientifics, Inc., a New York Stock Exchange-listed company specializing in identifying, developing and operating emerging technology companies. In addition to his corporate experience, Jordan spent four years in private practice as an Associate at Willkie Farr & Gallagher where he focused on mergers and acquisitions and securities law. Jordan earned a B.A., Magna Cum Laude, Phi Beta Kappa in 1987 from the University of Vermont and received his J.D. from Harvard Law School in 1991. Jordan lives in Radnor, PA with his wife and three children.

Carl Sottosanti - Deputy General Counsel VP, Legal and Business Affairs

Carl Sottosanti joined Penn National Gaming in May 2003 as Deputy General Counsel and Vice President of Legal and Business Affairs. Carl is responsible for managing the company's litigation, employment issues, real estate matters, contractual relations and intellectual property rights. Carl is also involved in mergers and acquisitions, securities and corporate governance. Prior to PENN, Carl worked for five years at Sanchez Computer Associates, Inc. (a publicly traded technology company), as Vice President and General Counsel. Prior to Sanchez, he was Assistant General Counsel for Salient 3 Communications, Inc. He began his legal career as an associate with the Philadelphia law firm Schnader Harrison, with a practice concentrated in employment/labor law and commercial litigation. Carl has extensive teaching and lecturing experience on business and employment law topics. Carl graduated magna cum laude from Villanova University and received his JD from Villanova University School of Law, where he was an Editor on the Law Review. He and his family reside in Exeter, PA.

James Baum - Sr. VP, Project Development

Jim Baum joined Penn in 2006 as the Sr. VP or Project Development. Prior to Penn, Jim worked at Harrah's Entertainment, Inc. as Corporate Director of Development at its Las Vegas, Nevada headquarters. In this role, Jim has lead the Company's initiative to identify and form Indian management and development gaming agreements with Indian tribes agreements with new developments in Indian gaming. Jim has also spearheaded and completed corporate asset dispositions and lead efforts to pursue other gaming development opportunities. During his career, he has negotiated and successfully closed deals for acquisitions, joint ventures, management contracts, and sales of more than 35 hotel/gaming properties totaling more than 500,000 square feet of casino space and 23,000 hotel rooms and suites. A native of Hinsdale, Illinois, Baum graduated with honors from the College of Charleston in Charleston, South Carolina with at Bachelor of Science degree in Finance and Economics.

Jack Rauen - VP, Development

Jack Rauen joined PENN through the acquisition of CRC Holdings, Inc. in April of 2001. His previous experience with CRC includes roles as Senior Vice President of Operations and Senior Vice President of Finance for the Gaming Division. Prior to CRC, Jack served as Vice President of Finance and Chief Financial Officer for American Gaming and Entertainment, Ltd. in Atlantic City, and held positions as Vice President of Finance, Corporate Controller, and International Controller with the Sands Hotel & Casino, Atlantic City. Jack is a Certified Public Accountant. Jack and his family reside in Wyomissing.

Gaye Gullo - VP of Marketing

Gaye Gullo joins Penn National Gaming as the Corporate VP of Marketing in November 2008. Gaye brings over 20 years of diverse regional and major market casino resort experience to Penn. She has led corporate and property specific marketing initiatives for several regional and major market properties with a focus on driving operational improvements and returns from marketing budgets. Most recently, Gaye served as Vice President Customer Relationship Management at Mohegan Sun Casino where she established and implemented player loyalty programs and customer communication strategies. Prior to joining Mohegan Sun, she held various senior management positions at Harrah's Entertainment. While at Harrah's she was involved in developing integrated marketing strategies at the corporate and local level in markets including Nevada, New Jersey, Illinois, Louisiana and Iowa. In addition, from 2004 to 2007, Gaye served as Vice President and General Manager of Horseshoe and Harrah's Casinos in Council Bluffs, IA.

Tom Burke - Sr. VP, Regional Operations

Mr. Burke joined us in November 2002, and was appointed to his current position of Senior Vice President-Regional Operations effective October 2008. In this position, Mr. Burke is responsible for overseeing all facets of our facilities located in Colorado, Iowa, Louisiana, Mississippi, Missouri, and New Mexico. Previously, Mr. Burke served as Vice President and General Manager of our Argosy Casino Riverside from June 2006 until October 2008 and as President and General Manager of our Bullwhackers properties from November 2002 until June 2006. Prior to joining us, Mr. Burke held senior management positions at Ameristar Casinos, Station Casinos, Trump Taj Mahal Casino Resort and Trump Castle Hotel/Casino, American Gaming and Entertainment and the Majestic Star Casino.

John V. Finamore - Sr. VP, Regional Operations

Mr. Finamore joined us in November 2002 as Senior Vice President-Regional Operations. In this position, Mr. Finamore is responsible for overseeing all facets of our facilities located in Florida, Illinois, Maine, New Jersey, Ohio, Ontario, Pennsylvania, and West Virginia. Prior to joining us, Mr. Finamore served as President of Missouri Operations for Ameristar Casinos, Inc. from December of 2000 until February of 2002 and President of Midwest Operations for Station Casinos, Inc. from July 1998 until November 2000. Mr. Finamore has over 28 years of gaming industry and hotel management experience.

PENN NATIONAL
GAMING, INC.

Quality Assurance Property Inspection Guidelines

Revised 1/10

EXHIBIT 4.3-3
QUALITY ASSURANCE PROPERTY INSPECTION GUIDELINES

REDACTED 32 PAGES

Penn National Gaming, Inc.
Quality Assurance Property Inspection Guidelines

Section 1
Introduction

The property inspection program was developed by the Quality Assurance Department to provide the property General Managers and Corporate with an additional source of information on the condition of their property, the performance of their employees and safety issues affecting both employees and guests. The inspection encompasses property housekeeping and cleanliness, loss prevention and general safety, food safety and quality, as well as monitoring of Responsible Gaming initiatives.

It is the objective of Quality Assurance to assist the General Managers in providing a first class guest experience for every guest that visits a Penn National property and to work to continually improve the guest experience.

It is the intention of the Quality Assurance Department to be supportive, work with each property's management team and be an asset to each property.

Exhibit 4.3-4

References

Reference letters are including for the following entities or individuals:

- *Concord Atlantic Engineers* – Mechanical and Electrical Engineering
- *Cianbro* – General Contractor/Construction Manager
- *Continental Consulting Engineers* – Professional Engineering
- *EC Eiman Consulting* – Design & Construction Consulting
- *Gregory P*. Luth & Associates – Structural Engineers & Builders
- *International Game Technology (IGT)* – *G*aming Equipment Manufacturer
- *Kansas Speedway Development Corporation* – Motorsports
- *Marnell Companies* – Architectural/Design Services, Casino Operations
- *Messer Construction Co.* – Regional Construction Management
- *Thaldon, Boyd Emery Architects* – Architectural Services
- *Trini-Con, Thel & Beck, LLC* – Diversity Consulting
- *Urban Design Group* – Architectural, Interior Design and Master Planning Services
- *W. E. O'Neil Construction Company* - General Contractor/Construction Manager
- *West Virginia Lottery* – State Lottery Agency and Casino Regulator

EXHIBIT 4.3-4
LETTERS OF REFERENCE

REDACTED 24 PAGES

Exhibit 4.3-5
Recent Projects Recap

6/28/2010

Project	Budget	Status
New Projects		
• Hollywood Casino at Penn National - Grantville, PA	$ 318,000,000	Opened February 2008
• Hollywood Slots, Hotel and Raceway - Bangor, ME	$ 139,000,000	Opened July/August 2008
• Hollywood Casino - Lawrenceburg, IN	$ 336,000,000	Opens July 2009
• Hollywood Casino - Perryville, MD	$ 97,500,000	Opens September 2010
• Hollywood Casino at Kansas Motor Speedway, KC, KS	$ 361,000,000	Opens Early 2012
• Hollywood Casino Columbus, Columbus, OH	$ 350,000,000	Opens Late 2012
• Hollywood Casino Toledo, Toledo, OH	$ 250,000,000	Opens Late 2012
	$ 1,851,500,000	
Facilities Master Plan Expansions/Renovations		
• Charles Town Races and Slots - Charles Town, WV		
◦ Buffet Restaurant	$ 9,000,000	Opened May 2006
◦ Parking Garage	$ 33,000,000	Opened July 2006
◦ New Wastewater Treatment Plant	$ 5,000,000	Opened March 2007
◦ Area V Casino Expansion	$ 35,000,000	Opened April 2007
◦ 152 Room On-Site Hotel	$ 21,000,000	Opened September 2008
◦ Table Games Expansion/Renovation	$ 40,000,000	Opens July-December 2010
• Argosy Casino - Riverside, MO		
◦ 258 Room On-Site Hotel	$ 66,000,000	Opened March 2007
• Empress Casino - Joliet, IL		
◦ Casino and Restaurants Renovation/Retheming	$ 90,700,000	Opens September 2009-February 2011
• Hollywood Casino - Grantville, PA		
◦ Restaurants Expansion and Gaming	$ 16,000,000	Opened Aug./Oct./Dec.2008
◦ New Wastewater Treatment Plant	$ 5,000,000	Opened February 2007
◦ Table Games Expansion/Renovation	$ 25,000,000	Opens July 2010
• Other Properties		
◦ Miscellaneous Projects	$ 17,200,000	Various Completion Dates
	$ 362,900,000	
Disaster Recovery		
• Hurricane Katrina Rebuilds		
◦ Boomtown - Biloxi, MS	$ 90,000,000	Opened August 2006
◦ Hollywood - Bay St. Louis, MS	$ 160,000,000	Opened September 2006
	$ 250,000,000	
Total Projects	**$ 2,464,400,000**	

Exhibit 4.4-1

Applicant's direct and ultimate parents.

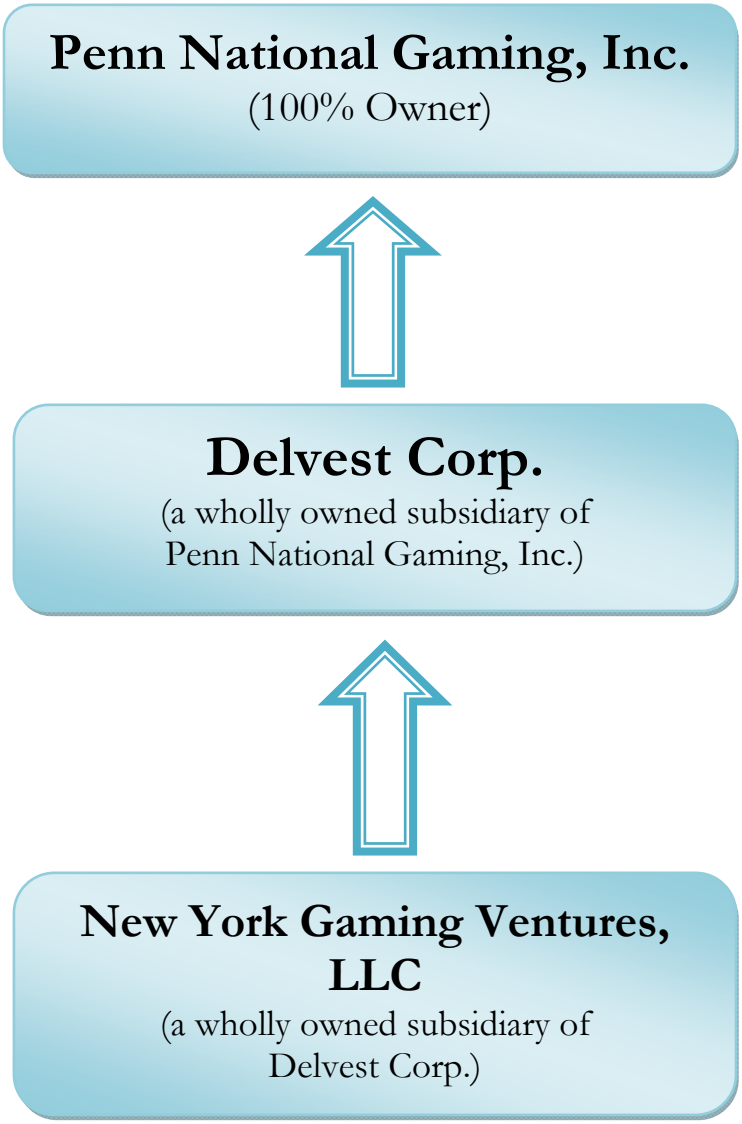


Exhibit 4.4-2

OFFICERS AND DIRECTORS OF ASSOCIATED ENTITIES

Entity	Directors		Executive Officers
New York Gaming Ventures, Inc.	John V. Finamore		John V. Finamore - President
	William J. Clifford		William J. Clifford - Vice President
	Robert Ippolito		Robert Ippolito - Secretary & Treasurer
Delvest Corp	Thomas N. Auriemma		Thomas N. Auriemma – President
	William J. Clifford		William J. Clifford – Vice President
	Robert S, Ippolito		Robert S. Ippolito – Secretary and Treasurer
			Brian T. Harrison – Assistant Treasurer
			Darryl E. Smith – Assistant Secretary
Penn National Gaming Inc	Peter M. Carlino		Peter M. Carlino - Chairman of the Board and Chief Executive Officer
	Harold Cramer		Timothy J. Wilmott - President and Chief Operating Officer
	Wesley R. Edens		William J. Clifford - Sr. Vice President, Finance and Chief Financial Officer
	David A. Handler		Robert S. Ippolito - Vice President, Secretary and Treasurer
	John M. Jacquemin		Jordan B. Savitch – Senior Vice President and General Counsel
	Robert P. Levy		John Finamore - Senior Vice President Regional Operations
	Barbara Z. Shattuck		Thomas Burke - Senior Vice President Regional Operations
			Steven T. Snyder - Senior Vice President Corporate Development

Exhibit 4.4-3
Senior Management Team

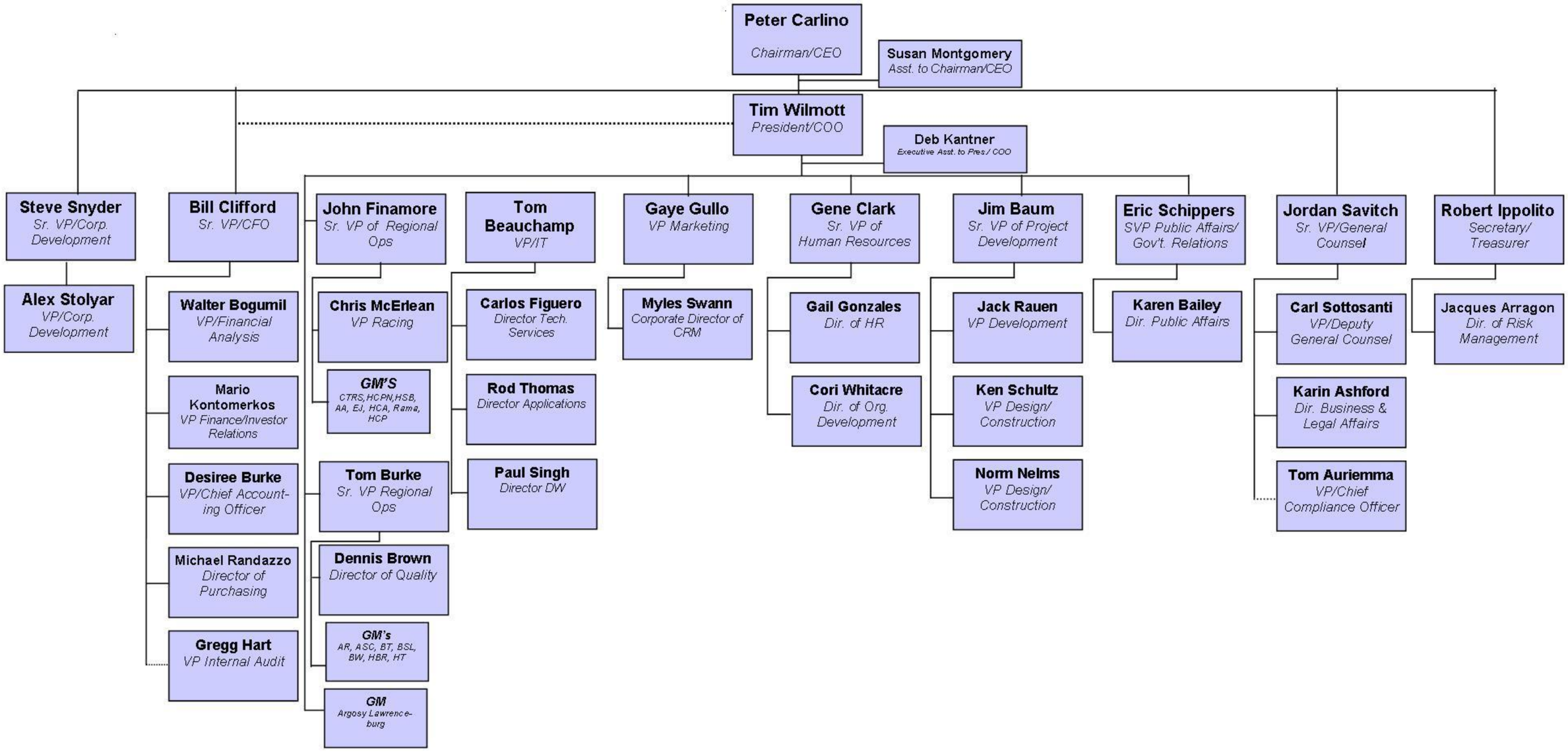


EXHIBIT 4.5-1
DETAILED RENDERINGS AND DESIGN DOCUMENTS

REDACTED 36 PAGES

Exhibit 4.5-2

Project Budget & Chart of Building Statistics

The specific Project Cost Estimate totaling approximately $325 Million and Chart of Building Statistics showing the square footage and other information of the various project elements are attached in **Exhibit 4.5-2**

4.5 CAPITAL PLAN - Specific Cost Estimates

Hollywood Casino at Aqueduct
Date: June 29, 2010

Land	**Leased Premises**
Project Management	
Project Executive, Project Manager	
Purchasing Manager, Reimbursables	**$2,000,000**
Design & Engineering	
Arch/M&E/Struc/Civil/Landscaping/Geotect/Leed AP	$12,500,000
Kitchens / Bars / F&B	$220,000
Security / Surveillance	$80,000
Interior Design	$800,000
Commissioning Agent	$400,000
Expeditor	$100,000
Reimbursable, Add Services & Contingency	$1,500,000
Total Consultants	**$15,600,000**
Permits, Fees & Testing	
Building Permits	$3,000,000
Construction Testing	$350,000
Total Permits Fees & Testing	**$3,350,000**
Construction	
Existing Structure	
Environmental Abatement	$1,000,000
(c) Building Renovations - Grandstand	$116,686,400
Clubhouse - Escalator Replacement (Preliminary Opening)	$1,500,000
Sub-Way Platform Up-Grades (MTA Scope)	$0
Code Upgrades	$1,000,000
Site Paving / Landscaping	$6,000,000
Traffic Upgrades	$1,000,000
New Construction	
(a) Atrium (Entry Lobby)	$15,185,300
(b) Porte Cochere	$2,979,900
Water Features	$1,500,000
(d) Parking Garage	$38,782,800
(e) Covered Walkway (subway) - Elevated	$3,845,400
General Conditions & General Requirements	$15,391,300
CM Fee	$7,058,000
CM Construction Contingency (Incl. Taxes)	$27,896,000
Total Construction	**$239,825,100**
Furniture, Fixtures & Equipment	
Information Technology	$23,417,950
Signage (Interior, Exterior, Slot)	$2,600,000
Back of House Furniture	$500,000
Operations	$2,825,000
Food Service	$5,500,000
VLT's	$0
Audio / Visual	$1,000,000
Front of House F F & E	$3,650,000
Art Work	$250,000
Billboards	$15,000
Freight	$795,159
Total Furniture, Fixtures & Equipment	**$40,553,109**
Financial, Taxes & Legal	
Builders Risk	$737,800
Subguard	$2,499,800
CCIP	$4,940,397
Provision for Taxes (Sales and Use 8.875%) Soft Costs Only	$3,599,088
Legal	$500,000
Total Financial, Insurance & Taxes	**$12,277,085**
Project Sub Total	**$313,605,294**
Capitalized Interest Expense	**$7,111,554**
Contingency	
Vendor Project Contingency (Soft Costs Only)	**$3,962,265**
TOTAL PROJECT COST	**$324,679,113**

Exhibit 4.5-2

CHART OF FACILITY STATISTICS

		Sq. Ft Area	Positions/Seats
* Gaming			
2nd Level Casino		74,401	2,400
3rd Level Casino		64,856	2,100
Gaming Totals		139,257	4,500
* Food and Beverage			
2nd Level			
Epic Buffet		13,905	300
Hollywood on the Roof Entertainment Lounge		2,476	200
Service Bars		3,250	0
Food Court		9,208	200
Sunset Bar		915	45
	SubTotal:	29,754	745
3rd Level			
Downtown & Uptown Bars		3,701	90
Service Bars		3,228	0
Final Cut Steakhouse & Lounge		5,959	165
Skybox Sports Bar w/kitchen		7,687	200
		20,575	455
* Retail, 2nd Level			
Rodeo Drive Retail Outlet		1,104	
*Miscellaneous (Levels 1st, 2nd & 3rd)			
Mech/Elect		2,360	
Toilets		12,180	
Column Enclosures		(6,100)	
Circulation		64,741	
Cage		2,389	
Structural Openings		(5,833)	
	SubTotal:	69,737	
* Back of House Space			
1st Level		41,640	
* Service Areas			
Ground Level		16,500	
*Gross Building Interior			
2nd Floor		139,113	
3rd Floor		125,768	
1st Floor		60,453	
Ground Floor		16,500	
Total Existing Building		341,834	
*Added Area			
Porte Cochere		8,556	6 Lanes
Entry Atrium		14,518	6 Escalators, 3 elevators
Total Added		23,074	
*Parking			
Six Level Garage (5 stories)		695,000	2,000 Spaces
Surface Parking			3,800 Spaces
Total Parking			5,800 Spaces

Exhibit 4.5-3

Detailed Construction Timeline

The attached Gantt chart illustrates the estimated timeline to complete construction of the Hollywood Casino at Aqueduct facility. As requested, the timeline begins once all permits are received. If selected to be the aqueduct VLT facility manager, the Respondent will immediately begin working on obtaining all required permits.

As illustrated on the attached timeline, Penn National Gaming, Inc. is confident that it can get the first 1,000 Aqueduct VLT's opened to the public, in their permanent location, within eight (8) months of receiving final building permits. As also illustrated on the chart, the Respondent expects to be able open an additional 1,100 VLT positions within ten (10) months of permitting and the entire facility including all parking and all facility amenities within thirteen (13) months.

It should be noted that a preliminary opening of greater than 2,100 VLT positions prior to completion of the parking structure and entry lobby is totally infeasible due to the fact that the development cannot provide sufficient dedicated parking for patrons and employees during construction, staging, and 1,800 daily contractor vehicles, plus deliveries of project materials.

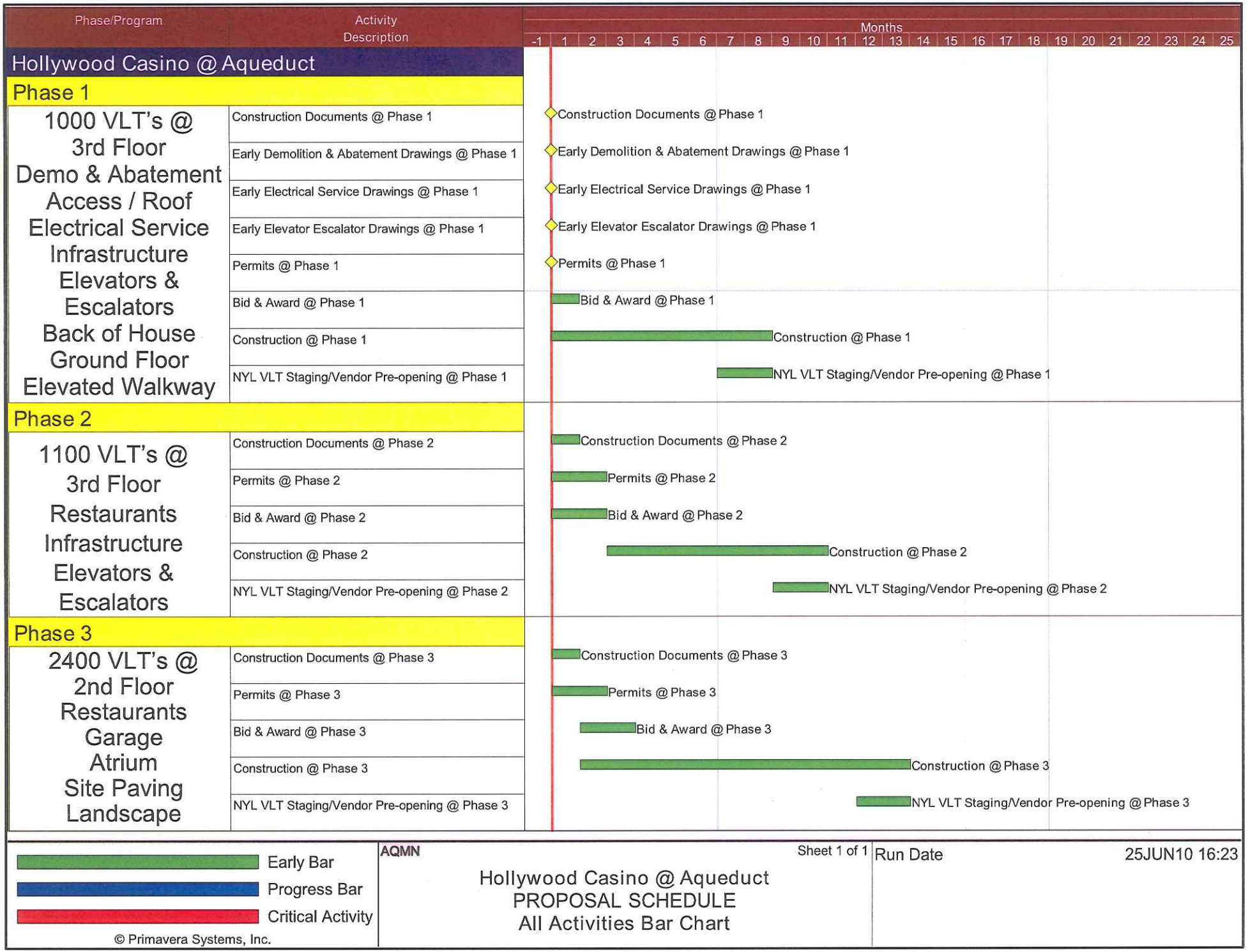

Phase/Program
Activity Description
Months
-1 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25
Hollywood Casino @ Aqueduct
Phase 1
1000 VLT's @ 3rd Floor
Demo & Abatement
Access / Roof
Electrical Service
Infrastructure
Elevators & Escalators
Back of House
Ground Floor
Elevated Walkway
Construction Documents @ Phase 1
Early Demolition & Abatement Drawings @ Phase 1
Early Electrical Service Drawings @ Phase 1
Early Elevator Escalator Drawings @ Phase 1
Permits @ Phase 1
Bid & Award @ Phase 1
Construction @ Phase 1
NYL VLT Staging/Vendor Pre-opening @ Phase 1
Phase 2
1100 VLT's @ 3rd Floor
Restaurants
Infrastructure
Elevators & Escalators
Construction Documents @ Phase 2
Permits @ Phase 2
Bid & Award @ Phase 2
Construction @ Phase 2
NYL VLT Staging/Vendor Pre-opening @ Phase 2
Phase 3
2400 VLT's @ 2nd Floor
Restaurants
Garage
Atrium
Site Paving
Landscape
Construction Documents @ Phase 3
Permits @ Phase 3
Bid & Award @ Phase 3
Construction @ Phase 3
NYL VLT Staging/Vendor Pre-opening @ Phase 3
Early Bar
Progress Bar
Critical Activity
© Primavera Systems, Inc.
AQMN
Sheet 1 of 1
Hollywood Casino @ Aqueduct
PROPOSAL SCHEDULE
All Activities Bar Chart
Run Date
25JUN10 16:23

Exhibit 4.5-4

Anticipated Future Capital Investment

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10[1]
$ 5,357,143	$ 5,464,286	$ 5,573,571	$ 5,685,043	$ 5,798,744	$ 5,914,719	$ 6,033,013	$ 6,153,673	$ 6,276,747	$ 6,402,282

Note: The figures above do not include any capital expenditures for update and replacements of VLT machines which shall be the responsibility of the New York Lottery. Such expenditures are expected to be made yearly and will be substantial.

[1] Capital spending is expected to grow in future years as necessary to keep up with inflation and any necessary updates to the physical plant.

EXHIBIT 4.6-1
PRELIMINARY MARKETING PLAN
HOLLYWOOD CASINO AT AQUEDUCT – JUNE 2010

REDACTED 27 PAGES

Exhibit 4.6-1

PENN NATIONAL GAMING, INC.

Hollywood Casino at Aqueduct

Preliminary Marketing Plan - June 2010

Confidential

AGENDA

- Situation Analysis
- Project Scope
- Market Position
- Hollywood Brand Positioning
- Strategic Plan
- Annual Marketing Budget
- Marketing Objectives
- Target Audience
- Strategic Recommendations
- Measurement

SITUATION ANALYSIS

Penn National Gaming, Inc. (PNG) currently owns and operates nineteen gaming and racing facilities in fifteen jurisdictions, with a focus on slot machine entertainment.

PNG is exploring an opportunity to develop a gaming and entertainment facility at Aqueduct Raceway.

The sample marketing plan outlined in this document provides a road map to promote the New York-based property from pre-opening through grand opening as well as suggested marketing maintenance/support through post-opening year one.

PROJECT SCOPE

The exciting new Hollywood Casino at Aqueduct will feature:

- 183,000 gross square foot gaming floor
- 4,500 Video Lottery Terminals (VLT's)
- 2,000-car structured parking with direct Casino access, plus up to 3,800 surface parking spaces, bus and employee parking
- Covered walkway from MTA's Subway Line A to Casino
- Dining amenities that include the following:
  - 165 seat Final Cut Steakhouse & Lounge
  - 300 seat Epic Buffet
  - 200 seat Skybox Sports Bar and Grill
  - 200 seat Food Court Venue
  - 200 seat Hollywood on the Roof entertainment lounge

MARKET POSITION

Hollywood Casino will be the premier VLT provider in the extensive New York City / Long Island marketplace featuring the **newest product** and offering the **most variety of denominations** all in an electric casino atmosphere that will deliver **A-list, red carpet service** to each and every guest.

With a combined adult population (25+) of 5.7 million people in the Long Island, Queens and Metro Manhattan markets, Hollywood will be the **most convenient** casino to these markets, **servicing a highly diverse group** of customers.

BRAND POSITIONING

Only Hollywood Casino combines the excitement and thrills of a great gaming experience with the glamour of Hollywood imagery, transporting guests to a place beyond the everyday… just like in the movies!

BRAND VALUES

- **Gaming As Entertainment** – Hollywood Casino is *the place* where everyday players go to relax and have fun
- **Something For Everyone** – Hollywood Casino appeals to a diverse audience looking to enjoy all levels of gaming, great dining, live entertainment or simply a night out with friends in an atmosphere where all feel welcome
- **Red Carpet Service** – Hollywood Casino guests deserve the red carpet treatment - and that's what they can expect every time they step into a Hollywood Casino!

MARKETING OBJECTIVES

PRE-OPENING

- Raise awareness, build anticipation and generate interest and excitement for the Hollywood Casino property opening
- Create positive perceptions of Hollywood Casino at Aqueduct

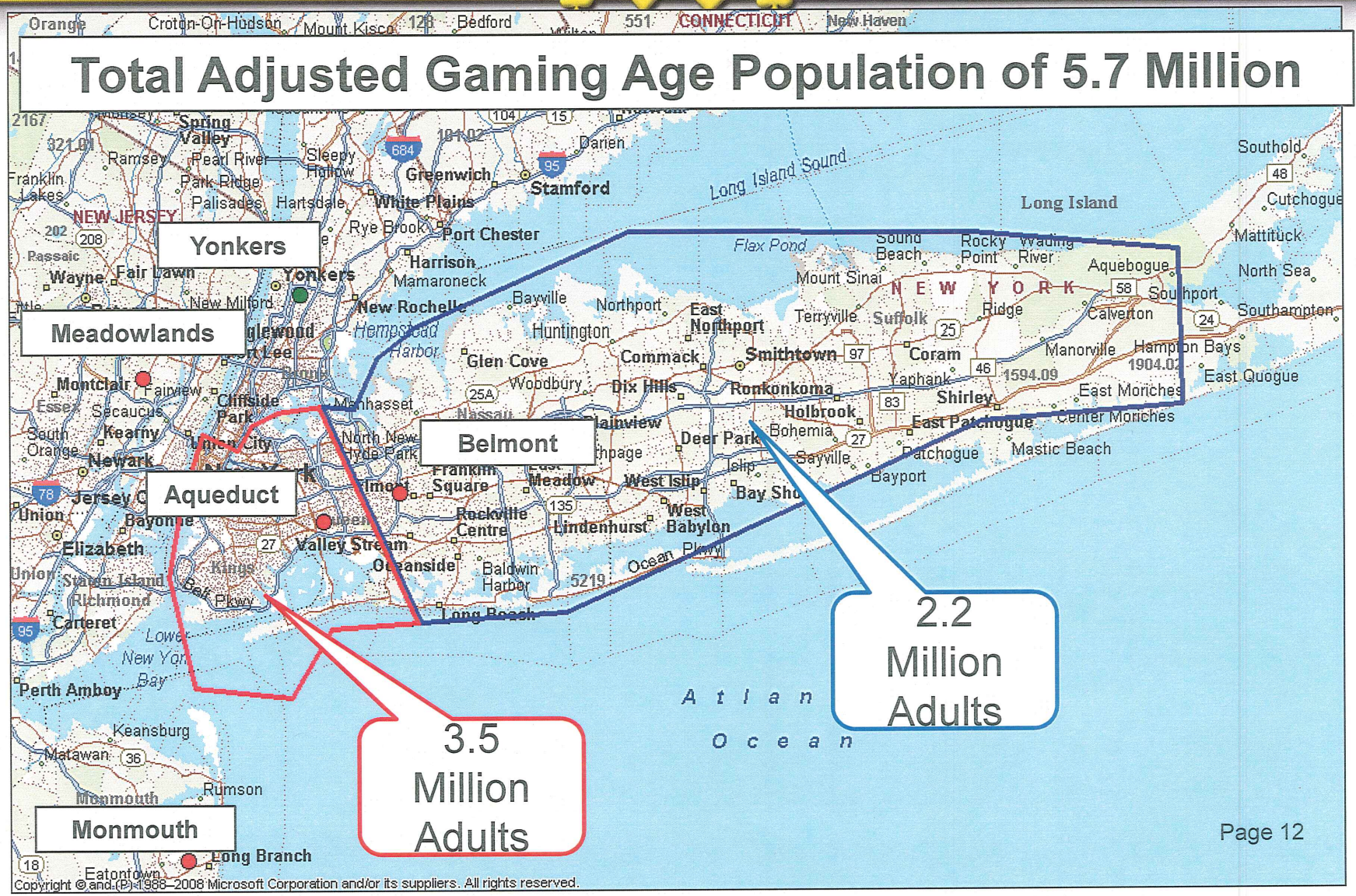
OPENING

- Motivate the target audience, drive initial property visits
- Position new property as a superior gaming entertainment destination – *a must see!*

MAINTENANCE

- Maintain the grand opening excitement and energy by continuing to emphasize property differentiators and consumer focused messaging
- Encourage first time as well as repeat visitation

TARGET AUDIENCE



TARGET AUDIENCE

Total Population

White	2.8M	49%
African-American	1.0M	18%
Hispanic	.97M	17%
Asian	.63M	11%
Other	.3M	5%
Total	**5.7M**	**100%**

Exhibit 4.8-1

PRELIMINARY DIVERSITY PLAN AND EEO POLICY FOR HOLLYWOOD CASINO AT AQUEDUCT

2010

Contents

Introduction

New York Gaming Ventures LLC a wholly-owned subsidiary of Penn National Gaming, Inc., is proud to submit this diversity plan in conjunction with its proposed Hollywood Casino at Aqueduct ("Hollywood Casino"). If Penn is fortunate enough to be selected by the State of New York to develop and operate the VLT facility at Aqueduct Racetrack, it would expect to initiate construction of the new facility as soon as possible after being selected.

From its inception, New York Gaming Ventures LLC and its planned Hollywood Casino are embracing the integral role diversity will play in the development and operation of our new facility. This preliminary Diversity Plan ("Plan") has been prepared to outline the key aspects of our commitment to meet the State's MBE and WBE goals. The guiding principles of the Plan are to ensure equal opportunity and to promote diversity in a manner reflective of the local community.

At this juncture, in light of the fact that the casino is not yet operational, this Plan is largely prospective and based on current assumptions of the casino's future business and workforce. While this Plan refers frequently to "MBE" and "WBE" companies, the inclusive diversity philosophy of Hollywood Casino will be more far reaching than simply the inclusion of minorities and women. Significantly, our philosophy is to also encourage the broader, more inclusive concept of diversity (as defined below), in order to maximize the diversity of our employment base and our suppliers (for instance, inclusion in areas such as other groups within our definition of diversity). This Plan will refer to this broader concept of inclusion by the designation "other diverse groups".

Hollywood Casino will maintain and refine this Plan as we establish a proven track record of equal opportunity in all aspects of our operations. Our initial focus is on construction. Subsequent to construction, as we roll out our operations, we will strive to build and maintain a workforce and purchasing network that truly reflects the diverse elements of our community and surrounding areas. At this early stage, this Plan is tailored to our anticipated workforce and vendor network. As a result, the goals contained in this Plan are a good faith attempt to quantify our efforts to achieve equal opportunity and the promotion of diversity. Our plan and our goals will become more concrete as we further meet with, become more integrated with and better understand the makeup, needs and capabilities of the local communities.

Executive Summary

Purpose:

This Plan describes Hollywood Casino's strong commitment to diversity relative to the construction and operation of the property. The Plan outlines specific procedures aimed at ensuring equal opportunity, as well as diversity in employment, contracting, operations and community relations. The Plan emphasizes our commitment to diversity as it relates to our employees, our vendors, our business partners and our community. In sum, we appreciate and respect diversity in all aspects of our business operations and we look forward to supporting and participating in the local community as we build a regional engine of economic growth.

Reporting Structure:

The General Manager as well as the Director of Human Resources and the Director of Purchasing will be responsible for implementing the Plan. Hollywood Casino plans to work closely with the New York State Chapter of the National Association of Minority Contractors ("NYSAMC") and the New York State Department of Economic Development in the implementation of the Plan.

Strategy:

Our overall strategy will enable Hollywood Casino to develop and implement effective Plan management that will drive achievement of positive business results and meet our twin goals of ensuring equal opportunity and promoting diversity in a manner that reflects and includes the local community. The four focus areas of the Plan are:

- Construction
    - Build relationships within the community to raise awareness and identify qualified contractors and suppliers.
    - Include minority and women business enterprises, as well as other diverse groups, in the initial and post opening construction projects.
    - Recruit and retain minority and women business enterprises, as well as other diverse groups for participation in all phases of the construction projects.
- Vendor Purchasing
    - Build relationships within the community to raise awareness and identify qualified vendors.

  - Ensure that all qualified vendors are given equal access to bid on our business.

- Employment
  - Build relationships within the community to raise awareness and identify potential candidates for employment.
  - Foster an inclusive work environment that results in both personal and business success.
- Community Involvement
  - Support our community and be responsible corporate citizens.

Definitions

Definition of Diversity:

Diversity refers to the variety of backgrounds and characteristics found in society today; thus, it embraces all aspects of human similarities and differences. While we support diversity as an inclusive concept, reality compels us to focus considerable attention to addressing issues related to those individuals and groups that have historically been adversely denied opportunity. As such, diversity specifically refers to differences among people with respect to age, sex, culture, race, ethnicity, religion, color, disability, national origin, ancestry, sexual orientation and veteran status.

Definition of Minority:

For purposes of MBEs and WBEs, a minority is an individual who is a member of the following ethnic racial groups: African American, Asian American, Hispanic American, Native American and females regardless of race or ethnicity.

Definition of Participation Plan:

An obligation imposed by a licensed entity or applicant as part of its contract with a contractor that requires the contractor to perform the contract through the utilization of minority or women owned business enterprises.

Definition of Minority Business Enterprise ("MBE") and Woman Business Enterprise ("WBE"):

Minority and female business enterprises that meet the guidelines set by the State of New York.

Construction

Construction Mission:

Inclusion of minority businesses and other diverse groups on major construction projects in new York is an important issue for the local minority community and for Hollywood Casino. We believe that a proactive approach to addressing minority participation during the planning stages of the initial build out (as well as subsequent construction) will result in both successful inclusion of minority businesses and successful completion of the project.

Good Faith Plan for Minority Construction Participation:

Hollywood Casino plans to contract with a construction manager who has experience with the local community and the ability and willingness to cultivate relationships with minority and other diverse contractors and organizations. The engaged construction manager will utilize specialized staff to maximize the engagement of entities reflecting the diversity of New York's citizenry. Our construction manager will also reach out to those minority organizations we have already identified as leaders in New York and involve them in the planning stages of the minority participation program. This will foster relationships which will ensure the requisite participation and cooperation of MWBE firms for the duration of the construction project.

Areas where these organizations can assist us include:

- Development of minority and diversity participation program
- Development of workforce utilization program
- Solicitation of minority and other diverse contractors and vendors
- Monitoring and reporting of workforce utilization
- Solicitation of minority and other diverse contractors and vendors
- Compliance Reporting

The construction manager will work closely with Hollywood Casino and its diversity consultants on all Participation Plan issues, as careful planning and management will be necessary to build strong business partnerships with the various organizations. For example, the bid packages will be developed with an eye towards creating viable opportunities for minority and other diverse contractors and suppliers.

The first step to building and continuing a positive relationship with the minority community will be to comprehensively identify qualified minority and other diverse contractors and suppliers. Following the identification phase, the bid packages will be developed and distributed in a manner that will maximize inclusion. Finally, the reporting process will be structured to ensure, to the extent possible, that our goals are being met and that the appropriate parties are accountable for those results. Through a Participation Plan and the involvement of some of the above organizations, as well as cooperation from local trade organizations, our construction manager will maximize the diversity participation in the project.

Construction Goal:

Our primary objective is to select contractors and suppliers who have the experience and ability to complete the work within the scheduled timeframe and pricing parameters. Hollywood Casino and our construction manager will work together to identify certified minority, women and diverse contractors who can provide quality services. Additionally, our construction manager will utilize the list of minority and woman business enterprises compiled by the New York Division of Minority and Women Business Development and to identify additional certified MBEs and WBEs. Our primary goal will be to identify and engage MBE, WBE and other diverse candidates to result in construction projects that are staffed in a manner that complies with the stated goal of 25% MBE participation as provided by the State and that (a) maximizes overall MBE/WBE and other diverse participation and (b) is reasonably reflective of and inclusive of the local community.

Vendor Purchasing

Purchasing Mission

Hollywood Casino considers quality, service, and price as the main components of any vendor relationship. Further, as a socially responsible organization, we pledge to partner wherever possible with certified New York minority and woman vendors, as well as other diverse groups, to create a mutually beneficial business climate. Our goal is to ensure that all qualified vendors are given equal access to bid on our business.

Good Faith Plan for Minority Vendor Participation:

In support of our diverse vendor purchasing mission, we plan to:

- Utilize the New York Division of Minority and Women Business Development (NYMWBE) to locate minority and diverse vendors that offer relevant products and services.
- Link our website to the NYMWBE and other minority contracting organizations and association to facilitate awareness and to simplify the application process.
- Create a brief "How To Do Business With Hollywood Casino" point of sale brochure to summarize our diverse vendor purchasing program.
- Participate in events such as seminars, trade shows and training sessions and reverse trade shows sponsored by NYMWBE or private organizations that promote and assist MBE/WBE vendors to expand awareness of our minority vendor purchasing program.
- Attend and support New York and regional minority business fairs organized by the NYMWBE, New York State Chapter of the National Association of Minority Contractors ("NYSAMC") and other similar organizations in the region.
- Periodically review the NYMWBE's list of approved vendors and meet to assure that new vendors will have sufficient access to the Director of Purchasing and the user departments.
- Provide access to the applications and contact information of the NYMWBE to uncertified potential vendors interested in becoming a certified supplier.
- Create a mentoring program that will help new vendors understand the daily workings of the property's operations.
- Require user departments to work with the minority vendor database and reach out to those minority suppliers.

- Establish a quick pay status on invoices after review of the financial status of our diverse vendors.

- Establish a program that will encourage existing minority and other diverse vendors to expand the product lines they sell us.

- Establish casino partnership programs that contact other Penn National Gaming properties and supply a recommended list of minority and other diverse vendors that have the potential to service multiple properties.

Vendor Requirements:

Vendors wishing to do business with Hollywood Casino will be required to complete a vendor registration packet before any contract or purchase orders will be issued. No business will be conducted or counted towards our purchasing procurement goal dollars unless the vendor packet is on file and complete.

Consistent with our compliance program, upon reaching $100,000 in purchases, the vendor will be required to complete a due diligence report to facilitate a background investigation. Irrespective of the amount of business a vendor does with us, all our vendors must be "suitable" as defined by applicable gaming law.

Purchasing Goal:

At this early stage, we have not yet identified our purchasing needs. However, our extensive efforts to identify, train and assist MBE/WBE, as well as other diverse groups of potential vendors should result in a roster of vendors that maximizes diversity and is reasonably reflective of and inclusive of the local community.

Employment

Employment Mission:

Hollywood Casino is committed to recruiting, developing and retaining the best employees regardless of race, color, religion, sex, age, disability, sexual preference or national origin. Moreover, we strive to create a diverse work environment that fully capitalizes on the abilities, skills and potential of our employees.

Our company's goal is to create a workplace where diverse viewpoints among team members are integrated into every part of our work life. We will foster a cooperative work environment in which all associates are treated with respect and dignity and are encouraged to reach their full potential.

Affirmation of Equal Employment Opportunity Policy:

Hollywood Casino affirms its commitment and pledges its full support of equal employment opportunity for all persons, regardless of race, color, religion, sex, disability, national origin or any other protected group status as required by law. Our equal employment opportunity policy is attached as **Appendix A** of this document.

Good Faith Plan For Equal Employment Opportunity:

Hollywood Casino will develop a comprehensive plan covering the recruitment, development and retention of the work force for Hollywood Casino at Aqueduct. The Plan will be reflected in our internal policies, our training and development efforts as well as community partnerships.

- Recruitment

  Hollywood Casino will identify various community groups and organizations in the New York Metropolitan area with which we can partner. Identifying unskilled workers and training partners will be a major focus of our recruitment efforts. This training would prepare individuals for careers in many areas of the operation including culinary arts and food service, maintenance and housekeeping, and front office operations.

  Because this facility will operate in a major urban population center we do not anticipate difficulty in recruiting a diverse workforce, our challenge will be to recruit the best that this woprkforce has to offer.

  Our recruiting efforts will include broad-based and targeted recruiting. Recruiting will involve job fairs, various community partnerships, which will include higher education, Chambers of Commerce, government agencies and targeted recruiting of minorities and other diverse groups in both new and existing gaming markets. Our advertising for open positions will include a broad range of diverse media sources that may include print, radio, internet, billboards other targeted community media and communications sources.

- Training, Development and Retention Efforts

Our education and training efforts will have several areas of focus. Hollywood Casino will open with specific pre-opening training for all employees, consisting of our EEO/recruiting practices, customer service standards, responsible gaming, anti-harassment as well as diversity training designed to foster a welcoming environment for all diverse groups. In addition to this broad, property-wide training, we will provide departmental skill-related training for our new associates. This will allow employees to successfully integrate themselves into their new departments. Building confidence in the ability to competently handle job duties and establishing an internal departmental support system will increase the chances of retaining new employees.

Recruiting and hiring our workforce is only one aspect of our training and development focus. We also plan on providing various mobility programs allowing our employees to grow and advance within the company. A program will be available for line level employees who aspire to management positions. Advanced management skill-related courses will be available for our supervisors and managers who aspire to advance and become more proficient in their current positions. Hollywood Casino is committed to the development of all employees and programs are currently being developed through the succession planning process to ensure that our management teams are focused on development at all levels of the organization.

Employees want to stay with companies that provide development and mobility options. They are loyal to organizations that invest in their careers. We are committed to being that kind of company. We will publish a bi-weekly Human Resources "Hot Sheet" detailing all position openings to our existing management group to give them an opportunity to directly encourage employees identified as "high potential" to explore currently available openings. Additionally, we publish and post all available positions, including those on the Hot Sheet, to give employees the opportunity to apply for advancement opportunities or equal-level positions in other areas thereby allowing them to broaden their skills in other areas. We are committed to making the promotion of our employees a first option for upward mobility.

<u>Employment Goals:</u>

While our employment plans are not yet finalized, Hollywood Casino plans to hire approximately 900 to 1,000 new employees for our opening. We will strive to maintain a workforce that reasonably reflects the diverse elements of our community and surrounding areas.

Community Involvement

As a responsible corporate citizen, Penn National Gaming, Inc. ("Penn National") the parent company of Hollywood Casino is proud to give back to the communities in which we operate. Penn National's 19 facilities in 15 jurisdictions around the country and in Canada support hundreds of worthwhile local charities, civic groups and non-profit organizations. In 2008, Penn National and its properties donated more than $1 million at the local level.

In addition to financial support, our properties open their doors to charitable organizations by hosting fundraisers and donating the use of their facilities for other special events. Our employees are encouraged to get personally active in civic organizations, and, from blood drives to food drives, donate their time and resources to help improve the quality of life for their fellow employees and neighbors.

An example of this can be seen in our response to Hurricane Katrina. In the wake of the storm's devastating impact on our nearly 2,000 Gulf Coast employees at Casino Magic-Bay St. Louis and Boomtown Biloxi, as well as the local community, Penn National's properties around the country rallied together to help us meet the challenge of responding to this crisis.

At Penn National Race Course, many of our employees put in double shifts to keep an Employee Assistance "Hotline" open seven days a week, as many as 18 hours a day. At Casino Rouge in Baton Rouge, Louisiana, our employees organized a clothing and food drive for evacuees from the New Orleans and Gulf Coast areas. They also gave out ice, set up car pooling and offered free buffet meals to all officers in uniform. In Tunica, Mississippi, our employees helped find rooms for those fleeing the Gulf Coast, and helped to organize and provide support for community relief efforts.

Penn National launched a charitable foundation to provide further disaster relief and ongoing charitable outreach in communities in which Penn National operates. Penn National made an initial $1 million donation as seed money, and accepted contributions from all employees companywide.

Our Commitment

Reporting:

We will maintain a comprehensive report of the total number and value of all contracts that contain a participation plan and all subcontracts awarded to MBE/WBE under a participation plan. The report will also include a description of our efforts to monitor and enforce our participation plans.

The report will also detail the total number and value of all contracts issued, directly or indirectly, and provide a detailed report of all efforts made to do business with diverse vendors (successful and unsuccessful).

Additionally, the report will include employment data including the minority and women representation in the workforce in all job classifications, salary information, recruitment and training information, and retention and outreach efforts.

Specific New York Requirements

New York Gaming Ventures, LLC agrees to comply, during the performance of this contract, with the requirements of Appendix A, Clause 12 of the Standard Clauses for NYS as well as with the other requirements of Section 2.9 and Appendix D and E of the *New York Lottery Request for Proposals from Vendors seeking the award of a Video Lottery License to develop and operate a Video Lottery Facility at Aqueduct Racetrack*

Contact Information:

For information relating to this Plan please contact: Carl Sottosanti, Vice President and Deputy General Counsel, Penn National Gaming, Inc.

Preliminary Chronology (a more specific timeline will be developed as project progresses):

- Select construction manager and develop a participation plan
- Expand network of potential community partners for all aspects of diversity plan
- Develop and distribute construction bid packages
- Begin to award work
- Initiate construction
- Develop network of prospective vendors for general purchasing needs

- Finalize human resource recruitment strategies
- Select community partners for all aspects of diversity plan

- Initiate recruitment and training efforts for employees
- Select vendors for general purchasing needs

This timeline is heavily dependent on when all conditions precedent can be satisfied and when we are licensed by the New York Lottery.

Standard Clauses for New York State Contracts (EEO provision)

12. EQUAL EMPLOYMENT OPPORTUNITIES FOR MINORITIES AND WOMEN.
In accordance with Section 312 of the Executive Law, if this contract is: (i) a written agreement or purchase order instrument, providing for a total expenditure in excess of $25,000.00, whereby a contracting agency is committed to expend or does expend funds in return for labor, services, supplies, equipment, materials or any combination of the foregoing, to be performed for, or rendered or furnished to the contracting agency; or (ii) a written agreement in excess of $100,000.00 whereby a contracting agency is committed to expend or does expend funds for the acquisition, construction, demolition, replacement, major repair or renovation of real property and improvements thereon; or (iii) a written agreement in excess of $100,000.00 whereby the owner of a State assisted housing project is committed to expend or does expend funds for the acquisition, construction, demolition, replacement, major repair or renovation of real property and improvements thereon for such project, then:

(a) The Contractor will not discriminate against employees or applicants for employment because of race, creed, color, national origin, sex, age, disability or marital status, and will undertake or continue existing programs of affirmative action to ensure that minority group members and women are afforded equal employment opportunities without discrimination. Affirmative action shall mean recruitment, employment, job assignment, promotion, upgradings, demotion, transfer, layoff, or termination and rates of payor other forms of compensation;

(b) at the request of the contracting agency, the Contractor shall request each employment agency, labor union, or authorized representative of workers with which it has a collective bargaining or other agreement or understanding, to furnish a written statement that such employment agency, labor union or representative will not discriminate on the basis of race, creed, color, national origin, sex, age, disability or marital status and that such union or representative will affirmatively cooperate in the implementation of the contractor's obligations herein; and

(c) the Contractor shall state, in all solicitations or advertisements for employees, that, in the performance of the State contract, all qualified applicants will be afforded equal employment opportunities without discrimination because of race, creed, color, national origin, sex, age, disability or marital status.

Contractor will include the provisions of "a", "b", and "c" above, in every subcontract over $25,000.00 for the construction, demolition, replacement, major repair, renovation, planning or design of real property and improvements thereon (the "Work") except where the Work is for the beneficial use of the Contractor. Section 312 does not apply to: (i) work, goods or services unrelated to this contract; or (ii) employment outside New York State; or (iii) banking services, insurance policies or the sale of securities. The State shall consider compliance by a contractor

or subcontractor with the requirements of any federal law concerning equal employment opportunity which effectuates the purpose of this section. The contracting agency shall determine whether the imposition of the requirements of the provisions hereof duplicate or conflict with any such federal law and if such duplication or conflict exists, the contracting agency shall waive the applicability of Section 312 to the extent of such duplication or conflict. Contractor will comply with all duly promulgated and lawful rules and regulations of the Governor's Office of Minority and Women's Business Development pertaining hereto.

Appendix A

Equal Employment Opportunity

Effective Date: 1/1/1999
Revision Date: 5/1/2006

To give equal employment and advancement opportunities to all employees and applicants, the Company makes employment decisions based on each person's performance, qualifications, and abilities. We do not discriminate in employment opportunities or practices on the basis of race, color, religion, gender, national origin, age, disability, or any other characteristic protected by law.

The Company will make reasonable accommodations for qualified individuals with known disabilities unless making the reasonable accommodation would result in an undue hardship to the property.

This Equal Employment Opportunity policy covers all employment practices, including selection, job assignment, compensation, discipline, separation of employment, and access to benefits and training.

If you have a question about any type of discrimination at work, please promptly notify your immediate supervisor or your Human Resources Department. You will not be punished for asking questions about this. If we determine that anyone was illegally discriminating, that person will be subject to disciplinary action, up to and including separation of employment.

Exhibit 4.10-1

Subcontractors

If applicable, list all subcontractors, including firm name and address, contact person, and a complete description of work to be subcontracted. Include descriptive information relative to the subcontractor's organization and capabilities. If the Vendor does not intend to utilize subcontractors, that should be indicated in the technical Proposal response.

Firm Name, Address and Contact Person		**Description of Work to Be Subcontracted**		**Subcontractors Organization and Capabilities**
Skadden, Arps, Slate, Meagher & Flom LLP Four Times Square New York, NY 10036 Wallace Schwartz 212-735-2842		Will provide general legal services and advice in connection with the RFP process and, if selected, the construction and operation of the VLT facility.		Skadden is an international law firm with a broad-based practice and offices in over 24 cities worldwide employing over 2,000 lawyers. Skadden's clients are a substantial and diverse group, which includes nearly one-half of the *Fortune 500* companies. Wallace Schwartz, the global head of Skadden's Real Estate Group, is active in all aspects of the firm's Real Estate practice, including real estate development, acquisitions, leasing, partnerships and joint ventures, financing, gaming and lodging, real estate funds, and public and private offerings of real estate securities.

Firm Name, Address and Contact Person		Description of Work to Be Subcontracted		Subcontractors Organization and Capabilities
Zarin & Steinmetz 81 Main Street Suite 415 White Plains, NY 10601 Michael Zarin 914-682-7800		Has been engaged as special environmental counsel to provide legal advice in connection with the RFP process and, if selected, the permitting and construction process.		Zarin & Steinmetz is a law firm best known for its specialized land use, real estate and environmental law practice. Michael Zarin, the lead attorney for this matter, has extensive experience representing municipalities and private interests in the areas of environmental and general litigation, land use, urban renewal and public private redevelopment, multi-party environmental litigation, site remediation and all aspects of environmental due diligence, counseling and general administrative law.

Firm Name, Address and Contact Person		Description of Work to Be Subcontracted		Subcontractors Organization and Capabilities
Turner Construction Company 375 Hudson Street 6th Floor New York, NY 10014 Mr. John Thomann Vice President, General Manager 212- 229-6000		Pre-Construction services, including but not limited to facility due diligence, cost estimating, scheduling, sequencing and logistics.		Turner Construction Company was incorporated in the State of New York in 1902 by Henry C. Turner who continued his active direction of the company as President and Chairman of the Board until his retirement in 1946. Turner is currently under the direction of Peter J. Davoren, President and CEO. The firm has shown remarkable growth over the past 108 years. Today, Turner builds some of the most challenging projects in New York City and around the World. Turner operates out of 45 offices nationwide and abroad in 17 countries. Turner Construction delivers relevant, proven expertise across a wide range of markets including: Commercial Interiors, Financial, Retail, Government, Higher Education, Healthcare, Law Offices, Professional Services and Advanced Technology. In addition, Turner's national reach and local presence combines specialists in these markets with talented local organizations in an extensive network, enabling us to build the best teams for each assignment. Unique value-added services in procurement and supply chain management, risk management and facilities management provide additional client benefits. The New York Interiors division of the Turner Construction Company is a leading contractor in the very competitive New York City commercial interior fit out market segment. This division has been headed by John A. Thomann since 2004. Under his direction the 120 individuals working with him have completed many high quality corporate Interior projects. This division completes in excess of $350MM of construction work annually and understand the concept of working within occupied spaces, the breakneck pace and the attention to detail that is required in the corporate world. They also understand and strive to provide a superior level of customer service and

Firm Name, Address and Contact Person		Description of Work to Be Subcontracted		Subcontractors Organization and Capabilities
				the concept of building on your past success. Accomplishing these two seemingly simple concepts has resulted in repeat business for the unit. Some of these clients include JPMorgan Chase, Morgan Stanley, Time Warner, New York University, and the Federal Reserve Bank of New York. The relationship between Turner Construction and our Interiors group is unique since we are able to offer our clients the personal attention offered by many of the smaller Interiors construction firms while still providing the technical expertise, a depth of resources and the financial stability and buying power of a much larger firm. Our senior management is intimately involved in every project we undertake and they are accountable for the success of each. Turner has been involved in the sustainable design and construction community from its onset by promoting and implementing environmentally sensitive design and construction practices in an approach to building, called sustainable construction. Turner is a founding member of the US Green Building Council (USGBC). To date, Turner has in excess of 430 green projects either completed or under contract since 1995. These projects span every building type including Laboratories, Healthcare, Higher Education, K-14 schools, Office, Commercial, Residential, Libraries, Government Facilities, Convention Centers, Recreational, Retail and Transportation. Project size ranges from 1,800 s.f. to 2.5 million s.f. Construction costs range from $132,000 to over $600 million. Our portfolio of LEED Certified projects includes 179 LEED Registered, 37 LEED Certified, 52 LEED Silver, 42 LEED Gold and 11 LEED Platinum projects.

Firm Name, Address and Contact Person		Description of Work to Be Subcontracted		Subcontractors Organization and Capabilities
Paulus, Sokolowski and Sartor, LLC 67A Mountain Blvd. Extension P O Box 4039 Warren, NJ 07059 Michael Cohen 732-560-9700		Architectural and Engineering (A/E) services required for the design and construction of Penn's proposed "Hollywood Casino at Aqueduct." This effort will consist of the development of concept designs, advancing of the documents through schematic and design development phases, and preparation of construction documents. Construction phase A/E services will also be provided, including: review of contractor submittals, response to field questions, periodic site visits/inspections, general coordination, etc. Specific services to be provided by PS&S include: architectural design, civil, structural, geotechnical, mechanical and electrical engineering as well as environmental compliance and permitting services. General project team coordination will also be part of PS&S' project scope.		Paulus, Sokolowski and Sartor, LLC (PS&S) keeps pace in the every-changing Entertainment/Hospitality market by providing cutting-edge design solutions that go beyond the norm. We treat each project individually, staying aesthetically and functionally responsive to client needs and industry demands. PS&S provides total Architectural, Engineering, and Environmental consulting services in-house to a wide range of clients within the Entertainment/Hospitality Market. The firm was established in 1962, is headquartered in Warren, New Jersey, has regional locations in Westbury and Yonkers, NY, Galloway, NJ; Philadelphia, PA; and Puerto Rico, and includes a staff of over 200. PS&S is ranked among the Top National Design Firms by Engineering News Record and is listed in the top 15 engineering firms by Building Design and Construction. PS&S has provided total building and site design and environmental permitting services for a large number of world-class gaming and hotel facilities. In Atlantic City, PS&S has successfully stewarded the most complex and demanding projects from the concept and permitting stage through to design and completion. Beyond Atlantic City, our portfolio stretches far and wide and includes corporate conference centers, resorts and hotels, large retail developments, sports stadiums, and athletic fields. Our extensive experience in the gaming industry gives us the knowledge and understanding to efficiently respond to the complex project needs specific to this market in the fast-pace it demands. We understand the gaming industry.

Firm Name, Address and Contact Person		Description of Work to Be Subcontracted		Subcontractors Organization and Capabilities
Friedmutter Group 4022 Dean Martin Drive Las Vegas, NV 89103 LonnieCumpton 702-736-7477		Architectural and Engineering (A/E) services required for the design and construction of Penn's proposed "Hollywood Casino at Aqueduct." This effort will consist of the development of concept designs, advancing of the documents through schematic and design development phases, and preparation of construction documents. Construction phase A/E services will also be provided, including: review of contractor submittals, response to field questions, periodic site visits/inspections, general coordination, etc.		Friedmutter, is an award winning design, architecture, and master planning firm specializing in large multi-use Hospitality, Casino, Entertainment, Retail and High-Rise Hotel/Condominium projects. Friedmutter Group offers high quality, innovative design solutions to clients all over the world. From core & shell architectural design to interior fit out, our United States offices in Las Vegas, NV, New York, NY, Newport Beach, CA, and our international office in Hong Kong, we are well positioned to meet the needs of our growing client base. The firm specializes in projects of all sizes, with particular emphasis and expertise in local and regional markets and destinations. Friedmutter Group's critical understanding of the many required elements, from site selection and development to operating essentials have proven invaluable to clients in new, as well as existing gaming markets and keep Friedmutter Group at the forefront of innovation, design, and leadership in the casino/hospitality industry.

Firm Name, Address and Contact Person		Description of Work to Be Subcontracted		Subcontractors Organization and Capabilities
Sam Schwartz Engineering 611 Broadway Suite 415 New York, NY 10012 Jee Mee Kim 212-598-9010		On and Off Site Traffic engineering and consulting services, including internal circulation and property ingress/egress and improvements.		Founded in 1995, SSE is an 80-person engineering and transportation planning firm with offices in New York, NY, Newark, NJ, Tampa, FL, Chicago, IL, Philadelphia, PA and Washington, DC. SSE specializes in developing context-sensitive transportation solutions for projects all over the world. SSE identifies transportation and traffic impacts and provides creative, multi-modal solutions that are rooted in technically rigorous analyses and industry-accepted design standards. We strive to balance the needs of and improve the quality of experience of all users, including drivers, pedestrians, transit riders and cyclists. Clients trust SSE to work collaboratively with diverse communities and stakeholders as a problem solver to generate implementable, innovative, and sustainable recommendations. SSE has extensive experience providing traffic engineering and transportation planning services for Casino projects throughout the country. The following are the services that SSE provides: Traffic engineering Transportation planning Transportation demand management Transit planning Access and circulation design Transportation logistics planning Parking analyses Signage/wayfinding Community outreach Agency coordination

Firm Name, Address and Contact Person		Description of Work to Be Subcontracted		Subcontractors Organization and Capabilities
Milrose Consultants, Inc. 498 Seventh Avenue 8th Floor New York, NY 10018 Joe Bastone 212-894-0150		Code compliance and expediting consulting. Code consulting, zoning analysis, filings and approvals.		Milrose Consultants, Inc. was founded in 1988. Milrose began as a two-person firm which represented a mix of smaller architectural and engineering projects. Presently, Milrose employs over 100 people and handles all types of construction projects ranging from interior renovations to out-of-the-ground residential and commercial towers. Our services include code and zoning analysis, new buildings, alterations, permits, violation reports, violation dismissals, letters of completion, certificates of occupancy and certificates of approval. The company focus is to offer leading corporations the ability to secure services on a corporate level similar to their own. Milrose Consultants provides thorough building code consulting and zoning analysis necessary to ensure our clients meet compliance with code requirements. We have an experienced staff of eight Code and Zoning Specialists familiar with the interpretation and application of the International Building Code, the 1938, 1968 and the 2008 NYC Building Codes. Through over 20 years of experience we specialize in navigating the complex municipal filing process to secure approvals for New Buildings and Alterations, Places of Assembly, Certificates of Occupancy in the Northeast Region. This includes Connecticut, New York, New Jersey and Pennsylvania. Our experience allows us to successfully meet target occupancy date for our clients so tenants can move in on time. Metro Date Corp. is a subsidiary of Milrose Consultants. Metro Data offers an electronic documents management facility that allows for the unlimited storage and retrieval of engineering and architectural drawings and supporting documentation, Metro Data also offers reproduction services, file conversion and publishing to any form of media.

Appendix 1

Document Submittal Checklist

Attachment 3

PROPOSAL SUBMITTAL CHECKLIST

Description of Document	Section of RFP	Filing Requirements	Checklist
Signed Technical (Volume 1) and Financial (Volume 2) Proposals	§1.15		☑
Signed: MOU, Assignment and Assumption of the Facilities Ground Lease, Sublease, NYRA Financing Agreement, Grant Disbursement Agreement	§1.1 and §1.2	With Proposal	☑
Video License Applications	§1.3	With Proposal	☑
Procurement Lobbying: Bidder/Offeror Disclosure/Certification Form **(Appendix B)**	§1.9	With Proposal	☑
Non-Collusive Bidding Certificate **(Appendix C)**	§1.13	With Proposal	☑
Freedom of Information Law - Designation of Proprietary Information (Separate document identifying each designation).	§1.14	With Proposal	☑
NYS Vendor Responsibility Questionnaire **(Appendix F)**	§2.5	With Proposal	☑
MacBride Fair Employment Principals (Northern Ireland Stipulation Form) **(Appendix G)**	§2.6	With Proposal	☑
Sales & Use Tax **(Appendix H)** • ST220-CA (submit to Lottery) • ST220-TD (submit to DTF)	§2.7	With Proposal At time of Proposal	☑
Equal Employment Opportunity (EEO) Policy Statement **(Appendix D)** • Staffing Plan (D-2)	§2.9	With Proposal	☑
Minority and Women-Owned Business Enterprise Program • Summary of MBE/WBE Utilization Plan • Experience (meeting or exceeding MWBE goals)	§2.9	With Proposal	☑
Vendor Acknowledgment of Addendum	Attachment 1	With Proposal	☑

NOTE: Vendors should include this completed checklist with their technical Proposals.

Appendix 2

MOU

See attached signed MOU along with signed Addenda

Exhibit A.2 – Signature Version

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING ("**MOU**"), dated for reference purposes as of _____ ___, 2010 (the "**Effective Date**"), is made by and between THE STATE OF NEW YORK ACTING BY AND THROUGH THE GOVERNOR, THE TEMPORARY PRESIDENT OF THE SENATE AND THE SPEAKER OF THE ASSEMBLY (the "**State**"), PURSUANT TO CHAPTER 18 OF THE LAWS OF 2008, AS AMENDED, having an address at c/o Executive Chamber, The Capitol, Albany, New York 12224, and _____, having an address at _____ ("**Vendor**"). (Individually, each of State and Vendor is referred to herein as a "**Party**"; collectively, State and Vendor are referred to herein as the "**Parties**").

RECITALS

WHEREAS, State has determined that it is in the public interest that a state-of-the-art video lottery facility (the "**Video Lottery Facility**"), including a parking facility structure (the "**Parking Facility**"), be developed and operated at the site of certain real property and improvements commonly known as Aqueduct Racetrack in the Borough of Queens, City of New York, State of New York, which racetrack is described with particularity in MOU Exhibit A attached hereto ("**Aqueduct**"), consistent with certain legislation enacted by the State as Chapter 18 of the Laws of 2008, as amended by legislation enacted as Chapter 140 of the Laws of 2008 (the "**Chapter Amendment**"), and as it may be further amended from time to time (the "**Legislation**"); and

WHEREAS, Aqueduct comprises both land (the "**Aqueduct Lands**") and the improvements now or hereafter located thereon including the clubhouse ("the "**Clubhouse**") and the grandstand (the "**Grandstand**") as they now exist or may be altered (the "**Aqueduct Improvements**"); and

WHEREAS, on September 12, 2008, The New York Racing Association Inc. ("**Old NYRA**"), irrevocably relinquished and conveyed all of Old NYRA's right, title and interest in Aqueduct to State, pursuant to (i) the Legislation; (ii) a certain plan of reorganization pursuant to a certain voluntary petition filed by Old NYRA on November 2, 2006 under Chapter 11 of United States Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York (the "**Bankruptcy Court**"), as confirmed by an order, dated April 28, 2008, of the Bankruptcy Court, which plan became effective on said date; and (iii) a certain State Settlement Agreement made by and among The New York Racing Association, Inc. ("**NYRA**"), Old NYRA, the State, the New York State Franchise Oversight Board and the New York State Division of the Lottery (the "**Division of the Lottery**"), dated as of said date; and

WHEREAS, contemporaneously with the conveyance of Aqueduct by Old NYRA to State, State leased portions of Aqueduct to NYRA pursuant to a certain Facilities Ground Lease Agreement (the "**Facilities Ground Lease**") and a Ground Lease

Agreement, each dated September 12, 2008, which portions comprise all of Aqueduct; and

WHEREAS, State, NYRA and Vendor intend that: (i) NYRA will assign its interest as lessee in the Facilities Ground Lease to Vendor, pursuant to a certain Assignment and Assumption of Facilities Ground Lease between NYRA, as assignor, and Vendor, as assignee (the **"Assignment and Assumption of Facilities Ground Lease"** attached as RFP Exhibit B), such assignment to be approved in accordance with the State Finance Law; and (ii) Vendor, as sublessor, and NYRA, as sublessee, will enter into that certain Sublease Agreement (the "**Sublease**" attached as RFP Exhibit C) for a portion of the Aqueduct Lands and the Aqueduct Improvements leased under the Facilities Ground Lease, which are to be occupied by NYRA and will not contain any portion of the Video Lottery Facility or any area for other future development as described in Exhibit B of the Sublease (the "**NYRA Premises**"); and

WHEREAS, State has consulted with NYRA with respect to the development of the Video Lottery Facility and Parking Facility on the Aqueduct Lands; and

WHEREAS, pursuant to the Legislation, (i) State has appropriated to ESDC the sum of $250,000,000 for services and expenses related to funding the design, acquisition, construction and equipment of such structures and facilities as may be necessary to properly house video lottery gaming at Aqueduct and the New York State Urban Development Corporation d/b/a Empire State Development Corporation ("**ESDC**") is also authorized to issue bonds or notes to pay such amounts and to finance one or more debt service reserve funds or to pay costs of issuance of bonds or notes; and

WHEREAS, State, or ESDC acting on behalf of State, intends to utilize such funds to make a grant (the "**Capital Construction Grant**") in aggregate not to exceed Two Hundred Fifty Million Dollars ($250,000,000) for eligible capital construction costs of the Video Lottery Facility pursuant to a **"Capital Construction Grant Funding Agreement"** or **"Grant Disbursement Agreement"** attached as MOU Exhibit C; and

WHEREAS, State has appropriated up to Twenty-Five Million Dollars ($25,000,000) for a loan by ESDC to NYRA pursuant to an **"ESDC Loan Agreement and Note"** attached as RFP Exhibit I, which will be assigned by ESDC to Vendor upon (i) Vendor's reimbursement to ESDC of the loan amount(s) disbursed to NYRA by ESDC and (ii) Vendor's agreement to a **"NYRA Financing Agreement"** attached as RFP Exhibit J; and

WHEREAS, the Division of the Lottery issued a Request for Proposals on May 11, 2010, soliciting proposals from experienced vendors seeking award of a Video Lottery License to develop and operate a Video Lottery Facility at Aqueduct Racetrack, and clarified the requirements of the Request for Proposals with (a) Questions and Answers dated May 25, 2010, June 11, 2010, and June 22, 2010, and (b) amendment(s) dated June 22, 2010, (collectively, the "RFP"); and

WHEREAS, Vendor submitted a Proposal dated June 29, 2010 (the "Proposal"), which received the highest score among competing proposals by the State's evaluation team; and

WHEREAS, video lottery gaming at Aqueduct is subject to Article 1, section 9 of the New York State Constitution, Article 34 of the Tax Law (the "New York State Lottery for Education Law"), and the rules and regulations, bulletins, and instructions of the Division of the Lottery, including rules and regulations governing the grant of video lottery agent licenses.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Parties agree as follows:

ARTICLE 1

PROJECT COMPONENTS

The activities to be conducted under this MOU, the RFP, and the Proposal are referred to collectively herein as the "**Project.**" The RFP and the Proposal are hereby incorporated into this MOU with the same force and effect as if they were fully set forth herein. It is the intention of the Parties that the Project be developed as follows:

1.1 The Video Lottery Facility shall be developed and operated in accordance with this MOU, the Division of the Lottery's regulations, bulletins and instructions and all applicable laws.

1.2 State shall at all times own the Video Lottery Facility, Parking Facility, and any other improvements constructed or operated by Vendor at Aqueduct. State shall retain ownership of the Aqueduct Lands and all property and improvements located thereon, subject only to use and occupancy rights granted by State and consistent with all applicable laws.

1.3 Design, Construction and Operation of the Video Lottery Facility

1.3.1 Vendor shall, at Vendor's sole cost and expense, design, obtain any necessary financing in excess of the Capital Construction Grant, as provided in this MOU, for and construct, complete and furnish the Video Lottery Facility, as described in the RFP and the Proposal, that will house, among other things, at least 4,500 Video Lottery Terminals (the "**VLTs**"), which, together with related development, shall comprise (a) a newly constructed entry lobby, along with a porte cochere (the "**Construction Premises**"); (b) renovated premises within the Clubhouse and Grandstand including interconnections with the premises to be occupied by NYRA (the "**Renovation Premises**"); (c) the Parking Facility, containing not less than 2,000 parking spaces; and (d) such other improvements as are required by SEQRA (as hereinafter defined) review including site work (including entrances to Aqueduct, parking lot repaving and restriping, lane widening, landscaping, tree planting and a covered elevated pedestrian walkway

connection to the subway station adjacent to Aqueduct). Subject to the approval of the Division of the Lottery and compliance with applicable building and safety codes, the Video Lottery Facility shall be constructed, completed and furnished in a manner comparable to or exceeding the architecture, construction quality and level of finishes in the existing video lottery facilities located at Empire City Casino at Yonkers Raceway in Yonkers, New York ("**Empire City**") and Saratoga Gaming and Raceway in Saratoga Springs, New York ("**Saratoga**"). In connection with the construction of the Video Lottery Facility, Vendor shall have the right to perform work in other portions of the Aqueduct Lands, including in portions of the NYRA Premises, for the installation of additional infrastructure to support the Video Lottery Facility, including, without limitation, HVAC equipment in the Clubhouse. The Vendor shall be permitted to operate, maintain, repair and replace such infrastructure. The Division of the Lottery shall approve plans for gaming floor layouts, office space for Division of the Lottery staff members, work and storage space for VLT suppliers, office space for the staff of the video lottery central computer system provider, space for the data center for the video lottery central computer system, space and locations of the cage, count room(s) and armored car bay, and space for security and surveillance equipment and operations. Subject to the approval of the Division of the Lottery, design procedures and specifications shall be in accordance with the RFP and the Proposal (the "**Design Procedures**"). The Video Lottery Facility shall comprise interior space specifically designated and dedicated to house 4,500 VLTs (or such greater number of VLTs as may be approved by the Division of the Lottery) and must also include interior spaces within the Renovation Premises for immediately ancillary or complementary activities such as are commonly located in comparable facilities such as food and beverage services and retail uses. With the approval of the Division of the Lottery, the Video Lottery Facility may be opened in phases beginning with a Preliminary Phase comprising a portion of the final gaming floor including less than 4,500 VLTs (the "**Preliminary Phase**" or "**Preliminary Facilities**"). The activities described in this subsection shall collectively be referred to herein as the "**Video Lottery Project**." The Division of the Lottery shall have the authority to specify the priorities for development of the phases and components of the Video Lottery Project.

1.3.2 The control and disbursement of the Capital Construction Grant shall be consistent with applicable provisions of Chapter 90 of the Laws of 2010 and in accordance with the provisions of a funding agreement between ESDC and Vendor, to be implemented as set forth in MOU Exhibit C attached hereto, (the "**Capital Construction Grant Funding Agreement**" or "**Grant Disbursement Agreement**"). The disbursement of the Capital Construction Grant shall be made in a prompt and timely manner in order to directly pay the eligible capital construction costs associated with the construction of the Video Lottery Facility to the extent of the Capital Construction Grant. To the extent that costs of the construction of the Video Lottery Facility are projected to exceed or do exceed the Capital Construction Grant amount, Vendor shall provide the State and ESDC with assurances satisfactory to the State and ESDC of the sources and availability of any required additional funding. In such an event, disbursement of the Capital Construction Grant shall be coordinated with the Vendor's other sources of funding in a manner as may be set forth in the Capital Construction Grant Funding Agreement.

1.3.3 The duties and obligations of the Parties with respect to the Video Lottery Project are further described in **Article 10** of this MOU (the "**Video Lottery Facility Development**").

1.3.4 As soon as the Video Lottery Facility shall have been completed and the VLTs installed therein, Vendor shall either operate the Video Lottery Facility or cause the Video Lottery Facility to be operated in accordance with the requirements of the Division of the Lottery.

1.3.5 Vendor, directly or indirectly, as the licensed Aqueduct video lottery agent, shall have sole control over the operation of the Parking Facility (which shall be available only to patrons of the Video Lottery Facility and horse racing on the Aqueduct Lands) and shall be free to set pricing for use of the Parking Facility, including providing discounts to customers of the Video Lottery Facility.

ARTICLE 2

OPERATION

2.1 The Vendor agrees to comply with all licensing requirements of the Division of the Lottery.

2.2 Vendor shall at all times include an entity satisfactory to the Division of the Lottery with significant experience in the development and operation of a large-scale gaming facility comparable to the Video Lottery Facility.

2.3 Vendor shall, at Vendor's sole cost and expense, operate the Video Lottery Facility in a manner comparable to or exceeding operations located at Empire City Casino at Yonkers Raceway in Yonkers, New York ("**Empire City**") and Saratoga Gaming and Raceway in Saratoga Springs, New York ("**Saratoga**"), as of the Effective Date, acquire and maintain all required security and surveillance equipment, maintain the Video Lottery Facility and the exterior surfaces of the VLTs in a clean and attractive manner, and market the Video Lottery Facility so as to maximize the number of visitors and amount of revenues. The Division of the Lottery shall maintain and operate the VLTs, bases, chairs, signage, and the video lottery central system that controls the VLTs, either directly or through contractors selected by the Division of the Lottery, so that they are operational at all times approved by the Division of the Lottery in accordance with the provisions of the New York State Lottery for Education Law.

2.3.1 Vendor may install a proprietary player-tracker system and Vendor shall have full ownership of any data produced therefrom; provided, the Division of the Lottery shall have the right to unfettered access and use of such data while maintaining the confidentiality thereof subject to the provisions of the Freedom of Information Law and the Personal Privacy Protection Law.

2.4 Vendor shall ensure that (a) the Video Lottery Facility is maintained at all times in good condition and repair, in accordance with the standard set forth in Section 2.3 and the requirements of the Division of the Lottery, (b) to the extent applicable, the Video Lottery Facility is fully tenanted, and (c) any occupants thereof comply at all times with the provisions of their subleases or occupancy agreements.

2.5 The hours of operation of the Video Lottery Facility shall be in accordance with all applicable laws, including without limitation the Legislation and any applicable rules and regulations of the Division of the Lottery.

2.6 During the term of this MOU, Vendor shall have the right, subject to the approval of the Division of the Lottery and compliance with applicable building and safety codes, to design, construct and operate, and from time to time alter or modify, at its sole expense, such restaurants, bars, conference centers, meeting rooms, retail sales areas, entertainment venues, and other food service and hospitality facilities within the Renovation Premises as are consistent with other large-scale gaming facilities (collectively, the "**Hospitality Facilities**"). Vendor shall not be required to pay any additional consideration to State for the development and operation of the Hospitality Facilities beyond that provided in **Article 5** of this MOU.

ARTICLE 3

MARKETING

3.1 Vendor shall make best efforts to market and promote the Video Lottery Facility subject to the approval of the Division of the Lottery and in accordance with all applicable laws and consistent with the customary manner of marketing comparable operations in the industry and so as to attract the maximum number of visitors to the Video Lottery Facility.

3.2 Use of Gaming Brand and Customer Service Programs: Vendor shall use Vendor's gaming brand, as described in the Proposal, in all marketing and promotion of the Video Lottery Facility undertaken by Vendor. At no time shall there be a licensing fee charged for use of Vendor's gaming brand or proprietary customer service programs and standards in conjunction with the Video Lottery Facility. Vendor shall allow State, without royalty or other charge of any kind, to use Vendor's gaming brand in all marketing and promotion of the Video Lottery Facility undertaken by State and State shall be deemed to have been granted a license from Vendor for such use of Vendor's gaming brand. Vendor shall have the right, at no cost to Vendor, to use "Aqueduct," "Aqueduct Racetrack" and similar terms in its marketing and promotion of the Video Lottery Facility.

3.3 Non-Compete Covenant: Vendor and its member companies and affiliates shall not operate, advise, invest in, or otherwise facilitate gaming operations within a fifty (50) mile radius of Aqueduct without the written consent of State; provided, however,

that Vendor shall have the right to participate in any future request for proposals or other processes undertaken by State in connection with gaming operations. Vendor shall not utilize the Video Lottery Facility in any way to attract patrons to other gaming facilities that are not New York video lottery facilities, whether through transportation arrangements, discount programs, or other services or attractions. Without limiting the generality of the foregoing, in order to prevent the diversion of Video Lottery Facility patrons to other gaming venues, Vendor is prohibited from use of the Video Lottery Facility gaming customer database for any purpose other than the advertisement, marketing and promotion of Video Lottery gaming at Aqueduct or other New York video lottery facilities. Furthermore, Vendor and its member companies and affiliates shall not advertise, market or promote any non-New York Lottery gaming venue in the New York City metropolitan area without the approval of the Division of the Lottery.

ARTICLE 4

TERM

4.1 Initial Term: The term of this MOU and related development shall commence on the date on which all approvals necessary for the effectiveness of this MOU shall have been received and a fully executed copy of this MOU shall have been approved and filed in the Office of the State Comptroller pursuant to Section 112 of the State Finance Law ("**MOU Effective Date**") and, unless earlier terminated pursuant to the provisions hereof, shall terminate on a date that is thirty (30) years following substantial completion of the Video Lottery Facility, which shall be evidenced by issuance by the New York State Office of General Services of a temporary certificate of occupancy for the entire Video Lottery Facility (the "**Initial Term**").

4.2 Extension Term: So long as Vendor is not in default under any of the provisions of this MOU and subject to approval of the Division of the Lottery, which shall not be unreasonably withheld, State hereby agrees that Vendor may exercise one (1) option to extend the Initial Term by an additional ten (10) years in consideration for the payment by Vendor of a supplemental Licensing Fee to State on or before the date such additional ten-year term commences. The supplemental Licensing Fee shall be an amount equal to one-third of the 5-year average of annual Aid to Education produced by the Aqueduct Video Lottery Facility during the last five (5) years of the initial 30-year term of this MOU. Such extension term, if applicable, shall be subject to the same provisions as the Initial Term, except that Vendor shall continue to make capital expenditures to upgrade and maintain the Aqueduct Video Lottery Facility during the extension term according to a supplemental capital plan approved by the Division of the Lottery and except that Vendor shall have no further extension right.

ARTICLE 5

CONSIDERATION

5.1 State Expenses Fund: Separate and apart from the Entry Fee and the Upfront Licensing Fee, upon execution by the Parties of this MOU, Vendor shall deposit with the State the amount of One Million Dollars ($1,000,000) as an initial deposit into a replenishable expense fund (the "**State Expenses Fund**") to be used and drawn by State or ESDC to cover all costs and expenses incurred by State and ESDC in connection with transactions and activities contemplated in this MOU incurred after March 9, 2010 including, without limitation, (i) fees and disbursements of outside counsel, engineers, appraisers, consultants, financial and real estate advisors retained by State or ESDC, (ii) costs for dedicated State and ESDC staff engaged in such transactions and activities, and (iii) the costs of design review, construction oversight and inspection (collectively, the "**State Expenses**"), all of which shall be paid from the State Expenses Fund. State and ESDC shall have the right to withdraw such amounts from time to time from the State Expenses Fund as are necessary to reimburse State and ESDC for the State Expenses. State shall notify Vendor periodically of amounts drawn by State and ESDC from the State Expenses Fund, itemizing the purposes for which the funds were drawn. At State's or ESDC's request, Vendor shall replenish the State Expenses Fund within thirty (30) days to an amount designated by State or ESDC; provided however, that in no event shall Vendor be required to pay more than the aggregate sum of Three Million Dollars ($3,000,000) to the State Expenses Fund.

5.2 Licensing Fee: As and for consideration to State for being selected by State as the Aqueduct Video Lottery agent for development of the Video Lottery Facility, Vendor shall pay to State an upfront licensing fee as specified in the Proposal (the "**Licensing Fee**"), which Vendor shall pay to the State within ten (10) business days after the State delivers to the Vendor this MOU signed by the Governor, the Temporary President of the Senate, and the Speaker of the Assembly.

5.3 Capital Construction Grant: In accordance with applicable provisions of Chapter 90 of the Laws of 2010, the ESDC Loan Agreement (RFP Exhibit I), the NYRA Financing Agreement (RFP Exhibit J) and the Legislation, State shall provide for ESDC to fund the Capital Construction Grant in the sum of Two Hundred Fifty Million Dollars ($250,000,000), all of which shall be available to be applied by Vendor to pay eligible capital construction costs associated with the construction of the Video Lottery Facility, as provided in the Legislation (including, without limitation, reimbursement of amounts advanced by Vendor with respect to the construction of the Video Lottery Facility). The Capital Construction Grant shall be disbursed to Vendor as eligible capital construction costs of the construction of the Video Lottery Facility are incurred by Vendor and such disbursement shall at all times be subject to the procedures as set forth in the Capital Construction Grant Funding Agreement (MOU Exhibit C, "**Grant Disbursement Agreement**") . To the extent that any bonds or notes may be issued by State or ESDC in connection with the Video Lottery Project, as authorized by Chapter 90 of the Laws of

2010 and the Legislation, State or ESDC shall be responsible for all debt service on the bonds.

5.4 Additional Construction Costs: Vendor shall pay all costs of the Video Lottery Project including any such costs that exceed the net proceeds of the Capital Construction Grant. Vendor shall provide State with assurances satisfactory to State of the sources and availability of any required additional funding. Based on its anticipation of the costs of developing the Video Lottery Project, Vendor hereby certifies to State that it is prepared to expend or finance the amount specified in the Proposal in hard and soft construction costs in addition to the Capital Construction Grant. Without limiting the generality of the foregoing sentence, no portion of the Capital Construction Grant shall be used to pay such debt service or to pay for any costs or expenses associated with the issuance or sale of such bonds or notes.

5.5 Vendor Fee and Vendor's Marketing Allowance: During the term of this MOU, Vendor shall receive from State, through the Division of the Lottery, a percentage of the net total revenue wagered at the Video Lottery Facility after payout of prizes, in accordance with Tax Law Section 1612 (the "**Video Lottery Revenues**").

5.6 Payments to NYRA: Vendor shall make payments to NYRA as required by the NYRA Financing Agreement (RFP Exhibit J).

5.7 Operating Payments: Commencing on the date that Vendor commences operations of the Preliminary Phase and continuing throughout the term of this MOU, Vendor shall make and State shall be entitled to receive payments in accordance with the requirements of the Legislation.

ARTICLE 6

CONDITION OF PREMISES

6.1 The Aqueduct Lands shall be provided to Vendor and Vendor shall accept the same in their as-is, where-is condition subject to (a) any encumbrances of record; (b) any violations of record imposed by any governmental authority, other than any such violations as of the date of transfer that are dangerous or hazardous to the health and safety of occupants of the Video Lottery Facility, or the public, which shall be the responsibility of State; and (c) any pre-existing environmental conditions, which pre-existing environmental conditions shall be the responsibility of Vendor up to a limit of One Million Dollars ($1,000,000), and which pre-existing environmental conditions shall be the responsibility of State to the extent such conditions result in costs exceeding One Million Dollars ($1,000,000). Such State-borne costs shall not be paid with any of the monies constituting part of the Capital Construction Grant or the State Expenses Fund.

6.2 Vendor, at its sole cost and expense, shall cure and remove all violations at the Video Lottery Facility that are the responsibility of Vendor under Section 6.1 or

arising or occurring after the MOU Effective Date including any that are dangerous or hazardous to the health and safety of occupants of the Video Lottery Facility or to the public. In connection with any such environmental conditions, Vendor shall contact the New York State Department of Environmental Conservation (currently to be contacted to file a complaint at http://www.dec.ny.gov/regulations/393.html), shall comply with all applicable laws and regulations and shall pay all penalties arising out of any and all of such violations. Thereafter, Vendor shall promptly cure and remove all other violation conditions (other than violation conditions that will be eliminated by the construction of the Video Lottery Facility).

ARTICLE 7

NO CONDITIONS PRECEDENT

7.1 There shall be no conditions precedent with respect to payment of the upfront Licensing Fee, which shall be due and payable no later than ten (10) business days after the State delivers to the Vendor this MOU signed by the Governor, the Temporary President of the Senate, and the Speaker of the Assembly as more fully described in Section 5.2 of this MOU.

ARTICLE 8

VENDOR'S DUE DILIGENCE

Following the signing and delivery of this MOU, the following shall occur:

8.1 State shall provide to Vendor reasonable access to the Video Lottery Facility, and all information and documents with respect to the Video Lottery Facility, for the making, at Vendor's sole cost and expense, of invasive and non-invasive physical due diligence examinations, reviews, surveys, investigations and assessments, including, without limitation, engineering studies, environmental assessments and other investigations, that Vendor deems necessary or beneficial in connection with the development of the Video Lottery Facility and the SEQRA process. Vendor agrees that State shall arrange for the SEQRA review of the Video Lottery Project at Vendor's cost and expense and that the State shall confirm that the environmental reports identified in MOU Schedule B (collectively, the "**Existing Environmental Reports**") are available to Vendor. Vendor acknowledges that Vendor has had the opportunity to review the Existing Environmental Reports prior to submission to State of Vendor's proposal for the Video Lottery Project, and further acknowledges that such review of the Existing Environmental Reports satisfies the obligation of State set forth in this Section 8.1 to provide Vendor information on the physical condition of the Video Lottery Facility in connection with the SEQRA process.

8.2 Vendor shall submit to the Division of the Lottery, for its review and approval, pre-schematic design documents, schematic design documents, design development documents and the building department filing and construction documents for the Video Lottery Project, each of which shall be subject to review and approval by State in its sole and absolute discretion. Vendor shall also submit to the Division of the Lottery any revised plans and specifications or other material changes for the Video Lottery Project for review and approval by State solely as to compliance with this MOU and SEQRA. Such plans shall not contemplate increasing the gross bulk of the building comprising the Clubhouse and Grandstand by more than 30,000 square feet or increasing the height of the Video Lottery Facility. Any new rooftop additions constructed by Vendor on the Clubhouse and Grandstand, including mechanical space and equipment, shall also be subject to Division of the Lottery review and approval in the Division of the Lottery's sole discretion. All aspects of the Video Lottery Project shall comply with the Legislation. Notwithstanding anything to the contrary set forth in this MOU, Vendor shall have the exclusive right to determine the scope of work, the level of finish, and the extent of the investment to be made by Vendor in constructing and furnishing the Video Lottery Facility, provided that all such work, finish, investments and improvements shall, at all times, comply with the requirements set forth in Section 1.3.1 and the Design Procedures. The approvals by the Division of the Lottery of Vendor's design documents, plans and specifications described in this Section 8.2 shall not be unreasonably withheld or delayed. Approval of a submission shall be deemed given if the Division of the Lottery does not respond (including by request for clarification or additional information) to such submission within thirty (30) days from receipt by the Division of the Lottery of the submission of the request for approval.

ARTICLE 9

VIDEO LOTTERY FACILITY

9.1 Prohibited Uses: The Video Lottery Facility and the Video Lottery Project shall not be used for any unlawful, illegal or hazardous uses or uses in any manner that constitute a nuisance or for any purpose or use that violates the certificate of occupancy or, in the reasonable judgment of the Division of the Lottery, detracts from or degrades Aqueduct, or that renders void or voidable any insurance then in force and required by the Division of the Lottery's regulations. Examples of such prohibited uses include: sale or display of pornographic, obscene, graphically violent or immoral items or services, adult entertainment establishments, and liquor store(s) selling alcoholic beverages for off-premises consumption.

9.2 Assignment: Except as set forth in Section 9.3, this MOU may not be assigned by Vendor in whole or in part, nor may control of Vendor be transferred or encumbered, without the prior written consent of the Division of the Lottery, the giving of which consent shall be in the Division of the Lottery's sole discretion.

9.3 Financing:

9.3.1 Vendor shall provide its financing plan, sources of funds, and uses of such funds ("**Vendor Financing Plan**") in sufficient detail and with sufficient documentation from financing sources to demonstrate Vendor's ability to meet the financial commitments and development commitments described in this MOU, and in particular, its secured financing to make its full Licensing Fee payment as required in Section 5.2 hereof. Such Vendor Financing Plan is set forth in Vendor's Proposal.

9.3.2 In no event shall Vendor's Proposal be subject to Vendor's ability to obtain financing as proposed in Vendor Financing Plan, and notably, there shall be no conditions precedent to the full and timely payment of the Licensing Fee other than the execution and delivery of this MOU.

9.3.3 All obligations and liabilities of Vendor under this MOU, or under any federal, state or local law, regulation, permit, approval, agreement or instrument, shall be non-recourse against State. Financing obtained by Vendor for the Video Lottery Project shall be subordinate to this MOU; provided however, that the lenders which provide Vendor with financing for the Video Lottery Project shall have the benefit of a non-disturbance agreement having provisions reasonably acceptable to State, Vendor and such lenders. Leasehold mortgage financing shall be permitted by Permitted Lenders (as hereinafter defined) or any syndicated lending transaction which is arranged by or through a Qualified Agent (a "Permitted Financing") and in compliance with the Division of the Lottery's regulations. A Permitted Financing may include provisions for a pledge of the equity interests in Vendor as additional security for the Permitted Financing. A Permitted Lender or Qualified Agent shall mean a lender or agent approved by the Division of the Lottery. Anything contained herein to the contrary notwithstanding, in no event shall this MOU be assigned to nor shall control of Vendor be assumed by any Prohibited Person, as defined in MOU Schedule C attached.

9.4 Insurance:

9.4.1 Vendor shall obtain and maintain, at its sole cost and expense, insurance coverage as specified in this section. All insurance required shall be obtained at the sole cost and expense of Vendor, shall be maintained with insurance carriers authorized to do business in New York State and acceptable to the Division of the Lottery; shall be primary and non-contributing to any insurance or self insurance maintained by State; shall be endorsed to provide written notice be given to State and ESDC, at least thirty (30) days prior to the cancellation, non-renewal, or material alteration of such policies, and shall name State and ESDC and any agencies or affiliates thereof, their respective officers, agents, trustees, directors and employees as additional insureds thereunder, except for Workers Compensation or Disability coverage.

9.4.2 General Liability Additional Insured Endorsement shall be on Insurance Service Office's (ISO's) form number **CG 20 26 11 85**, or a substitute form providing equivalent coverage. The additional insured requirement does not apply to Workers Compensation or Disability coverage.

9.4.3 Vendor shall require any subcontractors hired, to carry insurance with the same provisions provided herein. Contractors involved in the construction, maintenance, renovation or repair of the premises will maintain Commercial General Liability limits of not less than $5,000,000 each occurrence or in the case of major construction, additions or renovations limits agreed to by State and General Liability Additional Insured Endorsement shall be on Insurance Service Office's (ISO's) form number **CG 20 10 11 85**.

9.4.4 Vendor shall be solely responsible for the payment of all deductibles and self insured retentions to which such policies are subject. Deductibles and self insured retentions must be approved by the Division of the Lottery. Such approval shall not be unreasonably withheld.

9.4.5 Each insurance carrier must be rated at least "A-" Class "VIII" in the most recently published Best's Insurance Report. If, during the term of the policy, a carrier's rating falls below "A-" Class "VIII", the insurance must be replaced no later than the renewal date of the policy with an insurer acceptable to the Division of the Lottery and rated at least "A-" Class "VIII" in the most recently published Best's Insurance Report.

9.4.6 Vendor shall cause all insurance to be in full force and effect as of the MOU Effective Date and to remain in full force and effect throughout the term of this MOU. Vendor shall not take any action, or omit to take any action, that would suspend or invalidate any of the required coverages during the period of time such coverages are required to be in effect.

9.4.7 Not less than thirty (30) days prior to the expiration date or renewal date, the Vendor shall supply State updated replacement Certificates of Insurance and amendatory endorsements.

9.4.8 Vendor shall obtain and maintain the following insurance with limits not less than those described below, or as required by law, whichever is greater (limits may be provided through a combination of primary and umbrella/excess policies):

9.4.8.1 Commercial General Liability Insurance with a limit of not less than $50,000,000 each occurrence. Such liability shall be written on the Insurance Service Office's (ISO's) occurrence form CG 00 01, or a substitute form providing equivalent coverages and shall cover liability arising from premises operations, independent contractors, products completed operations, broad form property damage including completed operations, personal & advertising injury, cross liability coverage, liability assumed in a contract including the tort liability of another and explosion, collapse and underground. The limit for Fire Damage Legal shall not be less than $100,000.

9.4.8.1.1 If such Commercial General Liability Insurance contains an aggregate limit, it shall apply separately to each location.

9.4.8.2 Workers' Compensation/Disability Insurance as set forth in Section 2.11 of the RFP.

9.4.8.3 Comprehensive Business Automobile Liability Insurance with a limit of not less than $10,000,000 for each accident. Such insurance shall cover liability arising out of any automobile including owned, leased, hired and non owned automobiles.

9.4.8.4 Commercial Property Insurance on the Premises covering at a minimum, the perils insured under the ISO Special Causes of Loss Form (CP 10 30), or a substitute form providing equivalent coverages, for loss or damage to any owned, borrowed, leased or rented personal property, improvements and betterments, equipment, tools, including tools of their agents and employees, and property of State held in their care, custody and/or control.

9.4.8.5 Rental Value Insurance providing coverage for fair rental value of any portion of the described premises occupied by the Vendor.

9.4.8.6 Garage Keepers Legal Liability Coverage with a limit of not less than $1,000,000 at each location for Comprehensive and Collision Coverage for damage to a customer's automobile or automobile equipment in your care, custody or control.

9.4.8.7 If the Vendor uses, stores, handles, processes or disposes of hazardous materials, then Vendor shall maintain in full force and effect through the period required by the Division of the Lottery, Environmental Impairment Liability insurance with limits of not less than $5,000,000, providing coverage for bodily injury, property damage or loss of use of damaged property or of property that has not been physically injured. Such policy shall provide coverage for actual, alleged or threatened emission, discharge, dispersal, seepage, release or escape of pollutants, including any loss, cost or expense incurred as a result of any cleanup of pollutants or in the investigation, settlement or defense of any claim, suit, or proceedings against The People of the State of New York or ESDC, arising from Vendor's use, storage, handling, processing or disposal of hazardous materials

9.4.8.8 If Vendor sells, distributes, serves or furnishes alcoholic beverages, then Vendor shall maintain in full force and effect through the term, Liquor Liability Insurance with limits of not less than $5,000,000.

9.4.8.9 During the performance of any construction work, restoration or alteration, Vendor will maintain or require the contractors to maintain builder's risk coverage on a completed value form covering the perils insured under the ISO special causes of loss form, including collapse, water damage, and transit and theft of building materials, with deductible reasonably approved by the Division of the Lottery, in non reporting form, covering the total value of work performed and equipment, supplies and materials at the location of the job as well as at any offsite storage location used with respect to the Video Lottery Project. The policy shall cover the cost of removing debris, including demolition as may be legally necessary by the operation of any law, ordinance

or regulation. Such policy shall name as insureds, The People of the State of New York, ESDC, Vendor, Contractor and Subcontractors. Consent of the carrier must be included to allow for the occupancy or use of the property by Vendor and State.

9.4.8.10 If any construction work, restoration or alteration involves abatement, removal, repair, replacement, enclosure, encapsulation and/or disposal of any hazardous material or substance, petroleum or petroleum product, Vendor will require the Contractor to maintain in full force and effect throughout the term hereof, Pollution Legal Liability insurance with limits of not less than $10,000,000, providing coverage for bodily injury and property damage, including loss of use of damaged property or of property that has not been physically injured. Such policy shall provide coverage for actual, alleged or threatened emission, discharge, dispersal, seepage, release or escape of pollutants, including any loss, cost or expense incurred as a result of any cleanup of pollutants or in the investigation, settlement or defense of any claim, suit, or proceedings against State or ESDC arising from Contractor's work.

9.4.8.11 Coverage should be written on an occurrence basis. If not available and subject to the approval of the Division of the Lottery, if coverage is written on a claims-made policy, Vendor warrants that any applicable retroactive date precedes or matches the MOU Effective Date; and that continuous coverage will be maintained, or an extended discovery period exercised, for a period of not less than two (2) years from the time work on the Video Lottery Facility is completed.

9.4.8.12 If any agreement between State and Vendor includes disposal of materials from the job site, the Contractor must furnish to State evidence of pollution legal liability insurance with a limit of not less than $5,000,000 maintained by the disposal site operator for losses arising from the disposal site accepting waste under such agreement.

9.4.8.13 If autos are to be used for transporting hazardous materials, the Vendor shall provide pollution liability broadened coverage for covered autos (endorsement CA 99 48) as well as proof of MCS 90.

9.4.8.14 Waiver of Subrogation. Vendor shall cause to be included in each of its policies insuring against loss, damage or destruction by fire or other insured casualty a waiver of the insurer's right of subrogation against State, or, if such waiver is unobtainable (i) an express agreement that such policy shall not be invalidated if Vendor waives or has waived before the casualty, the right of recovery against State or (ii) any other form of permission for the release of State.

9.4.8.15 In the event of a loss in excess of a specified amount, the senior mortgagee, or if none, the Division of the Lottery, shall be the depository of all insurance proceeds for purposes of advancing the proceeds to pay for restoration costs as the work progresses. All proceeds of Video Lottery Facility and casualty insurance shall be applied to restore the Video Lottery Facility.

9.5 Limitation on Liability: During the term of this MOU, neither State, ESDC nor any other agency nor their respective directors, officers, employees, agents or independent contractors shall be liable to Vendor or to any other person for accident or injury to person or damage to the Video Lottery Facility, or the Video Lottery Project, or any matter arising out of or in connection with the development, financing, construction, subleasing, use or occupancy of the Video Lottery Facility and the Video Lottery Project, other than obligations of State or ESDC to Vendor under this MOU.

9.6 Indemnification: Vendor shall defend, indemnify and save State, any of its agencies, departments, authorities, subdivisions, commissions, boards or other entities, and ESDC, and their respective directors, officers, commissioners, members, employees, agents and independent contractors (collectively, the "**Indemnitees**") free and harmless from and against any and all liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges and expenses, including, without limitation, reasonable attorneys' fees and disbursements, that may be imposed upon or incurred by, or asserted against, any of the Indemnitees by reason of any construction work, renovation, hazardous substances, environmental condition, whether now existing or arising hereafter, accident or injury to person or damage to the Video Lottery Facility, including the Video Lottery Project, or any other matter related to operation, leasing, use and occupancy of the Video Lottery Project and the Video Lottery Facility, subject, however, to the limitation set forth in Section 6.1 hereof with respect to existing environmental conditions. The foregoing indemnities shall apply notwithstanding fault or negligence on the part of State or any of its agencies, departments, authorities, subdivisions, commissions, boards or other entities, or any of their respective directors, officers, commissioners, members, employees, agents or independent contractors, or irrespective of the breach of a statutory obligation or the application of any rule of comparative or apportioned liability; provided, however, that such indemnities will not be applicable to a particular Indemnitee with respect to willful misconduct or gross negligence on the part of such Indemnitee. Vendor shall be given prompt written notice of any claim for indemnification together with copies of any correspondence, demands or pleadings relating to such claim and shall have the sole right to control the defense or settlement of any third party action or claim underlying a claim for indemnification with counsel of its own choosing, provided Indemnitees shall be given not less than thirty (30) days prior written notice of any proposed terms of settlement not covered by insurance. Indemnitees shall be obligated to reasonably cooperate with Vendor in the defense or settlement of any such third party action or claim and no Indemnitee shall compromise or settle any such third party action or claim without obtaining the prior written consent of Vendor, which consent shall not be unreasonably withheld or delayed. The foregoing indemnity shall not impose any personal liability with respect to the parent companies, subsidiaries, affiliates, officers, directors, agents or employees of Vendor.

9.7 Maintenance and Repair: During the term of this MOU, Vendor shall be responsible for all restoration, maintenance and repair, both interior and exterior, at the Video Lottery Project and the Video Lottery Facility. Without limiting the generality of the foregoing, Vendor intends to make annual maintenance capital expenditures with respect to the Video Lottery Project as described in the Proposal. Any such

improvement, restoration, maintenance or repair shall comply with all applicable statutes, codes, rules and regulations applicable to the building. Notwithstanding the foregoing, if State determines that Vendor has failed to so maintain and repair the exterior of the Video Lottery Project or the Video Lottery Facility and such failure poses a threat to health and safety and continues for thirty (30) days after written notice to Vendor, subject to unavoidable delays (or, if such maintenance and repair cannot be completed in thirty (30) days, if Vendor has failed to commence to maintain and repair the Video Lottery Project or the Video Lottery Facility in thirty (30) days and to diligently prosecute such maintenance and repair to completion), State and its agents and assigns, may enter the Video Lottery Facility and the Video Lottery Project to perform such maintenance, subject to agreed cure rights of any lender providing financing for the Video Lottery Facility or the Video Lottery Project. Vendor shall promptly pay to the Division of the Lottery the amount equal to the actual costs and expenses incurred by State for such maintenance and repairs.

9.8 Casualty: If the Video Lottery Project or the Video Lottery Facility shall be damaged or destroyed (in whole or in part) at any time during the term of this MOU, State shall have no obligation to replace, repair, rebuild or restore the Video Lottery Project or the Video Lottery Facility. If the Project or the Premises shall be destroyed in whole or in part, there shall be no abatement or reduction in the amounts payable by Vendor under this MOU. Vendor shall promptly as practicable under the circumstances (subject to the availability of adequate insurance proceeds and the agreement of any mortgagee to release such proceeds for such purpose) replace, repair, rebuild or restore the Video Lottery Project and the Video Lottery Facility to substantially the same condition and value as an operating entity as existed prior to such damage or destruction and may use insurance proceeds for all such purposes. All plans for such replacements, repairs, rebuilding or restorations shall require the prior approval of the Division of the Lottery, but only as to matters that are subject to the Design Procedures, and such replacements, repairs, rebuilding or restorations shall be in accordance with the Design Procedures. The replacement, repair, rebuilding or restoration work shall also be subject to the same requirements as the work performed in developing the Video Lottery Project.

9.9 No Brokers. No brokerage fees, finders' fees, commissions or other compensation will be payable by State or Vendor in connection with this MOU or the conveyance of a leasehold interest in the Video Lottery Facility to Vendor. Vendor shall indemnify State from and against any and all expenses, damage or liability (including, without limitation, costs and expenses of legal counsel) arising out of any claim for such fees, commissions or other compensation made in connection with the foregoing matters due to acts of such party. Each Party shall be responsible for the payment of its own attorneys' fees and costs in connection with this MOU or the conveyance of a leasehold interest in the Video Lottery Facility to Vendor.

9.10 Defaults: During the period Vendor is the tenant of the Video Lottery Facility, if Vendor fails to pay amounts due under this MOU, or to perform any of its other obligations thereunder, the lenders will be given notice and a reasonable time to cure provided that the lenders have requested, in writing, written notice of the same. If

not cured timely, State will have the right to pursue remedies available under this MOU, in law and in equity, to enforce payment and performance of any obligations under this MOU and/or the right to terminate this MOU.

9.11 Payments to State: Vendor shall pay to State the following:

9.11.1 PILOT: Vendor shall make payments in lieu of taxes ("PILOT") to State in the amount of full real estate taxes that would otherwise be due for the Aqueduct Lands, subject to any applicable real estate tax abatement program that would be available as of right to the Video Lottery Project or portions thereof if State were not the owner of the Video Lottery Facility. Insofar as the Aqueduct Lands, or any portion thereof, shall not be exempt from the payment of Taxes, Vendor shall pay all such Taxes on or before the date any penalty or interest shall be payable by reason of the nonpayment of such Taxes, and any PILOT payments which would have otherwise been payable by Vendor shall be reduced by an equivalent amount.

9.11.2 PILOST: Vendor shall be solely responsible for making all payments due to State in connection with sales tax on materials, goods, fixtures, equipment and other items of property incorporated in or used in connection with the construction/renovation of the Video Lottery Project and incurred prior to the Certificate of Occupancy for the Video Lottery Facility, including any services provided in connection therewith, at the prevailing local sales tax rate in an amount equal to State and local sales and compensating use taxes on materials, goods, fixtures, equipment and other items of property incorporated in or used in connection with the construction of the Video Lottery Project, including any service provided in connection therewith. Vendor, its contractors and subcontractors, shall have no right not to pay any of the foregoing as a result of the ownership of the fee interest being vested in State or a tax-exempt entity. In the event Vendor is relieved for any reason of the obligation to pay such amounts, Vendor shall then pay Payments in Lieu of Sales Tax ("PILOST") for the Video Lottery Project quarterly, in arrears, within thirty (30) days after the end of each quarter, based upon evidence provided by Vendor to State of the actual cost of materials acquired or work performed during such previous quarter which were subject to sales tax. In computing the amount of PILOST, Vendor shall be entitled to any exemptions for which Vendor and/or the Video Lottery Facility qualifies and continues to qualify, other than an exemption by reason of the ownership of the fee interest being vested in State or a tax-exempt entity.

9.11.3 PILOMRT: Vendor shall be solely responsible for making all payments due to State in connection with the New York State and New York City mortgage recording tax ("**MRT**") due on any mortgage financing or refinancing negotiated and obtained by Vendor and secured by a leasehold interest in the Video Lottery Facility. Vendor shall have no right not to pay any of the foregoing as a result of the ownership of the fee interest being vested in State or a tax-exempt entity or the landlord being a corporate governmental agency of New York State. In the event Vendor is relieved for any reason of the obligation to pay such amounts, Vendor shall then pay substitute amounts to State in the amount of MRT that would otherwise be due and payable. Any such amounts due for MRT payments shall be due on the date of closing of the mortgage

financing or refinancing. Vendor shall be entitled to any credits available from the payment of MRT in connection with mortgages on the Video Lottery Facility for which the Vendor has paid MRT.

9.11.4 Impositions: Vendor shall pay all of the following items (collectively, "Impositions") imposed by any governmental authority (including State, acting in its governmental capacity), all of which shall be calculated without taking into account exemptions available arising on account of the ownership of the Aqueduct Lands by State: (a) Taxes; (b) personal property taxes; (c) occupancy and rent taxes; (d) water, water meter and sewer rents, rates and charges; (e) excises; (f) levies; (g) license and permit fees; (h) service charges with respect to police protection, fire protection, street and highway construction, maintenance and lighting, sanitation and water supply, if any; (i) fines, penalties and other similar or like governmental charges applicable to the foregoing and any interest or costs with respect thereto and (j) any and all other governmental charges, and any interest or costs with respect thereto.

9.12 Licensing Fee Non-Payment. Non-payment of the Licensing Fee when due shall be a default under this MOU which shall entitle State to exercise all remedies, including termination of this MOU.

9.13 Division of the Lottery. Any permanent or final suspension, revocation or termination of any license, authorization or other approval necessary in order for Vendor to act as a video lottery agent of the Division of the Lottery at Aqueduct by a governmental authority or court having jurisdiction over such matters shall constitute a default under this MOU.

ARTICLE 10

VIDEO LOTTERY FACILITY DEVELOPMENT

10.1 Vendor shall be the developer of the Video Lottery Facility (the "**Video Lottery Developer**") and State shall be the owner. Vendor entity shall at all times include an entity with significant experience in the development and operation of large-scale gaming facilities.

10.2 Milestone Dates: Video Lottery Developer shall undertake development of the Video Lottery Facility so as to meet the following milestone dates:

10.2.1 subject to the Parties reaching mutual agreement as to the scope of the Preliminary Facilities as set forth in Section 1.3.1 hereof, construction of the Preliminary Facilities shall commence immediately following the date that the Division of the Lottery approves the initial plans and specifications for the Preliminary Facilities as set forth in Section 10.4.2 below;

10.2.2 construction of the Renovation Premises shall commence immediately following the later of (i) the completion of SEQRA review, or (ii) the date that the Division of the Lottery approves the initial plans and specifications for the Renovation Premises as set forth in Section 10.4.2 below; and

10.2.3 construction of the Construction Premises shall likewise commence immediately following the later of (i) the completion of SEQRA review, or (ii) the date that the Division of the Lottery approves the initial plans and specifications for the Construction Premises as set forth in Section 10.4.2 below.

10.2.4 Video Lottery Developer shall substantially complete, subject to force majeure delays, construction of the Video Lottery Facility and all related projects within the timeframes specified in the Proposal. The issuance of a temporary certificate of occupancy for the Video Lottery Facility shall be deemed to mean that the Video Lottery Facility shall be considered substantially complete. The definition of "force majeure" delays shall be based on industry standards for construction projects such as the Video Lottery Facility.

10.3 Records: All records of Video Lottery Developer related to or concerning the construction of the Video Lottery Project or the subleasing of any part of the Video Lottery Facility shall be subject to audit by State, at State's cost, on reasonable advance notice to Video Lottery Developer during Video Lottery Developer's regular business hours, provided however, that State's right to audit such records shall expire, with respect to records relating to the construction of the Video Lottery Project, on a date that is six (6) years after the issuance of the permanent certificate of occupancy for the Video Lottery Project.

10.4 Design and Construction of the Video Lottery Project:

10.4.1 Video Lottery Developer shall pay all costs and expenses of design and construction of the Video Lottery Project.

10.4.2 Prior to the commencement of any work by Video Lottery Developer on the Video Lottery Project, the Division of the Lottery shall have approved the plans and specifications in accordance with the Design Procedures. Video Lottery Developer must obtain the Division of the Lottery's prior written approval before Video Lottery Developer proceeds to the next phase, such approvals to be given within the time limits specified in Section 8.2 hereof or as otherwise specified in the Design Procedures. If the Division of the Lottery disapproves of any such plans and specifications, the Division of the Lottery, upon request, shall review with Video Lottery Developer the reasons for such disapproval and cooperate with Vendor to develop a plan to address the Division of the Lottery's concerns.

10.4.3 The Video Lottery Facility shall be developed and constructed to comply with all applicable federal and State laws, codes, rules and regulations, including the Americans with Disabilities Act and with all applicable statutes, codes, rules and

regulations, including the New York City Fire Code (with respect to life and safety only), applicable to the building. Video Lottery Developer shall be required to obtain, at its sole cost and expense, all appropriate governmental permits and approvals as if the fee interest in the Video Lottery Facility and the Video Lottery Project were owned by Video Lottery Developer. State shall cooperate with Video Lottery Developer, at Video Lottery Developer's sole cost and expense, to obtain such permits and approvals.

10.4.4 Video Lottery Developer shall use best efforts to achieve the goals for MWBE utilization and minority and female workforce participation, as required by the RFP and included in the Proposal.

10.5 Cooperation of State. In order to expedite Vendor's construction and renovation work, State shall, from and after the date hereof, at Vendor's sole cost and expense, take all necessary and appropriate actions so that all necessary approvals, permits and consents required by law to construct the Preliminary Facility, Video Lottery Facility and the Parking Facility ("Required Approvals") shall be issued by the Division of the Lottery (or such other applicable State agency responsible for issuing such Required Approvals for other State projects).

ARTICLE 11

VIDEO LOTTERY AGENT LICENSE

11.1 Upon completion of the Video Lottery Facility, Vendor shall operate the Video Lottery Facility or shall cause the Video Lottery Facility to be operated in accordance with the applicable laws and the Division of the Lottery's regulations.

ARTICLE 12

TRANSFER TAXES

12.1 Vendor shall pay applicable State and City transfer taxes, if any, due in connection with this MOU, without regard for any exemption by reason of State's being a party to this MOU.

ARTICLE 13

APPLICABLE STATUTES AND REGULATIONS

13.1 All Applicable Law: The Project shall be subject to and Vendor shall comply with all applicable provisions of Federal, State and local laws, as such laws may be amended from time to time.

13.2 New York State Law: Vendor specifically recognizes that the Project shall be subject to and Vendor shall comply with all applicable provisions of the Legislation, including without limitation, the Racing, Pari-mutuel Wagering and Breeding Law, the Tax Law, the Real Property Tax Law, the Alcoholic Beverage Control Law and the State Finance Law, and including without limitation the following:

13.2.1 Division of the Lottery's Rules: The Video Lottery Project shall be subject to any and all rules and regulations promulgated by the Division of the Lottery pursuant to Section 1617-a of the Tax Law, including without limitation regulations relating to licensing of employees, hours of operation, and compliance with applicable labor laws.

13.2.2 Labor Provisions: The Video Lottery Project shall be subject to any rules and regulations promulgated pursuant to Section 213 of the Racing, Pari-Mutuel Wagering and Breeding Law, including without limitation any requirement of State with respect to hiring of minority and women-owned business enterprises, entering of project labor agreements, payment of prevailing wages, and employment of contractors utilizing apprenticeship programs.

ARTICLE 14

DEFAULT IN MOU OBLIGATIONS

14.1 In the event Vendor is in material default of any of its obligations under this MOU, this MOU may be deemed terminated by written notice from State to Vendor and neither Party shall have any further liability under, or with respect to, this MOU; provided however, that State shall give written notice to Vendor of any material default of any of Vendor's obligations under this MOU, and Vendor fails to cure such default within thirty (30) days after receipt of such notice of default from State or, if the default is not susceptible of cure within thirty (30) days, Vendor fails to commence to cure such default within thirty (30) days after receipt of such notice of default from State or fails to diligently proceed and complete the cure within a reasonable time thereafter, which reasonable time shall in no event exceed two (2) months.

14.2 Except to the extent expressly provided in Sections 6.1 and 15.2 of this MOU, in no event shall State, or any of its agencies, departments, authorities, subdivisions, commissions, boards or other entities, or ESDC be liable for any costs or expenses incurred or to be incurred by Vendor in connection with, or related to, this MOU, the Video Lottery Facility, any other premises described herein or the Project. In no event shall any directors, officers, employees, consultants or agents of State, or any of its agencies, departments, authorities, subdivisions, commissions, boards or other entities or ESDC have any liability under this MOU.

ARTICLE 15

GENERAL PROVISIONS

15.1 Each Party represents that it has the right, power, legal capacity and authority to enter into and perform the obligations under this MOU and to bind its heirs, successors, executors, administrators, assigns, beneficiaries, trustees, and trustors. Each Party has had the opportunity to seek legal advice from attorneys of its/their own choosing.

15.2 In the event of any proceeding arising out of or related to a breach of this MOU by either Party hereto, the prevailing party shall be entitled to recover from the losing party all of the costs and expenses incurred in connection with such proceeding, including court costs and attorney's fees and expert's fees, whether or not such proceeding is prosecuted to judgment.

15.3 This MOU contains the entire understanding and agreement between the Parties, and supersedes any prior written or oral agreements between them concerning the subject matter contained herein. There are no representations, agreements, arrangements or understandings, oral or written, relating to the subject matter that are not fully expressed herein.

15.4 This MOU shall not be modified by either Party by oral representation made before or after the execution of this MOU. All modifications must be in writing and signed by the Parties.

15.5 This MOU shall not be construed against the Party preparing it, but shall be construed as if both Parties jointly prepared this MOU, and any uncertainty or ambiguity shall not be interpreted against any one Party.

15.6 The Parties agree that, except as provided in Section 5.1, each Party shall pay and be responsible for all of its own attorney's fees, costs, and expenses in connection with the negotiation and preparation of this MOU.

15.7 The Parties intend to execute all further and additional documents as shall be reasonable, convenient, necessary or desirable to carry out the intent and provisions of this MOU.

15.8 This MOU shall be construed and enforced in accordance with and governed by the laws of the State of New York, and venue for any action with respect to its enforcement shall lie in the Court of Claims, to the extent required, or State or Federal Court located in the County of Albany, State of New York.

15.9 This MOU may be executed in counterparts, and when each Party has signed and delivered one such counterpart, each counterpart shall be deemed an original

and, when taken together with the other signed counterpart, shall constitute one MOU, which shall be binding upon and effective as to all Parties.

15.10 Should any part of this MOU be found to be invalid, the validity of any remaining parts or provisions shall not be affected thereby.

15.11 All executory provisions of this MOU are conditional one upon the other.

15.12 The Parties represent and warrant that they understand the contents of this MOU and have executed it voluntarily.

15.13 All promises and covenants contained in this MOU shall survive the execution and delivery of this MOU.

15.14 Each Party acknowledges that such Party is fully aware of the significance and legal effect of this MOU, and is not entering into this MOU in reliance on any representation, promise, or statement made by any party, except those explicitly contained in this MOU.

15.15 No waiver by a Party or of its respective attorney of any condition or term of this MOU shall be deemed a waiver of any other condition or provision of this MOU.

15.16 Time is hereby expressly declared to be of the essence as it pertains to this MOU and to each and every term, covenant, agreement, condition and provision hereof.

15.17 Each person executing this MOU hereby represents and warrants that he/she has the legal power, right and actual authority to bind the Party on whose behalf they are executing this MOU to the provisions of this MOU.

15.18 Each Party to this MOU hereby agrees that, due to the nature of the development contemplated by this MOU, there may be changed circumstances or unexpected events that require future negotiation and agreement between the Parties. Each Party hereby covenants to the other that it will negotiate in such circumstances in good faith and in a fair and equitable manner to effectuate the goals of this MOU.

15.19 No brokerage fees, finders' fees, commissions or other compensation will be payable by State, ESDC or Vendor in connection with this MOU.

15.20 The parties do not intend to create, nor should this MOU be construed as creating, a partnership or joint venture relationship between State and Vendor for any purpose.

15.21 Notwithstanding anything to the contrary set forth in this MOU, the Parties intend that State shall be the sole owner of Aqueduct and the Aqueduct Lands and Aqueduct Improvements for any and all purposes, including all areas of New York law and Federal income tax law, excepting only such rights to use Aqueduct and the

Aqueduct Lands and Aqueduct Improvements as are expressly granted to Vendor pursuant to this MOU.

15.22 State represents and warrants to Vendor that State is the sole owner of Aqueduct, the Aqueduct Lands and the Aqueduct Improvements for any and all purposes, including all areas of New York law and Federal income tax law, excepting only such rights to use Aqueduct, the Aqueduct Lands and the Aqueduct Improvements as are expressly granted to Vendor pursuant to this MOU.

It is expressly agreed between the Parties that the terms of this MOU shall be deemed to incorporate in full the amendments to this MOU provided in the Addendum attached hereto, and that the enforceability of such terms is a condition to the effectiveness of this MOU (despite Vendor signing below).

IN WITNESS WHEREOF, the Parties have entered into this MOU as of the Effective Date:

THE STATE OF NEW YORK

By:_____
Governor

_____
Temporary President of the Senate

_____
Speaker of the Assembly

THE VENDOR

By : JLV

Its: PRESIDENT - NEW YORK GAMING VENTURES, LLC

Each of the undersigned parties hereby executes this Memorandum of Understanding for the purpose of confirming its membership or participation in the Vendor, as defined herein.

DEVELOPMENT ENTITY [New York Gaming Ventures LLC]

JBLV

GAMING ENTITY [New York Gaming Ventures LLC]

JBLV

FINANCING ENTITY [Delvest Corp.]

APPENDIX 2

SIGNED ADDENDA TO MOU

ADDENDUM TO MOU

The MOU shall be amended as follows and shall only be binding to the extent that the amendments below (and any other required conforming revisions) are accepted:

1. As contemplated by Section 7.1 (as amended below), Section 5.2 shall be amended to add the following language: "The Licensing Fee shall be paid into a mutually agreed upon escrow account, which shall, among other things, provide for the release of the Licensing Fee to the State on a dollar for dollar basis commensurate with the release to Vendor of the Capital Construction Grant funds and upon the satisfaction of each of the conditions described in this MOU. All remaining Licensing Fee funds not paid to the State by the time the initial certificate of occupancy ("**CO**") is issued (and assuming the conditions are satisfied) shall be released when the CO is issued. Following the time of the release of the Licensing Fee from escrow, in the event that (i) any other gaming facility opens to the public within fifty (50) miles of Aqueduct (other than a VLT operation at Belmont Park, but only to the extent Belmont Park does not benefit from operating economics (such as tax rates) more favorable than those of Vendor), Vendor shall have the option to either amend the Transaction Documents to match the best terms permitted by the State to such other gaming facility, or be refunded the Licensing Fee paid, less one-thirtieth (1/30th) of the Licensing Fee for the passage of each full year that the Video Lottery Facility has been open and operated by Vendor, or (ii) in the event that there is a material and adverse change in New York State law, Vendor shall be entitled to a refund of the Licensing Fee less one-thirtieth (1/30th) of the Licensing Fee for the passage of each full year that the Video Lottery Facility has been open and operated by Vendor."

2. All references in the MOU relating to the operation and maintenance of the Video Lottery Facility / Video Lottery Project, and to the Vendor achieving certain goals, shall be construed as requiring Vendor to operate and maintain the Video Lottery Facility / Video Lottery Project and seek to achieve specified goals in a manner consistent with commercially reasonable standards and returns to the Vendor for their investment, all in light of tax rates and other material factors.

3. In conjunction with the amendment contemplated by Section 5.2, Article 7 shall be deleted in its entirety and replaced with the following: "CONDITIONS PRECEDENT: Prior to the provisions of the Transactions Documents taking effect and becoming legally binding and the release of the Licensing Fee from escrow, the following conditions precedent shall have been satisfied:

   (a) All documents contemplated in this Agreement and such other documents as may be necessary to give effect to the transactions contemplated by this Agreement (the "**Transaction Documents**"), including, without limitation, the Grant Disbursement Agreement, Aqueduct lease documentation and the license to operate the Video Lottery Facility and all subsequent agreements involving the State required to be executed prior to commencing construction, shall be mutually agreed and executed by the Parties.

   (b) The State has not defaulted on its obligations to be performed pursuant to the MOU or the other Transaction Documents, as applicable.

(c) There has been no material adverse change, force majuere or adverse change in the law affecting the Video Lottery Terminal or the Vendor since the date of the MOU.

(d) The payment in lieu of real estate taxes is capped at 1 % of gaming revenue, and

(e) Demonstration of good and valid title to the Vendor.

4. Section 9.5 shall be amended to add the following language: "In no event shall either Party be liable to the other Party for, and each party specifically waives, damages for lost profits and diminution in value and other consequential or punitive damages."

5. Section 9.6 shall be revised to reflect that the indemnification obligations are mutual, with the same standards and triggers, with the same limits of liability, with the same carveouts to the limits of liability, and addressed only to third party claims. In addition, the revised provision will reflect that Vendor has no obligations for indemnification if the liability arises out of Vendor's following the direction of the State or its agents.

6. A new Section 9.14 shall be added which shall provide the following: "Termination. The Video Lottery Facility Ground Lease and the other Transaction Documents may be terminated only as follows: (i) at any time by mutual written consent of the parties; (ii) by Vendor in the event that the Video Lottery Facility has not been profitable to Vendor in each of the prior four consecutive calendar quarters in the sole determination of Vendor, and (iii) upon ninety (90) days written notice to the defaulting party in the event of any material breach (as determined by a final and unappealable court order) of a material covenant by either party, during which time the defaulting party may cure such breach; provided, however, with respect to clause (iii) only, if such breach is not of a type that is capable of being cured within the initial ninety (90) day period, the defaulting party shall have such longer period of time as may be reasonably necessary to cure such breach (or the effects thereof); provided further that such date shall automatically be extended if, and to the extent that, (x) a third party is seeking to restrain, prevent, enjoin or prohibit the Video Lottery Facility or (y) a force majeure event has occurred and is continuing."

MOU EXHIBIT A

AQUEDUCT PREMISES

As described in Exhibit A of the Facilities Ground Lease Agreement dated September 12, 2008. Such descriptions are subject to amendment if corrective deeds are filed.

MOU EXHIBIT C

CAPITAL CONSTRUCTION GRANT FUNDING AGREEMENT DISBURSEMENT PROCEDURES

The Capital Construction Grant shall be disbursed according to the following general principles:

1. Payments shall be made solely pursuant to requisitions to pay for eligible capital construction costs of the construction of the Video Lottery Facility as provided in the Legislation.

2. The Capital Construction Grant Funding Agreement shall provide for pre-funding of a construction account in a sufficient amount to permit direct payment of applicable and approved construction costs in accordance with ESDC's customary procedures.

MOU Exhibit C

This **GRANT DISBURSEMENT AGREEMENT** includes all exhibits and attachments hereto and is made on the terms and by the parties listed below and relates to the Project described below:

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT CORPORATION ("ESDC"):	633 Third Avenue New York, NY 10017 Contact: _____ Phone: _____ Fax: _____ e-mail: _____
THE GRANTEE:	Name: _____ Address: _____ _____ Contact Name: _____ Contact Title: _____ Phone: _____ Fax: _____ e-mail: _____
THE PROJECT:	Aqueduct Video Lottery Gaming Facility - Capital Works and Purposes Necessary to Properly House Video Lottery Terminal Gaming at Aqueduct Racetrack
PROJECT NUMBER:	_____
GRANT AMOUNT:	$250,000,000
FUNDING SOURCE:	New York State Urban Development Corporation – Capital Works or Purposes Bonds
ESDC APPROVAL DATE:	_____
EXPIRATION DATE:	_____

TERMS AND CONDITIONS

1. The Project

(a) The project will occur as described in the Memorandum of Understanding (the "MOU") a copy of which is attached as Exhibit A. The Grantee will perform the tasks on the schedule and as described in Exhibit A to this Agreement.

(b) The Grantee shall satisfy the applicable funding design and construction requirements attached hereto as Exhibit B.

(c) The Grantee will provide the consultant/contractor/vendor disclosure(s) required by Exhibit C.

2. Project Budget and Use of Funds

The Grantee will perform the project in accordance with the overall project budget, which includes the Grant funds, set forth in Exhibit D to this Agreement. The Grant will be applied only to eligible expenses, which are separately identified.

3. Conditions Precedent to Disbursement of the Grant

No grant funds shall be disbursed unless the Grantee is in compliance with the terms and conditions of this Agreement, including, but not limited to, Exhibit F (Disbursement Terms), and the following conditions have been satisfied:

(a) ESDC has received an opinion of Grantee's counsel, in substantially the form appended to this Agreement as Exhibit E.

(b) Any necessary approval has been issued by the Director of Budget of the state of New York, and the Grant funds have been received by ESDC.

(c) The Grantee has completed, signed, had notarized, and delivered to ESDC the Disclosure and Accountability Certification appearing as Exhibit J to this Agreement and the Corporation has, in its sole discretion, considered the disclosure, if any, made therein and determined to proceed in making the Grant.

(d) ESDC has received an acknowledgement from the New York State Division of the Lottery of Grantee compliance, in substantially the form attached hereto as Exhibit G-3.

4. Disbursement

Subject to the terms and conditions contained in this Agreement, ESDC shall disburse the Grant to the Grantee as follows:

(a) ESDC shall reimburse the Grantee, in the manner as set forth in Exhibit F, the amount of eligible expenses actually incurred by the Grantee, after presentation to ESDC of a Payment Requisition Form, in the form attached to this Agreement as Exhibit G and its attachments, together with such supporting documentation as ESDC may require, including, the applicable documents in the forms provided in Exhibit B for the funding design and construction requirements.

(b) The last ten percent (10%) of the Grant shall not be disbursed by ESDC until all of the tasks and reports required under this Agreement have been completed to ESDC's satisfaction.

(c) In no event will ESDC make any payment which would cause ESDC's aggregate disbursements to exceed the Grant amount.

5. Non-Discrimination and Affirmative Action

The Grantee will comply with ESDC's Non-Discrimination and Affirmative Action policies set forth in Exhibit H to this Agreement.

6. No Liability of ESDC

ESDC shall not in any event whatsoever be liable for any injury or damage, cost or expense of any nature whatsoever that occurs as a result of or in any way in connection with the Project and the Grantee hereby agrees to indemnify and hold harmless ESDC, the State and their respective agents, officers, employees and directors (collectively, the "Indemnitees ") from and against any and all such liability other than that caused by the gross negligence or the willful misconduct of the Indemnitees.

7. Representations, Warranties and Covenants

The Grantee represents, warrants and covenants that:

(a) It has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(b) This Agreement was duly authorized, executed and delivered by the Grantee and is binding and enforceable against the Grantee in accordance with its terms.

(c) It is duly organized, validly existing and in good standing under the laws of the State of its organization, has full power and authority to own its assets and to conduct the activities in which it is now engaged or proposed to be engaged and is duly qualified and in good standing under the laws of each other jurisdiction in which such qualification is required and shall maintain its existence in good standing in each such jurisdiction.

(d) There are no actions, suits or proceedings or, to the knowledge of Grantee, threatened against, or affecting Grantee before any court, governmental entity or arbitrator, which may, in any one case or in the aggregate, materially adversely affect the financial condition, operations, properties or business of the Grantee, except as may have been disclosed in writing to ESDC.

(e) Grantee is in compliance and shall continue to comply in all material respects with all material applicable laws, rules, regulations and orders. The Grant shall be used solely for eligible expenses in accordance with the terms and conditions of this Agreement.

(f) The information submitted by the Grantee in connection with its response to the RFP (as defined in the MOU) issued by the New York State Division of Lottery (the "Division of Lottery") for the project described therein, including the Grant, as such response may have been amended or supplemented in accordance with the RFP and as approved in writing by the Division of Lottery (the "Proposal"), is incorporated herein by reference in its entirety. In the event of an inconsistency between the descriptions, conditions, and terms of this Agreement and those contained in the RFP or the Proposal, the provisions of this Agreement shall govern. The Grantee hereby acknowledges that, in making the Grant, ESDC has relied on the statements and representations made by the Grantee in the Proposal. The Grantee hereby represents and warrants that it has made no material misstatement or omission of fact in the Proposal or otherwise in connection with the Grant and that the information contained in the Proposal continues on the date hereof to be materially correct and complete.

(g) The relationship of the Grantee (including, for purposes of this paragraph, its officers, employees, agents and representatives) to ESDC arising out of this Agreement shall be that of an independent contractor. The Grantee covenants and agrees that it will conduct itself in a manner consistent with such status, that it will neither hold itself out as, nor claim to be, an officer, employee, agent or representative of ESDC or the State by reason hereof, and that it will not by reason thereof, make any claim, demand or application for any right or privilege applicable to an officer, employee, agent or representative of ESDC or the State, including without limitation, worker's compensation coverage, unemployment insurance benefits, social security coverage or retirement membership or credit.

(h) Exclusive of payments made in accordance with the RFP, neither the Grantee nor any of the members of its Board of Directors or other governing body or its employees have given anything of value to anyone to procure the Grant or to influence any official act or the judgment of any person in the performance of any of the terms of this Agreement.

(i) Subject to subpart (p) of this Section 7, the Grant shall be used solely for eligible

expenses in accordance with the terms and conditions of this Agreement for capital works or purposes, including, but not limited to, costs for the design, acquisition, construction and equipment for such structures as may be necessary to properly house video lottery terminal gaming at Aqueduct racetrack, including, but not limited to, the costs of studies, appraisals, surveys, testing, environmental impact statements, infrastructure, facility design, construction and equipment, cost of leasing space, professional fees and costs and issuance of insurance, all in accordance with applicable law.

(j) Grantee is solely responsible and has sufficient funding for all Project costs in excess of the Grant.

(k) No materials, if any, purchased with the Grant will be used for any purpose other than capital works and purposes for the Project.

(l) The Grantee shall report in writing to ESDC any grants, commitments or funds received by the Grantee from any source, governmental or non-governmental, in connection with the carrying out of the Project, other than the grant of funds received under this Agreement. No part of the Grant will be applied to any expenses paid or payable from any other funding source.

(m) The Grant shall not be used in any manner for any of the following purposes:

(i) political activities of any kind or nature, including, but not limited to, furthering the election or defeat of any candidate for public, political or party office, or for providing a forum for such candidate activity to promote the passage, defeat, or repeal of any proposed or enacted legislation;

(ii) religious worship, instruction or proselytizing as part of, or in connection with, the performance of this Agreement;

(iii) payments to any firm, company, association, corporation or organization in which a member of the Grantee's Board of Directors or other governing body, or any officer or employee of the Grantee, or a member of the immediate family of any member of the Grantee's Board of Directors or other governing body, officer, or employee of the Grantee has any ownership, control or financial interest. For purposes of this paragraph, "ownership" means ownership, directly or indirectly, of more than five (5) percent of the assets, stock, bonds or other dividend or interest bearing securities; and "control" means serving as a member of the board of directors or other governing body, or as an officer in any of the above; and

(iv) payment to any member of Grantee's Board of Directors or other

governing body of any fee, salary or stipend for employment or services, except as may be expressly provided for in this Agreement.

(n) Any report or other product of the Grant, after approval of such product by ESDC, shall contain the following acknowledgment:

"Funding provided by a grant from the
Empire State Development Corporation"

(o) ESDC may make reasonable use of any report or other product of the Grant upon notice to the Grantee.

(p) Grantee will use ESDC grant funds, and submit payment requisitions, exclusively for eligible expenses related to capital works or purposes in accordance with IRS rules and regulations relating to ESDC's bonds and in accordance with the New York Debt Reform Act. Grantee acknowledges that grant funds must be used solely for authorized capital works and purposes and not for operating expenses or other working capital items or non-capital purposes, irrespective of whether the funds are still used for the benefit of the Project. Grantee acknowledges that the consequences of breaching this covenant could result in violations of state law and/or large bond issuances being treated as taxable instead of tax exempt for federal and state tax purposes, loss of certain federal subsidies to the state, adverse ratings changes for such bonds, and disproportionate negative financial consequences to the state and bondholders. Grantee recognizes its financial obligations, risks and liabilities for breach of this covenant. ESDC may, from time to time, request information from Grantee to confirm its compliance with this covenant and Grantee acknowledges its obligation under Section 8 (a) (ii) of the GDA to provide information upon request to ESDC.

8. Default and Remedies

(a) Each of the following shall constitute a default by the Grantee under this Agreement:

(i) Failure to perform or observe any obligation or covenant of the Grantee contained herein to the reasonable satisfaction of ESDC and within the time frames established therefor under this Agreement.

(ii) Failure to comply with any request for information reasonably made by ESDC to determine compliance by the Grantee with the terms of this Agreement or otherwise reasonably requested by ESDC in connection with the Grant.

(iii) The making by the Grantee of any false statement or the omission by the Grantee to state any material fact in or in connection with this Agreement or the Grant.

(iv) A default beyond any applicable grace period by the Grantee, or any entity which Grantee directly or indirectly controls, is controlled by, or is under common control with, under any other agreement with ESDC.

(b) Upon the serving of notice to the Grantee of the occurrence of a default (which notice shall specify the nature of the default), ESDC shall have the right to terminate this Agreement, provided that if the default is pursuant to paragraph 8(a)(i) or 8(a)(ii), no default shall be deemed to have occurred if Grantee cures such default within ten (10) days of notice from ESDC or, if the default cannot reasonably be cured within such ten-day period, Grantee commences to cure such default within the ten-day cure period and cures the default within ninety (90) days thereafter, provided further that ESDC shall not be obligated to make any disbursements during any such cure period.

(c) Upon such termination of this Agreement, ESDC shall withhold any Grant proceeds not yet disbursed and may require repayment of Grant proceeds already disbursed. If ESDC determines that any Grant proceeds had previously been released based upon fraudulent representations or other willful misconduct, ESDC may require repayment of those funds and may refer the matter to the appropriate authorities for prosecution. ESDC shall be entitled to exercise any other rights and seek any other remedies provided by law.

9. Term

The term of this Agreement shall commence on the date hereof and expire on the Expiration Date, as set forth on the first page of this Agreement.

10. Books and Records; Project Audit

(a) The Grantee will maintain accurate books and records concerning the Project for the term of this Agreement and for three (3) years from the expiration or earlier termination of this Agreement and will make those books and records available to ESDC, its agents, officers and employees during Grantee's business hours upon reasonable request.

(b) ESDC shall have the right, upon reasonable notice, to conduct, or cause to be conducted, one or more audits, including field inspections, of the Grantee to assure that the Grantee is in compliance with this Agreement. This right to audit shall continue for three (3) years following the expiration or earlier termination of this Agreement.

11. Survival of Provisions

The provisions of Sections 6, 8 and 10 shall survive the expiration or earlier termination of this Agreement.

12. Notices

(a) All notices, demands, requests or other communications permitted or required hereunder shall be in writing and shall be transmitted either:
   (i) via certified or registered United States mail, return receipt requested;
   (ii) by facsimile transmission;
   (iii) by personal delivery;
   (iv) by expedited delivery service; or
   (v) by e-mail.

Such notices shall be addressed as follows or to such different addresses as the parties may from time-to-time designate:

Empire State Development Corporation
Name:
Title:
Address: 633 Third Avenue, 34th Floor, New York, NY 10017
Telephone Number:
Facsimile Number:
E-Mail Address:

With a copy to:

Title: General Counsel
Address: 633 Third Avenue, 34th Floor, New York, NY 10017
Telephone Number: (212) 803-3750 Facsimile Number: (212) 803-3975
E-Mail Address: alaremont@empire.state.ny.us

GRANTEE:_____
Name:
Title:
Address:
Telephone Number:
Facsimile Number:
E-Mail Address:

(b) Any such notice shall be deemed to have been given either at the time of personal delivery or, in the case of expedited delivery service or certified or registered United States mail, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of facsimile transmission or email, upon receipt.

(c) The parties may, from time to time, specify any new or different address in the United States as their address for purpose of receiving notice under this Agreement by giving fifteen (15) days written notice to the other party sent in accordance herewith. The parties agree to mutually designate individuals as their respective representatives for the purposes of receiving notices under this Agreement. Additional individuals may be designated in writing by the parties for purposes of implementation and administration/billing, resolving issues and problems and/or for dispute resolution.

13. No Assignment

The Grantee may not assign or transfer this Agreement or any of its rights hereunder.

14. No Waiver

No waiver of any ESDC's rights arising under this Agreement, or any other source, can occur unless such waiver shall be in writing and signed by ESDC and such written document manifests a clear and unequivocal intent by ESDC to waive its contractual or other legal rights. The term "waiver" as used herein is a term of art as used in the legal profession. ESDC may not be estopped from asserting any of its legal rights, including but not limited to its rights under this agreement, unless ESDC has signed a written document that clearly and unequivocally states that the other party may detrimentally rely upon the terms of such written document. Absent such written document, there shall be no estoppel against ESDC and the other parties' alleged detrimental reliance shall be deemed to be unreasonable. The term "estoppel" is used herein is a term of art as used in the legal profession.

15. Modification

This Agreement may be modified only by a written instrument executed by the party against whom enforcement of such modification is sought.

16. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to any conflict of law rules that might lead to the application of the laws of another jurisdiction. This Agreement shall be construed without the aid of any presumption or other rule of law regarding construction against the party drafting this Agreement or any part of it. In case any one or more of the provisions of this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Agreement shall be construed as if such provision(s) had never been contained herein. In the event of a conflict between the MOU attached hereto as part of Exhibit A and any other term or condition of this Agreement, then the term or condition of this Agreement shall govern.

17. Confidentiality of Information

Information contained in reports made to ESDC or otherwise obtained by ESDC relating to trade secrets, operations and commercial or financial information, including but not limited to the nature, amount or source of income, profits, losses, financial condition, marketing plans, manufacturing processes, production costs, productivity rates, or customer lists, provided that such information is clearly marked "Confidential" by the Grantee, will be kept confidential by ESDC, to the extent such information is determined by ESDC to be exempt from public disclosure under the Freedom of Information Law and not otherwise required by law to be disclosed. Notwithstanding the foregoing, ESDC will not be liable for any information disclosed, in ESDC's sole discretion, pursuant to the Freedom of Information Law or other applicable law, or which ESDC is required to disclose pursuant to legal process.

18. Special Provisions

The Grantee shall comply with the special provisions, if any, set forth in Exhibit I.

19. Litigation Costs

The Grantee shall pay, in any action or proceeding that is commenced to enforce and/or involves the enforcement of the terms and conditions of this Agreement, all of ESDC's costs including, without limitation, ESDC's attorneys' fees. The Grantee shall also pay any and all of ESDC's collection costs including, without limitation, its attorneys' fees.

20. Waiver

The Grantee knowingly and expressly waives the right to a trial by jury and the right to interpose any counterclaims in any action brought by ESDC under the terms of this Agreement.

It is expressly agreed between the Parties that the terms of this Grant Disbursement Agreement shall be deemed to incorporate in full the amendments to this Grant Disbursement Agreement provided in the Addendum attached hereto, and that the enforceability of such terms is a condition to the effectiveness of this Grant Disbursement Agreement (despite Grantee signing below).

In witness whereof, the parties have executed this Agreement by their duly authorized representatives as of the latest date written below:

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION

_____
(Signature)

_____
(Printed name and title)

_____
(Date)

GRANTEE: NEW YORK GAMING VENTURES, LLC

_____
(Signature)

JOHN V. FINAMORE / PRESIDENT
(Printed name and title)

6/29/2010
(Date)

GRANT DISBURSEMENT AGREEMENT - ADDENDUM

The Grant Disbursement Agreement (the "Agreement") shall be amended as follows and shall only be binding to the extent that the amendment below is accepted (and any other required conforming revisions are made):

Section 8(c) shall be revised as follows: "Upon such termination of this Agreement, (i) ESDC shall withhold any Grant proceeds not yet disbursed and, if it is finally determined that any Grant proceeds had previously been released based on fraudulent representations or other willful misconduct, ESDC may require repayment of those funds and may refer the matter to the appropriate authorities for prosecution and (ii) except as otherwise provided herein, Grantee shall be released from its obligations hereunder and this Agreement shall be of no further force and effect. ESDC shall be entitled to exercise any other rights and seek any other remedies provided by law."

ESDC GRANT DISBURSEMENT AGREEMENT

EXHIBITS

EXHIBIT A	Project Description
EXHIBIT A-1	Memorandum of Understanding
EXHIBIT B	Funding Design and Construction Requirements
EXHIBIT C	Consultant/Contractor/Vendor Disclosure Statement
EXHIBIT D	Project Budget
EXHIBIT E	Opinion of Counsel
EXHIBIT F	Disbursement Terms
EXHIBIT G	Payment Requisition Form
EXHIBIT G-1	Payment Requisition Cover Letter
EXHIBIT G-2	Project Cost Documentation
EXHIBIT G-2A	Project Cost Summary for ESDC-Eligible Expenses
EXHIBIT G-3	Lottery Acknowledgement
EXHIBIT H	Non-Discrimination and Affirmative Action Policy
EXHIBIT H-1	M/WBE Compliance Report
EXHIBIT I	Special Provisions
EXHIBIT J	Disclosure and Accountability Certifications

EXHIBIT A: Project Description

GRANTEE:_____
Aqueduct Video Lottery Gaming Facility - Capital Works and Purposes Necessary to Properly House Video Lottery Terminal Gaming at Aqueduct Racetrack, Project
Project Number:_____

See Attached **MEMORANDUM OF UNDERSTANDING**

EXHIBIT B: FUNDING DESIGN AND CONSTRUCTION REQUIREMENTS

Aqueduct Video Lottery Gaming Facility - Capital Works and Purposes Necessary to Properly House Video Lottery Terminal Gaming at Aqueduct Racetrack, Project
Project Number:_____

See the attached material, forms and documents

EMPIRE STATE DEVELOPMENT CORPORATION
TABLE OF CONTENTS

EMPIRE STATE DEVELOPMENT CORPORATION
FUNDING DESIGN AND CONSTRUCTION REQUIREMENTS
for
(New York City and Aqueduct Video Lottery Gaming Facility)

The following design and construction submissions and review documents shall be supplied to ESDC:

Design Phase

The Grantee shall furnish to the Design and Construction Department (D&C):

- Project and construction budget
- Work scope including plans & specifications or written descriptions
- Code and zoning analysis
- Special agency approvals (health dept., highways, utility co., asbestos etc.)
- Construction cost estimates(incl. quantities and unit prices)
- Design/Construction Schedule
- Proposed/selected architects/engineers and copy of agreement
- Consultant's code certification letter-See Attachment A
- Project Status Cost Control Report - See Attachments D and D-1.
- Table of Approval Authority and Facsimile Signatures - See Attachments E-1, 2, 3, 4.

Construction Phase

The Grantee shall furnish to D&C copies of the following:

Submittals at the start of construction:

- Building permit
- Asbestos Free Building Certificate for alterations and demolitions (copy submitted to municipality)
- Plans with building department/authority approval stamp
- Contractor and CM Agreements/Cost
- Insurance policies naming New York State Urban Development Corporation d/b/a Empire State Development Corporation as additional insured.
- Construction schedule
- Trade payment breakdown

Submittals during construction:

- Progress schedules and updates
- Minutes of project meetings
- Building Department/authority amendments
- Payment requests
- Foundation survey (new construction only)
- Controlled inspection and test reports with architect's or engineer's approvals
- Project Status Cost Control Report - See Attachment D and D-1
- Change Issue and Change Order Log

Submittals at the completion of construction:

- Final punch lists
- Temporary Certificate of Occupancy (TCO)
- Certificate of Occupancy (CO)
- Contractor's Affidavit and Final Waiver of Claims and Liens and Release of Rights
- New York Board of Fire Underwriters approval (except in New York City)
- Contractor's Certifications of Completed Construction - See Attachment B
- Consultant's Certification of Completed Construction - See Attachment C (for NYC Local Laws and other specific items of work where certifications are desired).

Construction Contract Provisions

The construction agreement shall contain provisions satisfactory to D&C concerning:

- Insurance
- Method, schedule and terms of payments
- Provisions for contractor and subcontractor audits
- Contractor and Subcontractor lien waivers with monthly requisitions
- Contractor's warranty and clearing of liens at completion of construction
- There shall be no payments for stored material
- ESDC sign

Inspections

- ESDC will inspect throughout the construction phase until final completion.

Provisions for D&C Field Representative

If requested, the Grantee/Developer/Contractor shall provide an appropriate space at the job site with a desk, telephone, computer with internet and project website access, plan table, file cabinet, heat and air conditioning satisfactory to ESDC.

_____
(Name of Project)

Table of Approval Authority and Facsimile Signature

_____
(Owner)

Name/Title/Firm (Examples)	Facsimile Signature	Initials	Documents Requiring Approval (See (A) below for Examples)	Approval Auth ($ Limit)
Director Design and Construction	_____	_____		
Sr. Vice-President Facilities Administration	_____	_____		
Sr. Vice-President Business and Finance	_____	_____		

The above individuals have been delegated authority as stated, in accordance with a meeting of the Board of Directors on _____.

_____ _____
Secretary

(A) Examples of Documents Requiring Approval
- (1) Payment Requisitions
- (2) Change Orders
- (3) Owner Agreements
- (4) Contracts

S - A - M - P - L – E
ATTACHMENT E-1

_____
(Name of Project)

Table of Approval Authority and Facsimile Signature

_____
(Construction Management Firm)

Name/Title/Firm (Examples)	Facsimile Signature	Initials	Documents Requiring Approval (See (A) below for Examples)	Approval Auth ($ Limit)
Construction Manager	_____	_____		
Project Manager	_____	_____		
Controller	_____	_____		
President	_____	_____		

The above individuals have been delegated authority as stated, in accordance with a meeting of the Board of Directors on _____.

_____ _____
Secretary

(A) Examples of Documents Requiring Approval
- (1) Construction Payment Requisitions
- (2) Change Orders
- (3) Subcontracts
- (4) Owner Agreements
- (4) Contracts

S - A - M - P - L – E
ATTACHMENT E-2

_____

(Name of Project)

Table of Approval Authority and Facsimile Signature

_____

(Contractor)

Name/Title/Firm (Examples)	Facsimile Signature	Initials	Documents Requiring Approval (See (A) below for Examples)	Approval Auth ($ Limit)
Construction Superintendent	_____	_____		
Controller	_____	_____		
Vice President	_____	_____		
President	_____	_____		

The above individuals have been delegated authority as stated, in accordance with a meeting of the Board of Directors on _____.

_____ _____

Secretary

(A) Examples of Documents Requiring Approval

(1) Construction Payment Requisitions
(2) Change Orders
(3) Purchase Orders
(4) Owner Agreements
(5) Contracts

S - A - M - P - L - E

ATTACHMENT E-3

_____
(Name of Project)

Table of Approval Authority and Facsimile Signature

_____
(Architect)

Name/Title/Firm (Examples)	Facsimile Signature	Initials	Documents Requiring Approval (See (A) below for Examples)	Approval Auth ($ Limit)
Partner-in-Charge	_____	_____		
Principal	_____	_____		
Controller	_____	_____		

The above individuals have been delegated authority as stated, by agreement of the Partnership on _____.

_____ _____

(A) Examples of Documents Requiring Approval
- (1) Construction Payment Requisitions
- (2) Change Orders
- (3) Architect Invoices
- (4) Architect/Consultant Contracts

S - A - M - P - L - E

New York State Urban Development Corporation
d/b/a Empire State Development
Design and Construction Department
Contract Change Order

Change Order No. _____ Date _____
Project/Location: _____ Contract No. _____
Contractor: _____

YOU ARE HEREBY AUTHORIZED TO COMPLY WITH THE FOLLOWING CHANGES TO THE CONTRACT PLANS AND SPECIFICATIONS

Issue No.	Description of Changes - Attach appropriate quantities, units, Unit Prices if applicable, drawings, cuts, etc.	Decrease in Contract Price	Increase in Contract Price
TOTAL DECREASE			
TOTAL INCREASE			
NET (INCREASE) (DECREASE) CONTRACT PRICE:			

The sum of $_____ is hereby added to, deducted from the Total Contract Price and the Total Adjusted Contract Price to date is $_____

Contract Completion Date is unchanged, increased, decreased by_____ Calendar Days. This document shall become an amendment to the Contract and all provisions of the Contract will apply hereto.

It is understood and agreed that this Change Order constitutes compensation in full to the contractor and its subcontractors and suppliers for all costs and mark-up directly or indirectly attributable to the change for all delays related thereto and for performance of the change within the time frame stated. Work performed under this Change Order prior to UDC/ESD or Architect's approval is at the Contractor's risk. No increase or decrease in the Contract Amount is authorized without UDC/ESD approval. Except as hereby modified, all items, conditions and provisions of the agreement remain unchanged and in full force and effect.

ACCEPTED:

_____ _____
Contractor (Authorized Official) Date

APPROVED:

_____ _____
Architect/Engineer Date

_____ _____
Construction Manager (As Applicable) Date

_____ _____
Chief Executive Officer Date
ORDA

APPROVED:

_____ _____
UDC/ESD Construction Representative Date

_____ _____
UDC/ESD Director of Construction Date

_____ _____
UDC/ESD Vice President Date
Design & Construction

New York State Urban Development Corporation d/b/a Empire State Development
Design and Construction Department

Change Order No. _____
Project/Location: _____ Contract No. _____
Contractor: _____

JUSTIFICATION FOR CHANGE

Reason for change: To qualify as a change, items must involve a change in the Scope of Work and an equal, betterment or necessity.

Identify the originator of this change order.

☐ Owner

☐ Funding Agent

☐ Architect

☐ Construction Manager

☐ Contractor

☐ Other _____

Identify the reason for this change order (use codes below) _____

ALT - Alternate - Items of work identified as a component of the base bid but not accepted at time of award
BAC - Back-charge – Back-charges against a specific contract for work assigned to another contract
BND - Bond/Insurance - Increased cost relating to bonding and/or insurance
CLA - Claim Settlement – To settle a claim
CLO - Close Out - Reconciliation of work that was not performed
COM -Completion Contract - Prime contractor completion of work was terminated and Surety failed to perform.
COR - Coordination - Related to the failure to properly coordinate the installation of the work by various contracts.
DEO - Design Error or Omission - Work required of the contractor due to design defects or omissions
EMR - Emergency Work – An unanticipated situation that results in a life safety/threatening condition
FLD - Field Conditions – Conditions that could not have reasonably been anticipated in project design stage
INF - Informational – Extension of time or non-cost related
INS - Insurance Settlement – Work performed due to an Act of God, fire, flood, hurricane tornado etc.
PRG - Program Change – A request by the client to decrease, change, or increase the scope of work of the project
OTH - Other – Reason not described above. Supply explanation below

Explanation if required:

_____

CHANGE ORDER IMPACT

1.	Will proposed change alter the size of the project?	Yes ☐	No ☐			
2.	Effect of this change on other contractors:	Yes ☐	No ☐			
3.	Has consent of surety been obtained?	Yes ☐	No ☐	Not Necessary	☐	
4.	Will subject changes effect expiration or extent of insurance coverage?	Yes ☐	No ☐			

_____ _____
UDC/ESD Construction Representative Date

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE EVELOPMENT CORPORATION
Design and Construction Department

Project _____ Requisition No. _____

SCHEDULE OF CHANGE ORDERS

1. LIST OF CHANGE ORDERS			ADDITIONS		DEDUCTIONS
CHANGE ORDERS		DESCRIPTION	Total cost items added by change order	Cost of change order items completed to date	Deducts from contract prices as shown on change order
NO.	DATED				
		TOTALS			

2 ADJUSTED CONTRACT AMOUNT

a.	Original Contract Amount	$
b.	Plus Additons in (1.)	$
c.	Less Deletions in (1.)	$
d.	Total Amount of Change Orders to Date:	$
e.	Adjusted Contract Amount to Date	$

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION
Design and Construction Department

Summary - Request for Payment

Project _____ Requisition No. _____

Name & Address of Contractor _____ Project No. _____

_____ Contract No. _____

Requisition Amount		
Original Contract		
Approved Change Orders		
Extras		
Credits		
Net Change (Add-Deduct)		
Adjusted Contract		
Work Completed To Date		
On Contract		
By Change Order Extras		
By Change Order Credits		
Net Change (Add-Deduct)		
Total Work Completed To Date		
Amount Earned To Date		
Less ____% Retainer		
Amount Due To Date		
Less Previous Payments		
Contract		
Other (Explain Below)		
Payment Due This Estimate		

Remarks:

The following items are included in this Request for Payment:

- ☐ Summary - Request for Payment
- ☐ Request for Payment
- ☐ Contractor Affidavit
- ☐ List of Subcontractors
- ☐ Schedules of Change Orders
- ☐ Contractor's Receipt and Waiver of Lien
- ☐ Subcontractors' Receipt and Waiver of Lien (If Applicable)

SEE PAGE 2 FOR DESCRIPTION OF WORK, AMOUNTS AND APPROVALS

NEW YORK STATE URBAND DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION

Design and Construction Department

Request for Payment

Project _____ Requisition No. _____

Name & Address of Contractor _____ Project No. _____

_____ Contract No. _____

In accordance with the provisions of the Construction Contract/Letter Agreement dated _____ and Contractor's cost breakdown (schedule of values) attached thereto, this requisition is submitted for the smount of $_____ due for work performed up to the _____ day of _____ and as itemized below by the trades listed in the cost breakdown.

_____ Contractor (Signature) _____ Date_____

	Trade Item	Trade Item Total Amount	Amounts Completed To Date		Total	Amounts all Previous Requisitions	Amount This Requisition	% Compl.
			Material	Labor				
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								
31								
32	Total							
33	Less ( )% Retainer Line (32)							
	Totals							

Progress ☐ Satisfactory ☐ Unsatisfactory (If unsatisfactory, attach memo of explaination

Construction is _____ % Completed.

I certify that I have checked and verified the above application for payment and that to the best of knowledge and belief: (1) It is true and correct statement of work performed and/or magerial supplied by the Contractor; (2) all work and/or material incuded in this application has been inspected by me and/or my duly authorized represenatives and the work has been performed ad/or materials supplied in full in accordance with the requirements of the referenced Contract; and (3) apyment claimed and requested by the Contractor is correctly computed on the basis of work performed and/or material supplied to the last day of the period coverd by this application.

_____ _____

Architect Date Date

Approved:

_____ _____

UDC Construction Project Manager Date Director of Construction Date

_____ _____

Vice President Date

Design and Construction

105b-(09/08)

FULL COST REPORT SHALL HAVE ONE PAGE
FOR PROJECT TOTAL COST AND ADDITONAL PAGES
FOR EACH FUNDING SOURCE, INCLUDING ESDC.

MONTHLY PROJECT STATUS COST CONTROL REPORT

As of _____

_____
(Project)

Total Project Cost: _____ Project Number: _____ Contract Completion Date: _____ Estimated Completion Date: _____ Actual Completion Date: _____

		(1)	(2)	(3)	(4) (2+3)	(5)	(6)	(7) (5+6)	(8)	(9)	(10)	
						INVOICED			PROJECTED COST			
Description	Conctract/ Consultant	Budget (Date)	Original Contact/ Commitments*	Cumulative Approved C.O.'s/Amend	Revised Contract Commitments*	Prior Month Thru _____	This Month (Date)	Total To Date	Balance To Be Completed	Total Estimated Cost	(Over/Under) Budget	% Complete
(Sample Line Items Only - Use Additonal Sheet if Required)												
• Design												
A/E Fees												
Reimb. & Extra Services												
Other (List each item)												
• Related Design & Construction												
Cost												
Borings & Soils												
Environmental												
Survey												
Special Consultants (List)												
Other (List)												
• Testing & Inspection												
Soils/Foundation												
Other (List)												
• SUBTOTAL SOFT COSTS												
• Construction												
General Contract												
Other Items (List each item)												
• SUBTOTAL Excluding Contingency												
• Construction Contingency												
• SUBTOTAL HARD COSTS												
• Project Contingency												
• TOTAL PROJECT COST												

*Asterisk Commited Items not yet under formal contract

Prepared By: _____ Date: _____ Approved By: _____ Date: _____

S - A - M - P - L - E

ATTACHMENT D

09/08

Empire State Development Corporation
Monthly Project Status Cost Control Report
(Instructions for filling out Attachment D)

ESDC requires that a Monthly Cost Control Report be submitted on all projects funded during construction. This also includes projects in the planning stage which will be funded during construction.

The Cost Report is a management tool for tracking latest costs for all line items against the Budget. On a monthly basis, it keeps the Developer and ESDC informed, and highlights construction cost status, potential problems and variances.

The attached sample Monthly Project Status Cost Control Report illustrates how costs should be listed and separated by line item, for soft costs/other items and construction.

Several items in the form should be highlighted:

Column 1 - Budget -- This is the budget approved by the Developer and ESDC. Once approved, this column should not be changed.

Contingency
The Construction Contingency shown in "Budget" (Column 1) should not be changed. As the contingency is used up and allocated to various line items, the balance should be shown in the line item for Construction Contingency, under "Total Estimated Cost" (Column 9).

Column 2 - "Original Contract/Commitments" -- List approved contracts; also, firm commitments not yet under contract should be listed, and marked with an asterisk.

Column 3 - "Cumulative Approved Change Orders/Amendments" -- List only items approved by ESDC.

Column 4 - "Revised Contract/Commitments" -- Self explanatory.

Column 5 - "Invoiced Prior Months Thru" -- Self explanatory.

Column 6 - Invoiced "This Month" -- Self explanatory.

Column 7 - Invoiced "To Date" -- Self explanatory.

Column 8 - "Balance to be Completed" -- Subtract "Revised Contract/Commitments" (Col 9) from Total Invoiced to Date (Col 7).

Column 9 - "Total Estimated Cost" -- This is Projected Cost for the project -- Add "Invoiced To Date" (Col 7) and "Balance to be Completed" (Col 8).

Column 10 - "(Over/Under) Budget" -- Subtract "Total Estimated Project Cost" (Col 9) from "Budget" (Col 1).

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION
Design and Construction Department

CONTRACTOR'S AFFIDAVIT

STATE OF NEW YORK)
) ss.:
COUNTY OF)

_____, being first duly sworn, deposes and says:

1. That I reside at_____

2. That I am _____,
(Corporate Office)
a corporation organized and existing under the laws of the State of New York, having its principal offices at _____
_____.

3. That the *CONTRACTOR* is the General Contractor of and the _____
_____ (Project) pursuant to a Construction Contract dated the _____ day of _____20___between the *CONTRACTOR* and _____
(Owner).

4. That the *CONTRACTOR* has received all payments due it under the aforesaid Construction Agreement as of the date of the immediately preceding requisition, for which it was paid.

5. That to the best of my knowledge and belief, the *CONTRACTOR* has to the date hereof performed all its obligations under the aforesaid Construction Agreement and has paid all just and lawful bills and claims against it in accordance with its contractual obligation with subcontractors and material men who have heretofore performed work and labor or furnished materials and equipment in connection with the aforesaid Construction Agreement.

6. That annexed hereto is a list of all subcontractors and material men who have heretofore performed work and labor or furnished materials and equipment in connection with said Construction Agreement. If none, state "None" _____.

_____
(Signature of Officer)

Sworn to before me this _____ day of _____, 20_____.

_____.
(Notary Public)

DC-105c (09/08)

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION
Design and Construction Department

Project _____ Requisition No. _____

Name & Address of Contractor _____ Project No._____
Contract No. _____

LIST OF SUBCONTRACTORS/VENDOR SUBMITTED WITH REQUEST FOR PAYMENT

The following Subcontractors/Vendors are included for payment with this requisition:

Trade	Subcontractor or Vendor	Amount of Subcontract

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION
Design and Construction Department

Project _____ General Contractor's Requisition No._____

Contract No._____

General Contractor _____ Owner _____

CONTRACTOR'S RECEIPT AND WAIVER OF LIEN

_____ Corporation (Contractor), in connection with the construction of a project of the New York State Urban Development Corporation d/b/a Empire State Development ("ESD") known as _____, (the "Project") and the payment to _____ ("Contractor") of certain sums requisitioned by the Contractor pursuant to its Request for Payment No. _____dated ___, 20_____, (the "Requisition") for work performed or materials supplied for the Project to the date of the Requisition, for the benefit of _____, DOES HEREBY CERTIFY AND ACKNOWLEDGE that it has received all sums due and owing to it in accordance with its agreement with the Owner with respect thereto, other than sums, if any, withheld by the Owner in accordance with such agreement and approved by the Owner and ESD, for work performed or materials supplied for the Project to the date of _____ in the amount of _____ _____ ($_____) and DOES HEREBY FOREVER RELEASE AND WAIVE for itself, its successor and assigns any and all rights, claims and demands it has or may have against the Owner and ESD, including any and all rights which it has or may have pursuant to the New York Lien Law to file any lien or notice of lien against the Project or any property of the Owner on account of or deriving from labor performed or materials furnished for the Project to the date of the previously submitted requisition.

IN WITNESS WHEREOF, the contractor has caused this Certificate to be duly executed and the seal of the contractor to be affixed as of the date of the Requisition by the undersigned duly authorized officer.

Corporation:

Signed By: _____ Title: _____ Date:

State of New York)
) ss:
County of New York)

On this _____ day of _____, 20_____, before me, the subscriber personally appeared _____ to me personally know, who being by me duly sworn, did depose and say that he resides at _____ that he is _____ of the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is said corporate seal; that the seal was so affixed by order of the Board of Directors of said corporation; and that he signed his name thereto by like order.

Notary Public – County of:
My Commission expires:

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION
Design and Construction Department

Project _____ General Contractor's Requisition No._____

Contract No._____

General Contractor _____ Owner _____

SUBCONTRACTOR'S RECEIPT AND WAIVER OF LIEN

_____ ("Subcontractor"), in connection with the construction of a project of the New York State Urban Development Corporation d/b/a Empire State Development ("ESD") known as ___, (the "Project") and the payment to the General Contractor of certain sums requisitioned by the General Contractor pursuant to the General Contractor's Request for Payment No. ____ _____dated _____, 20____, (the "Requisition") for work performed or materials supplied for the Project to the date of the requisition, for the benefit of _____.
DOES HEREBY CERTIFY AND ACKNOWLEDGE that it has received all sums due and owing to it in accordance with its agreement with the General Contractor with respect thereto, other than sums, if any, withheld by the General Contractor in accordance with such agreement and approved by the Owner and ESD, for work performed or materials supplied for the Project to the date of _____ in the amount of _____ ($_____) DOES HEREBY FOREVER RELEASE AND WAIVE for itself, its successor and assigns any and all rights, claims and demands it has or may have against the owner and ESD, including any and all rights which it has or may have pursuant to the New York Lien Law to file any lien or notice of lien against the Project or any property of the Owner on account of or deriving from labor performed or materials furnished for the Project to the date of the previously submitted requisition.

IN WITNESS WHEREOF, Subcontractor has caused this Certificate to be duly executed and the seal of Subcontractor to be affixed as of the date of the Requisition by the undersigned duly authorized officer.

Name of Sub-Contractor
Signed By: _____ Title: _____ Date:_____
State of New York)
) ss:
County of New York)

On this _____ day of _____, 20____, before me the subscriber personally appeared _____ to me personally know, who being by me duly sworn, did depose and say that he resides at _____that he is _____ of _____ the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is said corporate seal; that the seal was so affixed by order of the Board of Directors of said corporation; and that he signed his name thereto by like order.

Notary Public – County of:
My Commission expires:

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION
AFFIDAVIT AND FINAL WAIVER OF CLAIMS AND LIENS
AND RELEASE OF RIGHTS

STATE OF)
) SS:
COUNTY OF)

The undersigned, who is the _____ (designate title) of _____ which is the _____ _____ (designate whether the subcontractor, supplier or otherwise) for the _____(designate the type of work, supplies or services rendered) on the improvements constructed or being constructed on the premises hereafter identified, declares that his contract with _____ _____ (name of party contracted with) is in the total amount of $_____, which includes extras and all change orders to the date hereof.

In consideration of the amounts and sums previously received, and the payment of $_____ being full and final payment amount due, the undersigned does hereby waive and release to the Owner, New York State Urban Development Corporation d/b/a Empire State Development Corporation ("ESD") and to _____ _____ any and all claims and liens and rights to liens upon the premises described below (which may be more particularly described by an Exhibit "A" attached), and upon improvements now or hereafter thereon, and upon the monies or other considerations (due or to become due from the Owner, ESD or from _____ _____ or from any other person, firm or corporation), said claims and liens and rights to liens being on account of labor, services, materials, fixtures or apparatus heretofore furnished by or which may be furnished at any time hereafter by or at the request of the undersigned. The premises as to which said claims and liens and rights to liens are hereby released are identified as follows:

Project Name: _____
Address or Project: _____
City: _____ County: _____ State: ___

The undersigned further represents and warrants that he is duly authorized and empowered to sign and execute this wavier on his own behalf and on behalf of the company or business for which he is signing; that he has properly performed all work and furnished all the materials of the specified quality per plans and specifications and in a good and workmanlike manner, fully and completely; that he has paid for all the labor, materials, equipment and services; that he has used or supplied or may hereafter use or supply to the above premises that he has no other outstanding and unpaid payment applications, invoices, retentions, holdbacks, chargebacks or unbilled work or materials, as of the date of the aforementioned last and final payment application of invoice; and that any materials which have been supplied or incorporated into the above premises were either taken from his fully-paid or open stock or were fully paid for and supplied as stated on the statement accompanying the last and final payment application or invoice.

The undersigned further agrees to reimburse and does hold harmless and fully indemnify Owner, ESD and _____ for any losses or expenses should any such claim, lien, or right to a lien be asserted (by the undersigned or by any laborer, materialman or subcontractor of the undersigned), including, without implied limitation, attorneys' fees incurred in the defense thereof.

In addition, for and in consideration of the amounts and sums received, the undersigned hereby waives, releases and relinquishes any and all claims, rights or causes of action whatsoever arising out of or in the course of the work performed on the above-mentioned project, contract or event.

Signed and delivered this _____ day of _____, 20_____.

_____
Individual or Corporation Name

By: _____

Title _____

On the _____ day of _____ in the year 20_____ before me the undersigned, a Notary Public in and for said state, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledge to me that se executed the same in her capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

_____
Notary Public

My Commission Expires:

Residence County: _____

DC-105i (09/08)

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
D/B/A EMPIRE STATE DEVELOPMENT CORPORATION
UNCONDITIONAL WAIVER AND RELEASE

The undersigned (the "Architect") has been paid and has received full payment for all services furnished by Architect and/or employees or others acting for Architect or claiming by, through or under Architect through

_____ to _____
(Date)

on the job of _____
(Owner)

located at _____
(Job Description)

Architect represents and warrants that Architect and all persons and entities acting for or claiming by, through or under Architect have fully performed and furnished all services to have been performed or furnished by Architect and/or any such other person and that there is not now due or owing any amount of money or wages to any party or entity in connection with this job or any part thereof. The Architect does hereby release for itself and any party or entity action for Architect or claiming by, through or under Architect, from any mechanic's liens, stop notice, bond right or claim of any nature whatsoever that the undersigned or any such other party has or may have with respect to the above referenced job.

The Architect further agrees to reimburse and does hold harmless and fully indemnify ESDC its successors and assigns for any losses or expenses should any such claim, lien, or right to a lien be asserted by the Architect or by any person or entity acting for or claiming by, through or under the Architect, including, without implied limitation, attorney's fees incurred in the defense thereof.

In addition, for and in consideration of the amounts and sums received, the undersigned hereby waives, releases and relinquishes any and all claims, rights or causes of action whatsoever arising out of or in the course of the work performed on the above-mentioned project, contract or event.

Date: _____

(Signature)

SEAL

_____
(Company Name)

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
D/B/A EMPIRE STATE DEVELOPMENT CORPORATION
UNCONDITIONAL WAIVER AND RELEASE

The undersigned (the "Construction Manager") has been paid and has received full payment for all labor, services, equipment or material furnished by Construction Manager and/or subcontractors, suppliers, materialmen, laborers, employees or others acting for Construction Manager or claiming by, through or under Construction Manager through

_____ to _____
(Date)

on the job of _____
(Owner)

located at _____
(Job Description)

Construction Manager represents and warrants that Construction Manager and all persons and entities acting for or claiming by, through or under Construction Manager have fully performed and furnished all labor, services, equipment or material to have been performed or furnished by Construction Manager and/or any such other person and that there is not now due or owing any amount of money or wages to any party or entity in connection with this job or any part thereof. The Construction Manager does hereby release for itself and any party or entity action for Construction Manager or claiming by, through or under Construction Manager, from any mechanic's liens, stop notice, bond right or claim of any nature whatsoever that the undersigned or any such other party has or may have with respect to the above referenced job.

The Construction Manager further agrees to reimburse and does hold harmless and fully indemnify ESDC its successors and assigns for any losses or expenses should any such claim, lien, or right to a lien be asserted by the Construction Manager or by any person or entity acting for or claiming by, through or under the Construction Manager, including, without implied limitation, attorney's fees incurred in the defense thereof.

In addition, for and in consideration of the amounts and sums received, the undersigned hereby waives, releases and relinquishes any and all claims, rights or causes of action whatsoever arising out of or in the course of the work performed on the above-mentioned project, contract or event.

Date: _____

(Signature)

NOTORIZED

_____
(Company Name)

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
D/B/A EMPIRE STATE DEVELOPMENT CORPORATION
UNCONDITIONAL WAIVER AND RELEASE

The undersigned (the "Engineer") has been paid and has received full payment for all services furnished by Engineer and/or employees or others acting for Engineer or claiming by, through or under Engineer through

_____ to _____
(Date)

on the job of _____
(Owner)

located at _____
(Job Description)

Engineer represents and warrants that Engineer and all persons and entities acting for or claiming by, through or under Engineer have fully performed and furnished all services to have been performed or furnished by Engineer and/or any such other person and that there is not now due or owing any amount of money or wages to any party or entity in connection with this job or any part thereof. The Engineer does hereby release for itself and any party or entity action for Engineer or claiming by, through or under Engineer, from any mechanic's liens, stop notice, bond right or claim of any nature whatsoever that the undersigned or any such other party has or may have with respect to the above referenced job.

The Engineer further agrees to reimburse and does hold harmless and fully indemnify ESDC its successors and assigns for any losses or expenses should any such claim, lien, or right to a lien be asserted by the Engineer or by any person or entity acting for or claiming by, through or under the Engineer, including, without implied limitation, attorney's fees incurred in the defense thereof.

In addition, for and in consideration of the amounts and sums received, the undersigned hereby waives, releases and relinquishes any and all claims, rights or causes of action whatsoever arising out of or in the course of the work performed on the above-mentioned project, contract or event.

Date: _____

(Signature)

SEAL

_____
(Company Name)

NEW YORK STATE URBAN DEVELOPMENT CORPORATION
D/B/A EMPIRE STATE DEVELOPMENT CORPORATION
UNCONDITIONAL WAIVER AND RELEASE

The undersigned (the "General Contractor") has been paid and has received full payment for all services furnished by General Contractor and/or employees or others acting for General Contractor or claiming by, through or under General Contractor through

_____ to _____
(Date)

on the job of _____
(Owner)

located at _____
(Job Description)

General Contractor represents and warrants that General Contractor and all persons and entities acting for or claiming by, through or under General Contractor have fully performed and furnished all services to have been performed or furnished by General Contractor and/or any such other person and that there is not now due or owing any amount of money or wages to any party or entity in connection with this job or any part thereof. The General Contractor does hereby release for itself and any party or entity action for General Contractor or claiming by, through or under General Contractor, from any mechanic's liens, stop notice, bond right or claim of any nature whatsoever that the undersigned or any such other party has or may have with respect to the above referenced job.

The General Contractor further agrees to reimburse and does hold harmless and fully indemnify ESDC its successors and assigns for any losses or expenses should any such claim, lien, or right to a lien be asserted by the General Contractor or by any person or entity acting for or claiming by, through or under the General Contractor, including, without implied limitation, attorney's fees incurred in the defense thereof.

In addition, for and in consideration of the amounts and sums received, the undersigned hereby waives, releases and relinquishes any and all claims, rights or causes of action whatsoever arising out of or in the course of the work performed on the above-mentioned project, contract or event.

Date: _____

(Signature)

NOTARIZED

_____
(Company Name)

CONSULTANT'S CODE CERTIFICATION LETTER

Attachment A

The following Certification Letter shall be included in the initial report submitted to ESDC for approval.

DATE

Empire State Development
633 Third Avenue
New York, NY 10017-6754

Attention: Mr. Ed Decatrel, AIA
Vice President
Design and Construction

Re: Consultant's Code Certification of Architect (Engineer)
(Insert Location and Name of Project)

Gentlemen:

The undersigned, a principal of the firm of _____, duly qualified and registered to practice architecture/engineering in the State of New York, in connection with the _____ project, does hereby certify that final plans and specifications will be designed to conform with the (insert name of applicable building code) and applicable municipal regulations.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of , 20___.

SIGNATURE

ARCHITECT'S (OR ENGINEER'S)NAME SEAL

CONSULTANT'S CERTIFICATION OF COMPLETED CONSTRUCTION

Attachment B

The following Certification shall be submitted to ESDC at completion of construction on Consultant's letterhead.

.

DATE

Empire State Development
633 Third Avenue
New York, NY 10017-6754

Attention: Mr. Ed Decatrel, AIA
Vice President
Design and Construction

Re: Consultant's Certification of Completed Construction
(Insert Location and Name of Project)

Gentlemen:

The undersigned, an officer of _____ (firm name), in connection with the _____ project, does hereby certify that construction of all work required by the construction agreement has been completed in accordance with final construction requirements of the ____(insert name of applicable building code) and applicable municipal regulations.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of , 20___.

SIGNATURE

OFFICER'S NAME & TITLE SEAL

CONSULTANT'S CERTIFICATION OF COMPLETED CONSTRUCTION

Attachment C

The following Certification shall be submitted to ESDC at completion of construction on Consultant's letterhead.

.

DATE

Empire State Development
633 Third Avenue
New York, NY 10017-6754

Attention: Mr. Ed Decatrel, AIA
Vice President
Design and Construction

Re: Consultant's Certification of Completed Construction
(Insert Location and Name of Project)

Gentlemen:

The undersigned, a principal of the firm of _____ duly qualified and registered to practice architecture/engineering in the State of New York, in connection with the (insert location and name of project) project, does hereby certify that to the best of our knowledge construction of work required by the contract has been completed in accordance with the drawings approved by the (insert name of approving agency) and requirements of the (insert name of applicable building code).

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of , 20___.

SIGNATURE

ARCHITECT'S (OR ENGINEER'S) NAME SEAL

New York State Urban Development Corporation

New York State Urban Development Corporation
633 Third Avenue, New York, NY 10017

PILE DRIVING REPORT

1. Project_____
2. Address_____
_____

3. Name & Address of Pile Driving Contractor_____
_____
_____
4. Type & Material of Pile _____

5. Design Capacity of Pile _____ tons
6. Make, Model No. and energy of hammer_____
_____
_____

Date	Col. No.	Pile No.	Diameters			Elevations		Length of Pipe From Tip to Cutoff	Assumed Elevation Good Bearing Material B	Average Net Penetration In Inches per Blow for Last Five Blows C	Calculated Bearing Capacity Tons D	Deviation from Designed Location N or S E or W	Variation from Plumb	Remarks
			Tip	Cutoff	2/3 Up From Tip A	Cutoff	Tip							

I hereby certify that this is a true record of the driving of piles in this location and that all the piles have been installed in accordance with the design and the New York State Code requirements, except as noted, and that I have personally supervised the installation of these piles.

Date: _____ License No.: _____

_____
Signature of Professional Engineer or Architect

Notes:
A. For friction piles of varying diameter only.
B. Elevation of top of bearing material, as obtained from borings
C. After successive blows produce equal penetration for the last specified length.
D. If other than shown in "5" above. Explain reason for variance.

"Attachment F"

09/08

SURVEY STATEMENT

I CERTIFY TO:

(insert appropriate names)

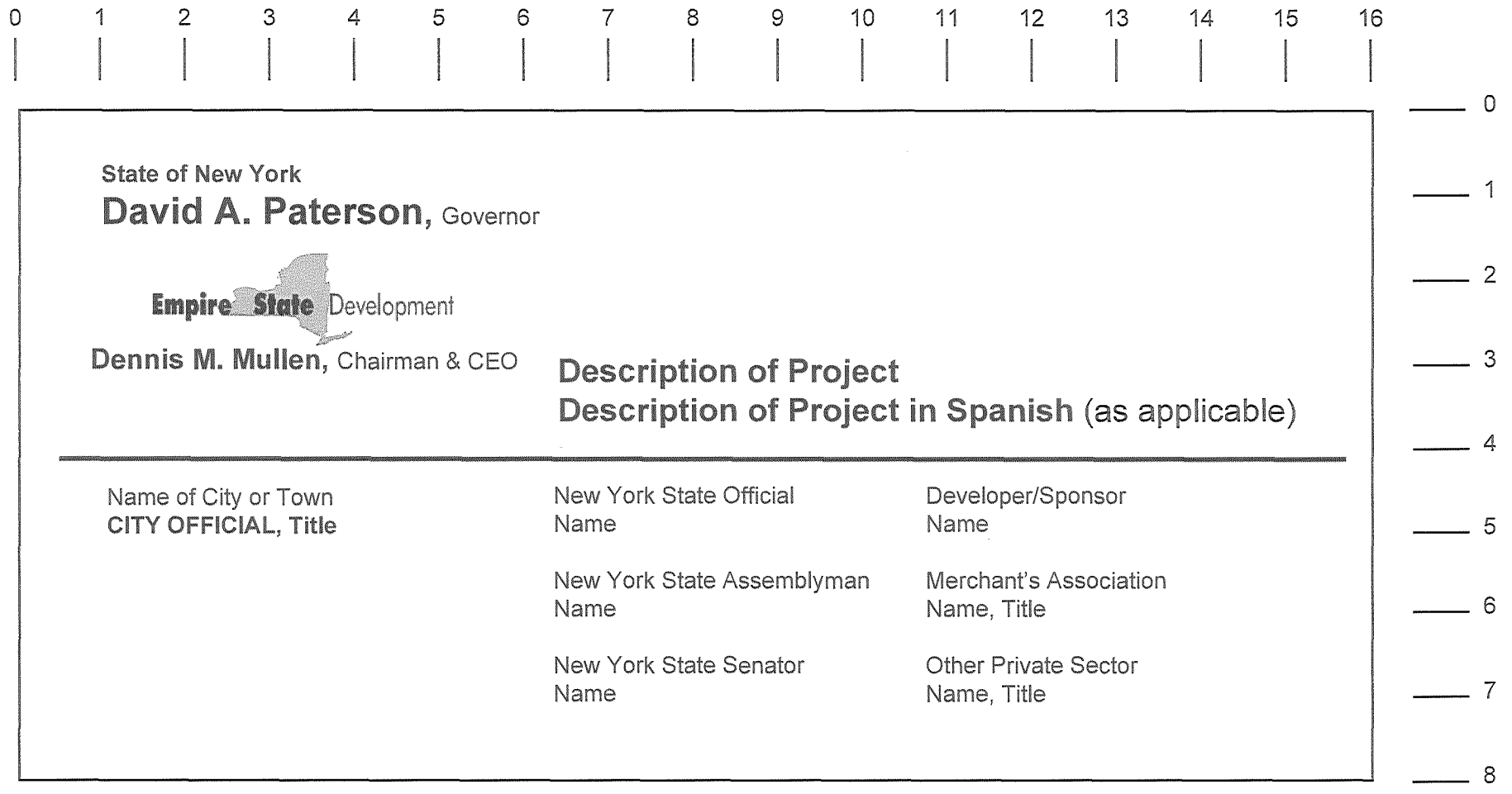
The New York State Urban Development Corporation
d/b/a Empire State Development Corporation

THAT THE BUILDING IS ERECTED ON SITE, AND WITHIN BUILDING RESTRICTIONS, IF ANY ON SITE. IT DOES NOT ENCROACH UPON ANY EASEMENTS OR RIGHT OF WAY IN ANY WAY OTHER THAN SHOWN ON THIS SURVEY. THIS INFORMATION IS TRUE AND CORRECT.

_____ _____

Signature of Surveyor Date

(SEAL)



ESD CONSTRUCTION SIGN

The contractor shall supply and install one sign identifying the project at commencement of construction which shall remain in place until development is completed. The sign can be a minimum of 4 ft. X 8 ft., up to a maximum of 8 ft. X 16 ft., and constructed of 3/4 in. thick exterior grade plywood, secured or supported to comply with all applicable codes and good construction practice. Exact location will be determined by ESD according to local conditions. The sign shall be painted white, front and back, with three coats of exterior grade enamel.

The text shall include the name of the Governor, the heads of the sponsoring State agencies, the name of the project and a list of regional legislators and officials. The exact text and layout shall be provided by ESD Public Affairs Dept... at the time of contract award.

GRAPHIC SPECIFICATIONS

Size: Minimum of 4 'high X 8' wide
Maximum of 8 'high X 16' wide

Color: Blue lettering on white background.
State map outline to be light grey

Font: Helvetica Bold
Helvetica Light

EXHIBIT C: Consultant/Contractor/Vendor Disclosure Statement

GRANTEE:_____
Aqueduct VLT Gaming Facility, Project – Project Number_____

Grantee must complete the following form for each consultant, contractor or vendor it uses whose fee amounts to at least 10% of the total grant or $500, whichever is less.

Grantee must attach a contract for any consultant(s) and contractor(s) used.

I, _____, am the _____of _____ (the "Grantee"), an entity that is duly organized and validly existing under the laws of the State of New York.

I attest that *(Consultant/Contractor/Vendor)*_____was chosen as a consultant/contractor/vendor on Project #«Project_Number» by the Grantee to *(Describe Services.*

_____
_____
_____. No member of the Grantee's Board of Directors or other governing body, or any officer or employee of the Grantee, or a member of the immediate family of any member of the Grantee's Board of Directors or other governing body, officer, or employee of the Grantee has any ownership, control or financial interest in the consultant/contractor/vendor as defined by Section 7(m)(iii) of this agreement.

I attest that *(Consultant/Contractor/Vendor)*_____ was chosen for its services/ products through a process of *(Describe method of selection, including efforts to involve Minority and/or Women-owned Business Enterprises, as defined in Exhibit H, and a description of any relationship between the grantee and the Consultant/Contractor/Vendor.)*_____
_____
_____
_____
_____
_____
_____
_____
_____
_____
_____.

Signature: _____Print Name: _____

Title: _____Date: _____

EXHIBIT D: Project Budget

«Orgn_Name_Client»
«Project_Name», Project «Project_Number»

USES	ESDC Eligible Expenses	SOURCE: List Source Name [	SOURCE: Other	TOTAL
				$0
Total Project Cost:	$0	$0	$0	$0

EXHIBIT E: Opinion of Counsel

[Letterhead of Counsel to the Grantee]

[Date]

Empire State Development Corporation
633 Third Avenue
New York, New York 10017

Attention: «Project_Manager»

Re: Aqueduct VLT Facility - Capital Works and Purposes Necessary to Properly House Video Lottery Terminal Gaming at Aqueduct Racetrack – Project Number

Ladies and Gentlemen:

We have acted as special counsel to «Orgn_Name_Client», a corporation [limited liability company] (the "Grantee"), in connection with the execution and delivery of the Grant Disbursement Agreement dated [Date of Agreement] (the "Agreement") between New York State Urban Development Corporation d/b/a Empire State Development Corporation ("ESDC") and the Grantee.

This opinion letter is being furnished to you at our client's request pursuant to Section 3(a) of the Agreement. Capitalized terms used but not defined herein shall have the meanings assigned thereto in the Agreement.

In rendering the opinions set forth herein, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, corporate records and other instruments as we have deemed necessary or appropriate for the purposes of this opinion letter, including (a) the Agreement, (b) the certificate of incorporation of the Grantee and (c) the by-laws of the Grantee. We have also examined and relied upon such other matters of law, documents, certificates of public officials and representations of officers and other representatives of the Grantee as we have deemed relevant, appropriate or necessary to the rendering of our opinions.

In rendering the opinions expressed below, we have assumed the legal capacity of all natural persons signing documents and that the signatures of persons signing all documents in connection with which this opinion letter is rendered are genuine, all documents submitted to us as originals or duplicate originals are authentic and all documents submitted to us as copies, whether certified or not, conform to authentic original documents. Additionally, we have assumed and relied upon the accuracy and completeness of all certificates and other statements, documents, records, financial statements and papers reviewed by us, and the accuracy and completeness of all representations, warranties, confirmations, schedules and exhibits contained in the Agreement, with respect to the factual matters set forth therein.

As to any facts material to the opinions expressed herein that we did not independently establish or verify, we have relied upon oral or written statements and representations of officers and other representatives of the Grantee and of certain public officials. We have also assumed and relied upon the accuracy and completeness of all certificates and other statements, representations, documents, records, financial statements and papers reviewed by us, and the accuracy and completeness of all representations, warranties and exhibits contained in the Agreement with respect to the factual matters set forth therein.

Based upon the foregoing and subject to the assumptions, qualifications and other matters set forth herein, we are of the opinion that:

1. The Grantee is validly existing and in good standing under the laws of the State of New York and has full power and authority to execute and deliver the Agreement and to perform its obligations thereunder.

2. The Agreement has been duly authorized, executed and delivered by the Grantee and (assuming its due authorization, execution and delivery by ESDC) is binding on and enforceable against the Grantee in accordance with its terms, subject to applicable bankruptcy, insolvency reorganization, arrangement, liquidation, moratorium, fraudulent conveyance or transfer and other similar laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law), and except as rights under the Agreement to indemnity and contribution may be limited by federal or state laws.

We are admitted to practice in the State of New York and we express no opinion as to any matters governed by any laws other than the laws of the State of New York. The opinions expressed herein that are based on the laws of the State of New York are limited to the laws generally applicable in transactions of the type covered by the Agreement.

This opinion letter is for the benefit solely of ESDC and not for the benefit of any other person. We are opining herein only as of the date hereof and we undertake no, and disclaim any, obligation to advise you of any changes in any matter set forth herein, regardless of whether changes in such matters come to our attention after the date hereof. No attorney-client relationship exists or has existed with ESDC by reason of our preparation, execution and delivery of this opinion letter. By providing this opinion letter and permitting reliance hereon by you, we are not acting as your counsel and have not assumed any responsibility to advise you with respect to the adequacy of this opinion letter for your purposes. This opinion letter may not be relied upon by any other person or for any other purpose or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

EXHIBIT F: Disbursement Terms

GRANTEE:_____
«Project_Name», Project «Project_Number»

Subject to the terms and conditions contained in this Agreement, ESDC shall disburse the Grant to the Grantee as follows:

Initial Disbursement

After the execution of this Agreement by EDDC and the Grantee and its delivery to ESDC, the satisfaction of the conditions set forth in Section 3 of the Agreement, and Grantee' establishment of a separate bank account, in a financial institution satisfactory to ESDC, then ESDC shall disburse to such account of the Grantee a sum equal to five percent (5%) of the Grant. These disbursed Grant proceeds shall be deposited and kept in that account until proceeds are used by Grantee for reimbursement or payment of eligible expenses for the Project. Interest, if any, accruing on the proceeds deposited in such separate account shall be promptly paid to ESDC. Grantee shall promptly transmit to ESDC copies of all statements available or received periodic statements and other correspondence with respect to the account.

Subsequent Disbursements (exclusive of the Final Disbursement)

All disbursements after the initial advance shall be for Eligible Expenses (as set forth and in accordance with the budget in Exhibit D and in compliance with Exhibit A-1) incurred by the Grantee. Requisitions for payment after the initial requisition must include supporting documentation in the forms attached to this Agreement as Exhibit G and its attachments and the applicable forms attached as Exhibit B. In addition, the second requisition must include the supporting documentation for the initial advance. ESDC shall reimburse the Grantee, not more frequently than monthly, for eligible expenses actually incurred by the Grantee, in compliance with this Agreement and after presentation to ESDC of a Payment Requisition Form together with such supporting documentation as ESDC may require, in the form attached to this Agreement as Exhibit G and its attachments and the applicable funding design and construction requirements documentation in the forms attached as Exhibit B. The aggregate of the Initial Disbursement and the Subsequent Disbursements will not exceed ninety percent (90%) of the Grant.

Final Disbursement

As stated in Section 4, paragraph (b) of this Agreement, the final ten percent (10%) of the Grant shall not be disbursed by ESDC until all of the tasks and reports required have been completed to ESDC's satisfaction.

Expenditures eligible for reimbursement must have been incurred after May 25, 2010, the date that Chapter 90 of the Laws of 2010, in which the Grant was authorized, took effect.

Supporting documentation must include copies of invoices as well as proof of payment (e.g. cancelled checks (both sides), bank statements, paid credit card statements, or other proof of payment).

ESDC Design & Construction (D&C) Staff will review the construction documents and, at its option, visit the site during construction. Payments will be reviewed and approved when D&C requirements have been met.

ESDC reserves the right to require additional documentation to support payment requisitions.

Wire Transfer Information:

Grantee must provide a letter from a financial officer of the company/organization certifying to the accuracy of the following information:

Bank Name: _____

ABA #: _____

Acct. Name: _____

Acct. #: _____

EXHIBIT G: Payment Requisition Form

Aqueduct Video Lottery Gaming Facility Project, Project # _____ (attn: ESDC project manager)

Payment Request # _____, for $ _____ for work completed between _____ and _____, for Task(s) #

Do not re-type this form. Fill in only the version of the form included in the executed GDA. ESDC funds may be applied by Grantee in payment or reimbursement of the following costs:

THIS REQUEST

USES	A: ESDC SHARE	ESDC APPROVED REVISIONS	C: THIS REQUEST	D: TOTAL REQUESTED TO DATE	E: A-C-D BALANCE
TOTAL	$0				
(10 % Retainage)	0				
AVAILABLE	$0				

FUNDING STATUS

1	Total Project Cost per Exhibit D	
2	Total Eligible Expenses Incurred to Date (including this request)	
3	Balance to be Expended (Line 1 minus Line 2)	

CERTIFICATION

I hereby warrant and represent to the Empire State Development Corporation ("ESDC") that:

1) To the best of my knowledge, information and belief, the expenditures for which Grantee is seeking payment and/or reimbursement comply with the requirements of the Agreement between ESDC and Grantee, are Eligible Expenses, and that the payment and/or reimbursement of expenditures for which it is seeking payment and/or reimbursement from ESDC does not duplicate reimbursement or disbursement of costs and/or expenses from any other source.

2) I have the authority to submit this invoice on behalf of Grantee have been completed in the manner outlined in the Agreement.

3) The disclosure made to ESDC by Grantee on Grantee's Disclosure and Accountability Certification continue to be complete and correct, except as may otherwise have been subsequently disclosed to ESDC in writing.

4) I hereby attach the following documents for ESDC approval, in support of this requisition:

___ Documents in the forms for the funding design and construction requirements (Exhibit B)
___ Consultant/Contractor/Vendor Disclosure Statement (Exhibit C) including contracts as applicable
___ Project Cost Documentation (Exhibit G-2) – CPA-Prepared Project Cost Verification Letter
___ M/WBE Compliance Report (Exhibit H-1)
___ Disclosure & Accountability Certifications (Exhibit J; required only if there is a change to that previously submitted)
___ Other: _____

Signature:_____ Date:_____
Print Name: _____ Title:_____

EXHIBIT G-1: Payment Requisition Cover Letter

ON GRANTEE'S LETTERHEAD

Date

Loans & Grants Invoice Administrator
Empire State Development Corporation
633 Third Avenue
New York, New York 10017

RE: Aqueduct Video Lottery Gaming Facility, Project, Project Number _____

Dear Invoice Administrator:

Enclosed please find our request for payment/reimbursement. The package includes the following:

1. Completed Exhibit B Documentation
2. Completed Exhibit C: Consultant/Contractor/Vendor Disclosure Statement including contracts as applicable
3. Completed Exhibit G: Payment Requisition Form
4. Project Cost Documentation – Completed Exhibit G-2 – CPA-prepared Project Cost Verification Letter
5. Completed Exhibit J: Disclosure & Accountability Certifications form (required only if there is a change to that previously submitted)

If any further information is needed, please give me a call at (___)_____.

_____
Signature

Print Name _____

Title _____

Enclosures

EXHIBIT G-2: CPA-prepared Project Cost Verification Letter

]

[CPA Letterhead]

Report of Independent Accountants

Date

«Grantee Contact_Name_Title»
«Grantee_Orgn_Name»
«Street_Address»
«CitySTZip_Client»

Empire State Development Corporation
633 Third Avenue
New York, New York 10017
(Project Manager)

Re: Aqueduct Video Lottery Gaming Facility Project #_____-Verification of Project Costs

We have performed the procedures enumerated below, which were agreed to by [Grantee Orgn_Name] (the "Company") and Empire State Development Corporation ("ESD") (collectively the "specified parties"), solely to assist ESD in determining whether cost expenditures were incurred in a manner established by the project documents as follows:

> Project costs for capital works or purposes, including, but not limited to, costs for the design, acquisition, construction and equipment, for such structures as may be necessary to properly house video lottery terminal gaming at Aqueduct racetrack, including, but not limited to, the costs of studies, appraisals, surveys, testing, environmental impact statements, infrastructure, facility design, construction and equipment, cost of leasing space, professional fees and costs and issuance of insurance. Expenses must be incurred on or after _____ (the date that the New York State budget, in which the project is authorized, was passed) to be considered eligible project costs.

Management is responsible for Company compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

1. Obtained the attached "Statement of Actual Costs" for the Project (Aqueduct Video Lottery Gaming Facility, Project # _____) prepared by the Company.

2. Agreed the total per the Statement of Actual Costs to the Company's financial accounting records -

the fixed asset subledger (….or name appropriate financial record report)

3. For costs and expenses appearing on the Statement of Actual Costs, selected a sample for detailed testing of underlying transactions. [CPA will indicate method of selection, dollar value and percentage of items sampled.]

4. For each asset or expense item selected, obtained the supporting documentation, such as purchase orders, receiving reports, invoices and cancelled checks as deemed appropriate [CPA will indicate which documentation was used].

5. Examined the supporting documentation for sampled items, noting the invoice date, invoice number and invoice amount. Agreed the dollar amount on the invoice to the Company's financial accounting records (fixed asset subledger - or appropriate report name) and the statement of actual costs.

6. For each invoice examined, obtained the related wire transfer documentation noting the wire transfer date, number, and amount. Then, agreed the wire transfer amount to the vendor invoice amount.

7. For each asset or expense item selected, determined that such sampled item is a capital expense in accordance with applicable state and federal law.

[Summarize any exceptions, if applicable]

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties and is not intended to be and should not be used by anyone other than these specified parties.

(CPA)

Attachment: Statement of Actual Costs, (Aqueduct Video Lottery Gaming Facility Project, Project #_____)

Exhibit G-2A

Project Cost Summary for ESDC-Eligible Expenses*

Aqueduct Video Lottery Gaming Facility Project, Project #_____

Item#*	Check#	$ Amount	Invoice date	Vendor Name	Description of Item or Service
TOTAL:					

PREPARED BY: _____ DATE: _____

*** Eligible Expenses – list only the costs to be reimbursed by ESDC. Indicate item numbers clearly on any supporting documentation such as cancelled checks, bank statements and invoices. Use additional copies of form as necessary.**

Exhibit G-3
[Lottery Letterhead]

[DATE]

Empire State Development Corporation
633 Third Avenue
New York, New York 10017

Re: Aqueduct Video Lottery Gaming Facility Project #_____
Lottery Acknowledgment

Ladies and Gentlemen:

The New York State Division of the Lottery (the "Lottery") acknowledges and confirms that [NAME OF GRANTEE] (the "Grantee") is in compliance with the Lottery's requirements in connection with the Grant Disbursement Agreement dated [DATE OF AGREEMENT] between the New York State Urban Development Corporation d/b/a Empire State Development Corporation and the Grantee, as of the date of this letter.

Very truly yours,

William J. Murray
Deputy Director and General Counsel

EXHIBIT H: Non-Discrimination and Affirmative Action Policy

It is the policy of the State of New York and ESDC, to comply with all federal, State and local law, policy, orders, rules and regulations which prohibit unlawful discrimination because of race, creed, color, national origin, sex, sexual orientation, age, disability or marital status, and to take affirmative action to ensure that Minority and Women-owned Business Enterprises (M/WBEs), Minority Group Members and women share in the economic opportunities generated by ESDC's participation in projects or initiatives, and/or the use of ESDC funds. The recipient of State funds represents that its equal employment opportunity policy statement incorporates, at a minimum, the policies and practices set forth below:

1) Borrower shall (i) not unlawfully discriminate against employees or applicants for employment because of race, creed, color, national origin, sex, sexual orientation, age, disability or marital status, (ii) undertake or continue existing programs of affirmative action to ensure that Minority Group Members and women are afforded equal employment opportunities, and (iii) make and document its conscientious and active efforts to employ and utilize M/WBEs, Minority Group Members and women in its workforce on contracts. Such action shall be taken with reference to, but not limited to, solicitations or advertisements for employment, recruitment, job assignment, promotion, upgrading, demotion, transfer, layoff or termination, rates of pay or other forms of compensation, and selection for training or retraining, including apprenticeship and on-the-job training.

2) Borrower represents and warrants that, for the duration of the Agreement, it shall furnish all information and reports required by the ESDC Affirmative Action Unit and shall permit access to its books and records by ESDC, or its designee, for the purpose of ascertaining compliance with provisions hereof.

ESDC NON-DISCRIMINATION AND AFFIRMATIVE ACTION DEFINITIONS

Affirmative Action

Shall mean the actions to be undertaken by the Borrower, Grantee and any Contracting Party in connection with any project or initiative to ensure non-discrimination and Minority/Women-owned Business Enterprise and minority/female workforce participation.

Minority Business Enterprise (MBE)

Shall mean a business enterprise, including a sole proprietorship, partnership or corporation that is: (i) at least fifty-one percent (51%) owned by one or more Minority Group Members; (ii) an enterprise in which such minority ownership is real, substantial and continuing; (iii) an enterprise in which such minority ownership has and exercises the authority to control and operate, independently, the day-to-day business decisions of the enterprise; (iv) an enterprise authorized to do business in the State of New York and is independently owned and operated; and (v) an enterprise certified by New York State as a minority business.

Minority Group Member

Shall mean a United States citizen or permanent resident alien who is and can demonstrate membership in one of the following groups: (i) Black persons having origins in any of the Black African racial groups; (ii) Hispanic persons of Mexican, Puerto Rican, Dominican, Cuban, Central or South American descent of either Indian or Hispanic origin, regardless of race; (iii) Asian and Pacific Islander persons having origins in any of the Far East countries, South East Asia, the Indian subcontinent or the Pacific Islands; and (iv) Native American or Alaskan native persons having origins in any of the original peoples of North America.

Women-owned Business Enterprise (MWBE)

Shall mean a business enterprise, including a sole proprietorship, partnership or corporation that is: (i) at least fifty-one percent (51%) owned by one or more citizens or permanent resident aliens who are women; (ii) an enterprise in which the ownership interest of such women is real, substantial and continuing; (iii) an enterprise in which such women ownership has and exercises the authority to control and operate, independently, the day-to-day business decisions of the enterprise; (iv) an enterprise authorized to do business in the State of New York and is independently owned and operated; and (v) an enterprise certified by New York State as woman-owned.

EXHIBIT H-1: M/WBE COMPLIANCE REPORT

PROJECT SPONSOR/DEVELOPER
(the "Reporting Company"): _____

ADDRESS: _____

_____

TELEPHONE: _____

CONTACT PERSON: _____

ESD AA REPRESENTATIVE: _____

PROJECT NAME: _____ PROJ.#:_____

PROJECT START DATE: _____ PERCENT COMPLETE: _____

ACTUAL COMPLETION DATE:

Attach M/WBE contract documentation, i.e. executed contracts, final lien waivers, cancelled checks, etc./ or documentation describing "Best Efforts" taken to achieve M/WBE program. This report should be completed by an officer of the Reporting Company.

PRIME CONTRACTOR (Name, Address, Contact Person and Phone)	CONTRACT AMOUNT	M/WBE SUBCONTRACTOR (Name, Address, Contact Person and Phone)	SCOPE OF SERVICES	M/WBE CONTRACT AMOUNT	M/WBE PAYMENT PREVIOUS REPORT	M/WBE PAYMENT CURRENT REPORT	M/WBE AMOUNT PAID TO DATE

CERTIFICATION:

I, _____ (Print Name), the _____ (Title), do certify that (i) I have read this Compliance Report and (ii) to the best of my knowledge, information and belief, the information contained herein is complete and accurate.

SIGNATURE _____ DATE _____

Questions? Please contact: _____ of ESD's Affirmative Action Unit at (212) 803-_____.

EXHIBIT I: Special Provisions

In the event of any conflict between Exhibit A of this Agreement and any other provisions of this Agreement, the terms of such other provisions shall govern.

The following sections of the Terms and Conditions of this Agreement are waived:

If the company is not a corporation but a limited liability company (LLC):

In 7(c), reference to "corporation" shall mean limited liability company, reference to "incorporation" shall mean organization, and reference to "corporate" shall mean organizational.

If Grant will be used for payment to a consultant or vendor who also serves as an officer or board member of grantee or is an "owner," as defined below [you will have to ask the Grantee if this is expected to apply]:

Section 7(m)(iii) of Terms and Conditions is amended as follows (underlined text shows addition):

The grant shall not be used in any manner for any of the following purposes:
payments to any firm, company, association, corporation or organization in which a member of the Grantee's Board of Directors or other governing body, or any officer or employee of the Grantee, or a member of the immediate family of any member of the Grantee's Board of Directors or other governing body, officer, or employee of the Grantee has any ownership, control or financial interest, except as disclosed by the Grantee and accepted by ESDC. For purposes of this paragraph, "ownership" means ownership, directly or indirectly, of more than five (5) percent of the assets, stock, bonds or other dividend or interest bearing securities; and "control" means serving as a member of the board of directors or other governing body, or as an officer in any of the above;

Exhibit J: DISCLOSURE & ACCOUNTABILITY CERTIFICATIONS

See Certification Form Attached

SECTION 12: DISCLOSURE & ACCOUNTABILITY CERTIFICATIONS

A. No Conflict of Interest

Except as otherwise fully disclosed herein and accepted by the parties hereto, the Grantee/Recipient affirms under penalty of perjury that neither the Sponsoring Member(s) nor any Related Parties to Sponsoring Member(s) has any financial interest, direct or indirect, in the Grantee/Recipient or in any of the Grantee/Recipient's equity owners, or has received or will receive any financial benefit, either directly or indirectly, from the Grantee/Recipient or its Related Parties.

B. Good Standing

Except as otherwise fully disclosed herein and accepted by the parties hereto, the Grantee/Recipient affirms under penalty of perjury that:

(A) At no time during the past five years has the Grantee/Recipient or any of the Grantee/Recipient's affiliates, principal owners or officers: (1) been debarred from entering into any government contract; (2) been found non-responsible on any government contract; (3) been declared in default and/or terminated for cause of any government contract; (4) been determined to be ineligible to bid or propose on any contract; (5) been suspended from bidding or entering into any government contract; (6) received an overall unsatisfactory performance rating from any government agency on any contract; (7) been subject to any judgments, injunctions or liens including but not limited to, judgments based on taxes owed, fines and penalties assessed by any governmental agency, or elected official against Grantee/Recipient; (8) been investigated by any governmental agency including, but not limited to, federal, state and local regulatory agencies; (9) been convicted of a misdemeanor and/or found in violation of any administrative, statutory or regulatory provisions; (10) been the subject of any felony, misdemeanor, or administrative charges; (11) been subject to any sanctions imposed as a result of judicial or administrative disciplinary proceedings; (12) failed to file any federal, state or city tax returns; (13) (to the extent the entity is a charity or not-for-profit organization) failed to file and all required forms with any government entity regulating the entity; (14) received a grant of immunity for any business-related conduct constituting a crime under local, State or Federal law; (15) agreed to a voluntary exclusion from bidding/contracting; (16) received a violation of State Labor Law deemed willful; (17) received a denial, decertification, revocation or forfeiture of Women's Business Enterprise, Minority Business Enterprise or Disadvantaged Business Enterprise status; (18) received a rejection of a low bid on a local, State or Federal contract for failure to meet statutory affirmative action or M/WBE requirements on a previously held contract; (19) received a consent order with the New York State Department of Environmental Conservation or a Federal, State or local government enforcement determination involving a violation of Federal, State or local government laws; or (20) received an occupational Safety and Health Act citation and Notification of Penalty containing a violation classified as serious or willful;

(B) At no time within the last seven years has the Grantee/Recipient or any of the Grantee/Recipient's affiliates, principal owners or officers been involved in any bankruptcy proceeding (whether or not closed);

(C) At no time within the last ten years has the Grantee/Recipient or any of the Grantee/Recipient's Affiliates, principal owners or officers been convicted of a felony, and/or any crime related to truthfulness and/or business conduct; and

(D) That neither the Grantee/Recipient nor any of the Grantee/Recipient's Related Parties paid any third party or agent, either directly or indirectly, to aid in the securing of this Agreement.

C. Funds Used Solely for Public Purpose

The Grantee/Recipient affirms under penalty of perjury that all funds to be expended pursuant to the terms of a grant to be awarded in accordance with the terms of the accompanying application are to be used solely and directly for the public purpose or public purposes specified in the accompanying application. The Grantee/Recipient further swears and affirms that all such funds will be used solely in the manner described in the application.

D. Definitions

As used herein in this Exhibit:

(1) "Affiliate" means any person or entity that directly or indirectly controls or is controlled by or is under common control or ownership with the specified party.

(2) "Grantee" or "Recipient" means the party or parties designated to receive funds pursuant to a Member Initiative Form, or their employees and Affiliates.

(3) "Related Party" means: (i) the party's spouse, (ii) natural or adopted descendants of the party or of the spouse, (iii) any sibling of the party or of the spouse, (iv) the son-in-law, daughter-in-law, brother-in-law, sister-in-law, father-in-law, or mother-in-law of any of the foregoing, (v) any person sharing the home of any of the foregoing, (vi) any staff member, employee, director, officer or agent of the party, and (vii) Affiliates or subcontractors of the party.

(4) "Sponsoring Member(s)" means the sponsoring Assemblyman or State Senator as identified by the Member Initiative Form and listed herein, or in the event no such specific Assemblyman or Senator is identified on the Member Initiative Form, it shall be the local Assemblyman and State Senator as listed herein. In addition, "Sponsoring Member(s)" shall include the Governor when appropriate as listed herein.

E. **Disclosure (use additional sheets, if necessary; if "none", please so indicate below)**

(A) Conflict of Interest (see "I.")

(B) Good Standing (see "II(A)-(D)")

The undersigned: recognizes that this Certification is submitted for the express purpose of assisting the State of New York or its agencies and political subdivisions to make a determination regarding the award of a contract or approval of a subcontract; acknowledges that the State of New York or its agencies and political subdivisions may in its discretion, by means which it chooses, verify the truth and accuracy of all statements made herein; acknowledges that intentional submission of false or misleading information may constitute a felony under Penal Law Section 210.40 or a misdemeanor under Penal Law Section 210.45, and may also be punishable by a fine or up to $10,000 or imprisonment of up to five years under 18 U.S.C. Section 1001; and states that the information submitted in this Certification and any attached pages is true, accurate and complete.

Name of Grantee/Recipient

Signature of Officer/Date

Address

Typed Copy of Signature

City, State, Zip

Title

Sworn to before me this

_____ day of _____, 20____

Notary Public

MOU SCHEDULE B

ENVIRONMENTAL REPORTS

(COPIES OF THE FOLLOWING DOCUMENTS WERE PUBLISHED IN THE ENVIRONMENTAL NOTICE BULLETIN OF THE DEPARTMENT OF ENVIRONMENTAL CONSERVATION AND REMAIN PUBLICLY AVAILABLE.)

Full Environmental Assessment Form (EAF), dated March 10, 2004

Part 1 – Project Information

Part 2 – Project Impacts and Their Magnitude

Part 3 – Evaluation of the Importance of Impacts

Negative Declaration, Dated, March 10, 2004

Sitework to include repaving and restriping of existing parking lots. Greenspace and planting shall be added; planting of trees throughout the site. Dark sky compliant lighting and addition of vegetative screening shall be implemented.

Traffic – Improvement and mitigation measures describe in Part 3 shall be implemented prior to opening of Video Lottery Operations.

Energy – Increased energy demand will be mitigated via the supplier (ConEd) and contract specifications of the applicable design engineers.

MOU SCHEDULE C

DEFINITION OF "PROHIBITED PERSONS"

"Prohibited Person" means:

(i) any individual, corporation, partnership, joint venture, estate, trust, limited liability company, or unincorporated association; any federal, state, county or municipal government or any bureau, department or agency thereof; and any fiduciary acting in such capacity on behalf of any of the foregoing ("**Person**") that is in default or in breach, beyond any applicable grace period, of its obligations under any material written agreement with the City of New York (the "City"), the State of New York (the "State") or ESDC, or (b) that directly or indirectly controls, is controlled by, or is under common control with a Person that is in default or in breach, beyond any applicable grace period, of its obligations under any material written agreement with the City, the State, or ESDC, unless such default or breach has been waived in writing by the City, the State, or ESDC, as the case may be.

(ii) any Person (a) that has been convicted in a criminal proceeding for a felony or any crime involving moral turpitude or that is an organized crime figure or is reputed to have substantial business or other affiliations with an organized crime figure, or (b) that directly or indirectly controls, is controlled by, or is under common control with a Person that has been convicted in a criminal proceeding for a felony or any crime involving moral turpitude or that is an organized crime figure or is reputed to have substantial business or other affiliations with an organized crime figure.

(iii) any government, or any Person that is directly or indirectly controlled (rather than only regulated) by a government, that is finally determined to be in violation of (including, but not limited to, any participation in an international boycott in violation of) the Export Administration Act of 1979, as amended, or any successor statute, or the regulations issued pursuant thereto, or any government that is, or any Person that, directly or indirectly, is controlled (rather than only regulated) by a government that is subject to the regulations or controls thereof.

(iv) any government, or any Person that, directly or indirectly, is controlled (rather than only regulated) by a government, the effects of the activities of which are regulated or controlled pursuant to regulations of the United States Treasury Department or executive orders of the President of the United States of America issued pursuant to the Trading with the Enemy Act of 1917, as amended.

(v) any Person that is in default in the payment to the City of any real estate taxes, sewer rents or water charges totaling more than Ten Thousand Dollars ($10,000.00) (or any Person that directly controls, is controlled by, or is under common control with a Person in such default), unless such default is then being contested in good faith in accordance with the law.

(vi) any Person (a) that has owned at any time during the three (3) years immediately preceding a determination of whether such Person is a prohibited Person any property that, while in the ownership of such Person, was acquired by the City by in rem tax foreclosure, other than a property in which the City has released or is in the process of releasing its interest to such Person pursuant to the administrative code of the City or (b) that, directly or indirectly controls, is controlled by, or is under common control with such a Person.

The determination as to whether any Person is an organized crime figure or is reputed to have substantial business or other affiliations with an organized crime figure, or directly or indirectly controls, is controlled by, or is under common control with a Person that is an organized crime figure or is reputed to have substantial business or other affiliations with an organized crime figure shall be within the reasonable discretion of State.

Appendix 3

Assignment and Assumption of Facilities Ground Lease

Exhibit B

ASSIGNMENT AND ASSUMPTION OF FACILITIES GROUND LEASE

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT ("Agreement") made and entered into this _____ day of _____, 200__, (the "Effective Date") by and between THE NEW YORK RACING ASSOCIATION, INC., a not-for-profit racing corporation incorporated pursuant to Section 402 of the Not-For-Profit Corporation Law of New York, as authorized by Chapter 18 of the Laws of 2008, with a place of business at 110-00 Rockaway Boulevard, South Ozone Park, New York 11417 ("Assignor"), and [INSERT NAME OF VLT OPERATOR], with an office at [_____] ("Assignee").

WITNESSETH:

WHEREAS, Assignor and THE PEOPLE OF THE STATE OF NEW YORK ACTING BY AND TROUGH THE NEW YORK STATE FRANCHISE OVERSIGHT BOARD PURSUANT TO CHAPTER 18 OF THE LAWS OF 2008 (the "State") entered into that certain Facilities Ground Lease Agreement dated as of September 12, 2008 by and between the State, as Lessor, and Assignor, as Lessee (the "Lease").

WHEREAS, Assignor hereby desires to assign, sell, transfer, set over and deliver to Assignee and Assignee hereby desires to accept from Assignor the Lease subject to the terms and conditions herein mentioned.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. The foregoing recitals are incorporated herein by reference. Capitalized and defined terms used in this Agreement shall have the same meanings as those ascribed to them in the Lease unless the context clearly requires otherwise. In the event that the terms of this Agreement conflict with the terms of the Lease, the terms of this Agreement control.

2. Assignor hereby sells and assigns the Lease to Assignee, effective from and after the Effective Date through the remainder of the term of such Lease, subject to the covenants and conditions therein mentioned, together with all right, title and interest of Assignor.

3. Assignee hereby agrees to assume the obligations of Assignor under the Lease accruing from and after the Effective Date through the balance of the term thereof, and to pay the rent and additional rent, and to faithfully perform all of the covenants, stipulations and agreements contained therein and to stand fully liable upon said Lease. Nothing contained in this Agreement shall be deemed to amend, modify, or alter in any way the terms, covenants and conditions set forth in the Lease.

4. Assignor and Assignee hereby represent and warrant that each has the full power and authority to execute this Agreement. Assignor hereby represents and warrants

that (i) the Lease is in full force and effect and has not been modified, amended or terminated, (ii) Assignor has no claims, offsets or defenses against the Lessor under the Lease, and (iii) it has not transferred, encumbered or conveyed its interest in the Lease to any person or entity, collaterally or otherwise.

5. Assignor shall, upon the reasonable request of Assignee, execute, acknowledge and deliver all such further acts, deeds, assignments, transfers, conveyances and assurances, and take all such further actions, as Assignee may reasonably request to give effect to the assignment hereby consummated.

6. This Agreement shall be governed by the laws of the State of New York without regard to the principles of conflicts of laws.

7. This Agreement may be executed in any number of counterparts, provided each of the parties hereto executes at least one counterpart; each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

8 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Assignment and Assumption of Facilities Ground Lease has been executed by Assignor and Assignee as of this ____ day of _____, 200__.

THE NEW YORK RACING ASSOCIATION, INC.

By: _____
Name: Patrick L. Kehoe
Title: General Counsel

[ASSIGNEE]

By: _____
Name: JOHN U. FINAMORE
Title: PRESIDENT

Appendix 4

Sublease

Exhibit C

SUBLEASE AGREEMENT

SUBLEASE AGREEMENT (this "Sublease"), dated as of _____, ____, by and between _____ having an address at _____ (the "Sublessor"), and THE NEW YORK RACING ASSOCIATION, INC, a not-for profit racing corporation incorporated pursuant to Section 402 of the Not-For-Profit Corporation Law of the State of New York, as authorized by Chapter 18 of the Laws of 2008, with a place of business at 110-00 Rockaway Boulevard, South Ozone Park, New York 11417 (the "Sublessee"), sometimes collectively referred to herein as the "Parties" or singularly as a "Party."

RECITALS

On September 12, 2008, and pursuant to (i) the authority granted by Chapter 18 of the Laws of 2008 passed February 13, 2008, by the New York State Senate and the New York State Assembly, and signed into law by the Governor of the State on February 19, 2008, as amended (the "Legislation") (ii) the Chapter 11 plan filed by The New York Racing Association Inc. ("Old NYRA") pursuant to section 1121(a) of the Bankruptcy Code (the "Plan"), as confirmed by an order, dated April 28, 2008, of the United States Bankruptcy Court for the Southern District of New York and (iii) the State Settlement Agreement made by and among Old NYRA, Sublessee and the State of New York, the New York State Racing and Wagering Board, The New York State Non-Profit Racing Association Oversight Board and The New York State Division of the Lottery (the "Settlement Agreement"), Old NYRA conveyed all right, title and interest in and to the entire Aqueduct Racetrack (which term is defined below) to The People of the State of New York Acting by and through The State Franchise Oversight Board Pursuant to Chapter 18 of the Laws of 2008 (the "State"). The State Franchise Oversight Board (the "FOB") and Sublessee subsequently entered into that certain Franchise Agreement dated September 12, 2008 (the "Franchise Agreement"), pursuant to which Sublessee was granted the Franchise (as hereinafter defined) to conduct thoroughbred racing and pari-mutuel wagering with respect to thoroughbred racing at the "Aqueduct Racetrack" (which term is intended to include all of the real property and improvements associated with the racetrack and other facilities at Aqueduct Racetrack, including but not limited to parcels of land to be leased, subleased or licensed now or in the future, and sometimes referred to herein as the "Property"), and as more particularly described and depicted on Exhibit A-1 attached hereto.

In order for Sublessee to operate the Franchise, the State was authorized pursuant to the Legislation to ground lease to Sublessee a portion of the Property. Pursuant to that certain "Facilities Ground Lease", dated September 12, 2008, between the State and Sublessee, the State, acting through the FOB, did ground lease to Sublessee a portion of the Property, as more particularly described and depicted in Exhibit A-2 annexed hereto (the "Facilities Ground Leased Premises"), all for such rentals, and upon such terms and conditions, contained in the Facilities Ground Lease.

The State, acting through the FOB, and Sublessee also entered into that certain "Racetrack Ground Lease" dated September 12, 2008, pursuant to which the State ground leased to Sublessee the remaining portions of the Aqueduct Racetrack not subject to the Facilities Ground Lease (the "Racetrack Ground Leased Premises"), all for such rentals, and upon such terms and conditions, contained in the Racetrack Ground Lease.

The Parties intend that: (i) Sublessee will assign its interest as lessee in the Facilities Ground Lease to the VLT Operator (hereinafter defined), pursuant to the terms and conditions contained in that certain "Assignment and Assumption of Facilities Ground Lease" between Sublessee, as assignor, and Sublessor, as assignee; (ii) VLT Operator, as lessee, and the FOB, on behalf of and for the benefit of the State ("Landlord"), as lessor, will amend and restate the Facilities Ground Lease; (iii) VLT Operator, as sublessor, and Sublessee will enter into this Sublease Agreement for a portion of the Facilities Ground Leased Premises, more particularly set forth herein; and (iv) the State, as landlord under the Facilities Ground Lease, will enter into a Non-disturbance and Attornment Agreement and an Omnibus Agreement (hereinafter defined) with Sublessee, as sublessee under this Sublease Agreement. The Parties agree that none of the actions listed in the preceding sentence shall be effective unless they all occur and occur one immediately after the other in the order in which they are listed in the preceding sentence.

Sublessor hereby subleases to Sublessee, and Sublessee hereby takes from Sublessor, the interior of a portion of the Facilities Ground Leased Premises, as more particularly described in the attached Exhibit B (the "Subleased Premises") (subject to Sublessee's expansion rights contained in Section 4.6(c) and the provisions of Section 7.15 herein), for such rental, and upon such terms and conditions, as contained in this Sublease.

ARTICLE I
EXHIBITS TO SUBLEASE AND DEFINITIONS

1.1 EXHIBITS:

Attached to this Sublease and hereby made a part hereof are the following:

EXHIBIT A-1,being a description of the "Property", which shall comprise the entire Aqueduct Racetrack, including the Facilities Ground Leased Premises and the Racetrack Ground Leased Premises.

EXHIBIT A-2, being a description of the "Facilities Ground Leased Premises", which shall consist of all portions of the Aqueduct Racetrack not subject to the Racetrack Ground Lease.

EXHIBIT B - being a description of the Subleased Premises.

EXHIBIT C, being a description of the VLT Premises (hereinafter defined).

EXHIBIT D, being a description of the Future Development Area (hereinafter defined).

EXHIBIT E, being a description of the Clubhouse (hereinafter defined).

EXHIBIT F, being a description of the Grandstand (hereinafter defined).

EXHIBIT G, being a description of the Parking Areas (hereinafter defined).

EXHIBIT H, being a description of the Real Estate Development Parcels (hereinafter defined)

EXHIBIT I, being a copy of the Capital Plan.

EXHIBIT J, being a list of Permitted Subleases.

EXHIBIT K, being a Memorandum of Sublease

EXHIBIT L, being Sublessee's Insurance Requirements

1.2 DEFINITIONS:

Capitalized terms not otherwise defined herein shall have the respective meanings given them in the Facilities Ground Lease and/or Franchise Agreement. The following terms for purposes of this Sublease shall have the meanings hereinafter specified:

"Additional Charges" shall mean all other taxes, levies, impositions, assessments or whatever type or nature levied or assessed against the Facilities Ground Leased Premises, Improvements, and/or Sublessee, other than Taxes.

"Building" shall mean the building within which the Clubhouse and Grandstand are located as depicted on the attached Exhibits. Exhibit B depicts those portions of the Building that comprise the Subleased Premises. Exhibit C depicts those portions of the Building that comprise the VLT Premises. Exhibit D depicts those portions of the Building that comprise the Future Development Area.

"Building Area" shall mean all of the Facilities Ground Leased Premises excluding the Parking Areas.

"Building Standard" shall mean a standard of operation, maintenance, security, repair, restoration, improvement and alteration with respect to the Subleased Premises which shall mean that the Subleased Premises shall be maintained in good, safe and clean condition and repair, in a manner not to detract from the commercial appeal of the VLT Operations.

"Clubhouse" shall mean the three-story enclosed structure located on the Facilities Ground Leased Premises, which constitutes a portion of the Building. Exhibit E depicts those portions of the Building that comprise the Clubhouse.

"Commencement Date" shall mean the date first above written, on which date this Sublease has been fully executed by Sublessor and Sublessee.

"Common Facilities" shall mean the parking areas, parking structures, streets, driveways, fences, tunnels, hallways, service roads, sidewalks, entrances, exits, means of ingress and egress, landscaping, common utilities and sewer lines, alleyways, loading docks and lanes, truck and delivery passages, exterior ramps, outdoor lighting facilities, pylon and other in common signs and sign structures and other common and service areas within the Facilities Ground Leased Premises or located at the Facilities Ground Leased Premises or servicing the Facilities Ground Leased Premises and utilized in common by Sublessor, Sublessee and any Occupants. Certain of the Common Facilities are depicted on the attached Exhibits to this Lease.

"Contaminants" shall mean any material, substance or waste classified, characterized or regulated as toxic, hazardous or a pollutant or contaminant under any Requirements, including asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or the equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million.

"Contractor" shall mean any construction manager, contractor, subcontractor, laborer or materialman who shall supply goods, services, labor or materials in connection with the development, construction, management, maintenance or operation of any part of the Facilities Ground Leased Premises.

"Default Rate" The rate of interest per annum applicable to judgment claims in the State of New York.

"Facilities Ground Leased Premises" shall mean all portions of the Aqueduct Racetrack not subject to the Racetrack Ground Lease.

"Franchise" shall mean the authority granted to Sublessee to conduct racing and pari-mutuel wagering with respect to thoroughbred racing at the Property, as provided for in the Legislation and the Franchise Agreement.

"Franchise Agreement" shall have the meaning set forth in the Recitals.

"Future Development Area" shall mean that portion of the Building which excludes the Subleased Premises, the VLT Premises and the Common Facilities located within the Building. Exhibit D depicts those portions of the Building that comprise the Future Development Area.

"Grandstand" shall mean the structure, which constitutes a portion of the Building. Exhibit F depicts those portions of the Building that comprise the Grandstand.

"Improvements" shall mean all buildings, structures, improvements and other real and personal property associated therewith from time to time on the Facilities Ground Leased Premises.

"Land" shall mean those certain tracts of land underlying the Facilities Ground Leased Premises.

"Non-Disturbance Agreement" shall mean that certain Non-Disturbance Agreement dated as of the date hereof by and between Sublessee and the State.

"Occupants" shall mean any and all lessees, sublessees and licensees occupying at any time any or all of the VLT Premises, the Future Development Area and the Real Estate Development Parcels (prior to the release to the State) other than Sublessee.

"Omnibus Agreement" shall mean that certain Omnibus Agreement dated as of the date hereof by and between Sublessee and the State.

"Parking Areas" shall mean the parking areas and roads within the exterior Common Facilities. Exhibit G depicts those portions of the exterior Common Facilities that comprise the Parking Areas.

"Parking Area Adjustments" means seventy-five (75%) percent (since Sublessee's operations are seasonal in nature).

"Person" shall mean a corporation, an association, a partnership (general or limited), a limited liability company, a joint venture, a limited liability partnership, a private company, a public company, a limited life public company, a trust or fund (including but not limited to a business trust), an organization or any other legal entity, an individual or a government or any agency or political subdivision thereof.

"Real Estate Development Parcels" shall mean certain parcels located on the Parking Areas as depicted on Exhibit H.

"Requirements" shall mean all applicable laws, rules, regulations or other legal requirements enacted by a Governmental Authority having jurisdiction over the Subleased Premises or the operations or the activity at the Subleased Premises, including but not limited to the protection of the environment.

"State" shall mean the People of the State of New York.

"State Comptroller" shall mean the Office of the Comptroller of the State of New York.

"Sublease Year" Each calendar year during the Term of this Sublease, with the first Sublease Year being the partial year beginning on the Commencement Date and ending

on December 31 of the date in which the Commencement Date occurs, and the final Sublease Year expiring on the Expiration Date.

"Sublessee's Building Area Proportionate Share" shall mean a fraction having as its numerator the number of gross square feet located within the Building that comprises the Subleased Premises (which the parties agree is currently _____), and as its denominator the sum of (i) the number of gross square feet located within the Subleased Premises, the Future Development Area (to the extent it is leased and occupied by the VLT Operator or leased, licensed or otherwise occupied by any Occupant) and the VLT Premises combined (which the parties agree is currently _____). The Parties also agree that Sublessee's Building Area Proportionate Share will be adjusted in the following manner: (i) by increasing the denominator if and at such time Sublessor increases the size of the VLT Premises into or any Occupant occupies all or a portion of the Future Development Area or otherwise, and (ii) by increasing the numerator if and at such time Sublessee increases the size of the Subleased Premises into all or a portion of the Future Development Area.

"Sublessee's Parking Proportionate Share" shall mean (i) prior to the Phase II Development, the same as the Sublessee's Building Area Proportionate Share, and (ii) subsequent to the Phase II Development, a fraction having as its numerator the number of gross square feet located within the Building that comprises the Subleased Premises (which the parties agree is currently _____), and as its denominator the sum of the number of gross square feet located within the Subleased Premises, the VLT Premises, the Future Development Area, to the extent the Future Development Area is leased and occupied by the VLT Operator or leased, licensed or otherwise occupied by anyone else, and any buildings constructed on the Real Estate Development Parcels provided, however, Sublessee's Parking Proportionate Share shall never exceed on a per square foot basis the Parking Areas Operating Expense that is being paid by Sublessor, as further appropriately adjusted by the Operating Expense Exclusions and the Parking Area Adjustments (without any double counting).

"Sublessee's Parking Contribution" means Sublessee's Parking Proportionate Share multiplied by the Operating Expense attributable to the Parking Areas and as further adjusted by the Parking Area Adjustments.

"Sublessee's Building Area Contribution" means Sublessee's Building Area Proportionate Share multiplied by the Operating Expenses attributable to the Building Area.

"VLT Operator" and "VLT Operations" shall have the meanings specified in Section 5.1.

"VLT Premises" shall mean the interior portion of the Building which excludes the Subleased Premises, the Future Development Area (except to the extent the VLT Premises has been expanded into the Future Development Area) and the Common Facilities. Exhibit C depicts those portions of the Building that comprise the VLT Premises.

ARTICLE II
SUBLEASING CLAUSE

2.1 SUBLEASING CLAUSE

(a) Upon and subject to the terms, provisions and conditions hereinafter set forth, Sublessor does hereby SUBLEASE, DEMISE and LET unto Sublessee, and Sublessee does hereby take and sublease from Sublessor, (i) the Subleased Premises, and (ii) a non-exclusive right to use and occupy the Common Facilities, on an undivided basis together with Sublessor and the other Occupants and the Sublessor's , Sublessee's and other Occupants' agents, contractors, employees and invitees, TO HAVE AND TO HOLD together with all rights, privileges, easements and appurtenances belonging to or in any way pertaining to the Subleased Premises, for the term hereinafter provided, upon and subject to the terms, conditions and agreements contained herein.

(b) The term of this Sublease (the "Term") shall be for a period commencing on the Commencement Date and terminating on the date on which the Franchise Agreement expires or is revoked pursuant to the terms thereof (the "Expiration Date"). The Expiration Date shall be coterminous with the expiration date under the Racetrack Ground Lease.

2.2 DELIVERY OF SUBLEASED PREMISES

Physical possession of the Subleased Premises shall be delivered to Sublessee by Sublessor in "As Is" condition on the Commencement Date and Sublessee hereby agrees to accept the Subleased Premises on the Commencement Date in its "As-Is" and "Where Is" condition acknowledging that it has been in possession of the Subleased Premises prior to the date hereof.

2.3 APPROVAL BY SUBLESSOR

Any approval or consent granted by Sublessor under this Sublease shall be solely for the purposes of granting approval pursuant to the terms of this Sublease and shall not be deemed or construed to have any other meaning, including but not limited to, compliance with any applicable Requirements, the Franchise Agreement or the Legislation.

ARTICLE III
RENT

3.1 FIXED RENT.

Sublessee shall pay to Sublessor rent (" Fixed Rent") in the amount of One Dollar ($1.00) annually throughout the entire term of this Sublease. All of such annual Rent due from the date hereof until the expiration of the term of this Sublease has been paid in full, in advance, on the date hereof.

3.2 ADDITIONAL RENT AND OPERATING EXPENSE EXCLUSIONS.

(a) In addition to the payment of Fixed Rent, Sublessee shall pay, as additional rent, Sublessee's Parking Contribution and Sublessee's Building Area Contribution (which together, shall include the applicable share of all Operating Expenses) and all other amounts due and payable by Sublessee under this Sublease ("Additional Rent", and together with Fixed Rent, "Rent").

(b) "Operating Expenses" shall include all reasonable and competitive costs and expenses paid or incurred by or on behalf of Sublessor with respect to the Common Facilities and the Sublessor Repair Obligations (hereinafter defined), including, without limitation: (i) costs and expenses in connection with operating, maintaining, restoring, replacing and repairing in accordance with Sections 4.6(b) and (c) herein, (ii) wages and salaries of employees of Sublessor engaged in such operation, maintenance, restoration and repair but excluding security and any property manager and those employees of Sublessor's above the grade of building manager; (iii) payroll taxes, worker's compensation, medical insurance, union and general benefits for such employees, (iv) the cost of electricity, heat, ventilation, air-conditioning, water, sewer and other utilities, as further provided in Section 3.3 herein (v) the cost of casualty, liability, property and other insurance in accordance with Sublessor's insurance requirements set forth in Section 4.9(a) herein, (vi) the cost of landscaping, cleaning and janitorial services, including, without limitation, glass cleaning and garbage and waste collection and disposal and (vii) Additional Charges. All Building Area Operating Expenses and Parking Areas Operating Expenses shall consist of Sublessor's actual out-of-pocket costs incurred by Sublessor and shall not include any profit.

(c) Operating Expenses shall exclude the following expenses (collectively, the "Operating Expense Exclusions"): (i) depreciation and amortization, (ii) ground rent and principal and interest payments and other costs incurred in connection with any financing or refinancing of the Facilities Ground Leased Premises or any portion thereof, (iii) management fees, brokerage commissions, leasing commissions, consultant fees, and marketing, promotion and advertising expenses and the cost of rental insurance; (iv) all costs in connection with the operation, maintenance, restoration, repair, security, improving and alteration of the VLT Premises, the Future Development Area (provided, however, for a period of five (5) Sublease Years commencing on the date hereof, the cost of maintaining and insuring those portions of the Future Development Area that are not occupied by Sublessor and/or any Occupant shall be included as an Operating Expense and the maintenance obligations with respect to the Future Development Area shall be at all times in accordance with Article V of this Sublease), and the Real Estate Development Parcels (from and after any date that the Real Estate Development Parcels are leased, transferred or improved other than for parking), or any part thereof, (v) Taxes (hereinafter defined), (vi) legal fees, including but not limited to those pertaining to any litigation or arbitration, (vii) any cost to the extent Sublessor is reimbursed therefore out of insurance proceeds, parking charges or reimbursements received by Sublessor, (viii) costs incurred as a result of the negligence of Sublessor or its agents or employees, (ix) franchise, estate, gift, mortgage recording, transfer gains, transfer, unincorporated

business, commercial rent or income taxes imposed on Sublessor; (x) all costs incurred in connection with the transfer of the Future Development Area and the Real Estate Development Parcels, (xi) the cost of capital improvements and any other capital costs, except to the extent same is in the nature of a repair and the cost is amortized over the useful life of the capital improvement (capital improvements with respect to the facade shall be excluded from Operating Expenses, provided, however, that with respect to the lobby, Sublessee will pay Sublessee's Building Area Proportionate Share for costs incurred in connection with maintaining the improved lobby), (xii) any costs associated with the sale, transfer, or restructuring of the ownership of the Sublessor or the Facilities Ground Leased Premises, (xiii) the cost of constructing, improving, altering or developing any on grade, above-ground or below-ground parking structures, (xiv) the cost of improving the lighting in the Parking Areas and (xv) the costs for providing security.

(d) Sublessor may furnish to Sublessee, prior to the commencement of each Sublease Year, a statement setting forth Sublessor's reasonable estimate of Sublessee's Additional Rent for such Sublease Year. Sublessee shall pay to Sublessor on the first day of each quarter during such Sublease Year, an amount equal to 1/4th of Sublessor's estimate of Additional Rent for such Sublease Year. If Sublessor shall not furnish any such estimate of the Additional Rent for such Sublease Year or if Sublessor shall furnish any such estimate for a Sublease Year subsequent to the commencement thereof, then (i) until the first day of the quarter following the quarter is which such estimate is furnished to Sublessee, Sublessee shall pay to Sublessor on the first day of each quarter an amount equal to the quarterly sum payable by Sublessee to Sublessor under this Section 3.2 in respect of the last quarter of the preceding Sublease Year; (ii) after such estimate is furnished to Sublessee, Sublessor shall notify Sublessee whether the installments of Additional Rent previously made for such Sublease Year were greater or less than the installments of Additional Rent to be made in accordance with such estimate, and (x) if there is a deficiency, Sublessee shall pay the amount thereof within thirty (30) days after such notification by Sublessor, or (y) if there is an overpayment, Sublessor shall, within thirty (30) days after notification by Sublessor, refund to Sublessee the amount thereof; and (iii) on the first day of the quarter following the quarter in which such estimate is furnished to Sublessee and quarterly thereafter throughout such Sublease Year, Sublessee shall pay to Sublessor an amount equal to 1/4th of the Additional Rent shown on such estimate. Sublessor may, during each Sublease Year, furnish to Sublessee a revised statement of Sublessor's estimate of the Additional Rent for such Sublease Year, and in such case, the Additional Rent for such Sublease Year shall be adjusted and paid or refunded as the case may be, substantially in the same manner as provided in the preceding sentence. Sublessor shall furnish to Sublessee a statement ("Sublessor's Statement") for each Sublease Year (and shall endeavor to do so within one hundred twenty (120) days after the end of each Sublease Year) setting forth in reasonable detail the calculation of the Operating Expenses and the Additional Rent payable by Sublessee for the previous year. If Sublessor's Statement shows that the sums paid by Sublessee for the applicable Sublease Year exceeded the Additional Rent to be paid by Sublessee for the applicable Sublease Year, Sublessor shall refund to Sublessee the amount of such

excess within thirty (30) days of the furnishing of such Sublessor's Statement; provided, if such excess is not paid within thirty (30) days after the furnishing of such Sublessor's Statement, Sublessor shall pay to Sublessee such excess together with interest thereon at the Default Rate from the date which is thirty (30) days after the furnishing of such Sublessor's Statement through the date the refund is paid by Sublessor; and if the Sublessor's Statement shall show that the sums so paid by Sublessee were less than the Additional Rent to be paid by Sublessee for such Sublease Year, Sublessee shall pay the amount of such deficiency within thirty (30) days after the furnishing of such Sublessor's Statement; provided, if such deficiency is not paid within thirty (30) days after the furnishing of such Sublessor's Statement, Sublessee shall pay to Sublessor such deficiency together with interest thereon at the Default Rate from the date that is thirty (30) days after the furnishing of such Sublessor's Statement through the date the deficiency is paid by Sublessee. Sublessee, upon notice given with one hundred eighty (180) days after Sublessee's receipt of Sublessor's Statement, may elect to have Sublessee's designated agent examine such of Sublessor's books and records (collectively, "Records") as are directly relevant to such Sublessor's Statement and Sublessee shall be entitled, at its expense, to make copies of such Records to the extent relevant to Sublessee's review. Sublessee shall and shall cause its agent to treat all Records as confidential and only for the purposes herein intended. Sublessee, within one hundred twenty (120) days after the date on which the Records are made available to Sublessee, may send a notice ("Sublessee's Notice") to Sublessor that Sublessee disagrees with the applicable Sublessor's Statement, specifying in reasonable detail the basis for Sublessee's disagreement and the amount of the Additional Rent Sublessee claims is due (to the extent known to Sublessee). If Sublessee fails to timely deliver Sublesse's Notice to Sublessor, then Sublessor's Statement shall be conclusive and binding on Sublessee. Sublessor and Sublessee shall attempt to adjust such disagreement. If they are unable to do so, Sublessee shall notify Sublessor, within one hundred fifty (150) days after the date on which the Records are made available to Sublessee in connection with the disagreement in question, that Sublessee desires to have such disagreement determined by an Arbiter, and promptly thereafter Sublessor and Sublessee shall designate a certified public accountant (the "Arbiter") and whose determination made in accordance with this Section 3.2 shall be binding upon the Parties. If Sublessee timely delivers a Sublessee's Notice, the disagreement referenced therein is not resolved by the Parties and Sublessee fails to notify Sublessor of Sublessee's desire to have such disagreement determined by an Arbiter within the one hundred fifty (150) day period set forth in the preceding sentence, then the Sublessor's Statement to which such disagreement relates shall be conclusive and binding on Sublessee. If the determination of the Arbiter shall substantially confirm the determination of Sublessee, then Sublessor shall pay the cost of the Arbiter. In all other events, the cost of the Arbiter shall be borne equally by Sublessor and Sublessee. The Arbiter shall be a member of an independent certified public accounting firm having at least three (3) accounting professionals, who are certified public accountants. If Sublessor and Sublessee shall be unable to agree on the designation of the Arbiter within fifteen (15) days after receipt of notice from the other Party requesting agreement as to the designation of the Arbiter, then either Party shall have the right to request the American Arbitration Association to designate as the

Arbiter a certified public accountant whose determination made in accordance with this provision shall be conclusive and binding on both parties. If Sublessee shall prevail in such contest, Sublessor shall refund the appropriate amount to Sublessee. The term "substantial" shall mean a variance of 5% or more of the Additional Rent in question. If Sublessee shall prevail in such contest and the Arbiter shall confirm that the Additional Rent was overstated by 10% or more of the Operating Expenses on which the Additional Rent was paid, then Sublessor shall pay to Sublessee within thirty (30) days of the date of such determination, the reasonable cost of the agent of Sublessee which examined the Records in connection with such Additional Rent payment.

3.3 UTILITIES.

(a) Sublessee shall have exclusive use of (i) the lines, pipes and other mechanical equipment, and systems that currently exist on the Facilities Ground Leased Premises and provide utilities to the Building and the Common Facilities, including but not limited to, electricity, water, sewer, gas, sprinkler and natural gas, and (ii) the back-up electrical generator adjacent to the Clubhouse and oil tanks that are located on the Facilities Ground Leased Premises (collectively, the "Existing Utility Systems"). Sublessee shall pay for the cost of the utilities used by the Existing Utility Systems directly to the utility providers. In the event that Sublessee can not make payments directly to the utility providers, then Sublessee shall arrange through Sublessor to have submeters installed in the Subleased Premises at Sublessee's cost and expense, and Sublessee shall pay to Sublessor the actual out of pocket costs incurred by Sublessor for such utility services. Sublessee shall also be responsible for maintaining and repairing the Existing Utility Systems located within the Subleased Premises and any costs incurred in connection therewith. Any portion of the Existing Utility Systems located within the Common Facilities, VLT Premises and/or the Future Development Area, shall be maintained and repaired by Sublessor, at Sublessee's sole cost and expense. If Sublessor fails to promptly repair the Existing Utility Systems that are located within the Common Facilities, VLT Premises and/or the Future Development Area after notice by Sublessee, Sublessee shall be allowed access within such premises for the purpose for maintaining and repairing the Existing Utility Systems. Sublessor, at Sublessor's sole cost and expense, and with Sublessee's prior consent, which shall not be unreasonably withheld or delayed, shall have the right to relocate the Existing Utility Systems in the Common Facilities, the VLT Premises, and the Future Development Areas upon thirty (30) days notice to Sublessee, provided Sublessor perform such relocation work at such times that Sublessee is not operating its business in the Subleased Premises.

(b) Sublessee's Parking Contribution and Sublessee's Building Area Contribution for utilities within the Common Facilities shall be determined by separate meters placed within the Common Facilities and Sublessee shall pay to Sublessor Sublessee's Parking Proportionate Share and Sublessee's Building Area Proportionate Share, as applicable, for Sublessee's demand for said utilities. If Sublessee's demand for utilities within the Common Facilities cannot be determined by separate meters for the Common Facilities, then the Parties shall agree to adjust the cost of the utilities in an

equitable and proportionate manner, taking into account Sublessee's seasonal and limited use of the Subleased Premises.

(c) Sublessor shall be required to install new lines and other systems to provide utilities to the VLT Premises, the Common Facilities and the Future Development Area, at such time as Sublessor or any other Occupant commences any Future Development, at no cost to Sublessee. Sublessor shall not be entitled to the use of the Existing Utility Systems while it is constructing the VLT Premises; however, in and to the extent Sublessor cannot obtain adequate temporary utilities for use during such construction or for operation of temporary VLT Operations, Sublessee, upon request by Sublessor, shall provide to Sublessor the use of such utilities as are currently existing on the Facilities Ground Leased Premises provided Sublessor's use thereof does not adversely affect or interfere with Sublessee's supply of, distribution or use of the Existing Utility Systems other than to a de minimus extent, and Sublessor shall be responsible for the cost of its demand for and consumption of such utilities in an equitable and proportionate manner.

(d) Sublessor agrees that if the water pipe currently existing within the Facilities Ground Leased Premises has sufficient capacity to accommodate water consumption by both Sublessor and Sublessee and thus will not adversely affect Sublessee's use or delivery of its water supply, it shall allow both Sublessor and Sublessee the use of the water pipe. Sublessor and Sublessee shall have separate water meters installed at the cost of Sublessor so that each party may be assessed water consumption separately. However, in the event separate water meters cannot be installed, Sublessor and Sublessee agree to adjust the cost of water consumption in an equitable and proportionate manner, taking into account Sublessee's seasonal and limited use of the Subleased Premises.

(e) If any meters or submeters are shared, and Sublessee disagrees in good faith with any determination or adjustment of the amount charged to Sublessee (the "Actual Charge") Sublessee shall notify Sublessor thereof within one (1) year after Sublessor gives Sublessee notice of such determination or adjustment or if Sublessee believes (i) there is a change in the rate by which Sublessor is charging Sublessee ("Sublessor's Rate") or (ii) Sublessee is paying in excess of the entire cost of Sublessee's demand for and/or consumption of, electricity, including, without limitation, by reason that electrical equipment is removed or altered within the Subleased Premises, or if Sublessee decreases its hours of operation, Sublessee shall notify Sublessor thereof. If the parties cannot reach agreement with respect to any of the contested items listed above, then in each case, Sublessor shall retain, at Sublessee's expense, or at Sublessor's expense if the consultant substantially agrees with Sublessee, an independent electrical consultant reasonably satisfactory to Sublessee who shall survey the demand for, and consumption of, electricity by Sublessee and, if applicable, each other Occupant who shares such submeter, and the determination made by the electrical consultant shall be binding on Sublessor and Sublessee. If Sublessee fails to so disagree with any determination or adjustment made by Sublessor, or to request that Sublessor obtain an independent electrical consultant, within such ninety (90) day period, such determination

or adjustment shall be conclusive and binding on Sublessee. Pending the determination of such consultant, Sublessee shall pay the Actual Charge determined by Sublessor and upon such determination by the consultant, an appropriate adjustment shall be made retroactive to the date of the relevant change. Sublessor shall refund to Sublessee any overpayment as hereinabove provided within fifteen days after Sublessor is notified of such consultant's determination. Surveys of Sublessee's electrical consumption shall take into account that the Sublessor's Rate or the electric consumption of Sublessee during the period that the survey is conducted may be different than the Sublessor's Rate or electric consumption of Sublessee during the period covered by the Actual Charge that Sublessee is contesting.

(f) Sublessor shall cooperate, at the sole cost and expense of Sublessee, in Sublessee's efforts to obtain electrical utility incentives for which Sublessee may be qualified, provided, that such efforts shall not in any way adversely impact Sublessor, any Occupants in the Building or the operation of the Building.

(g) As of the date hereof, the providers of Sublessee's Existing Utility Systems are as follows:

(i) Electrical Supplier: Juice

(ii) Electrical Delivery: Consolidated Edison

(iii) Gas Supplier: NATGASCO

(iv) Gas Delivery: National Grid

(v) Water Supplier: The New York City Water Board

(h) Sublessor and Sublessee agree that to the extent feasible, any of the Building systems serving the Subleased Premises shall be kept separate and distinct from those Building systems serving the remaining portions of the Building and the Common Facilities.

3.4 PAYMENT OF TAXES.

Sublessee shall have no obligation to pay any property taxes, special assessments and special ad valorem levies (as defined in NY Real Property Tax Law, Section 102, subdivisions 14, 15, 20) levied or assessed against the Facilities Ground Leased Premises and Improvements (together, "Taxes"), during the Term, which are payable by the State pursuant to the Legislation Sublessee shall pay its proportionate share of Additional Charges pursuant to Section 3.2(b) herein.

3.5 SECURITY DEPOSIT.

Sublessee shall not be obligated to pay a security deposit to Sublessor at any time during the Term of this Sublease.

ARTICLE IV
CONDITION AND USE OF THE SUBLEASED PREMISES

4.1 COVENANT OF TITLE, AUTHORITY AND QUIET POSSESSION.

(a) Sublessor's Representations, Warranties and Special Covenants. Sublessor hereby represents, warrants and covenants as follows:

(i) Binding Obligation. This Sublease will be a valid obligation of Sublessor and is binding upon Sublessor in accordance with its terms once approved by the applicable state authorities, including, but not limited to the State Comptroller.

(ii) Authority. Sublessor is a duly authorized corporation, validly existing and in good standing under the laws of the State of _____ and has been duly authorized by all requisite corporate action to enter into, deliver and perform under this Sublease. Neither the execution and delivery of this Sublease by Sublessor, nor the performance of its obligations hereunder, will result in violation of any law applicable to Sublessor or provision of the organizational documents of Sublessor.

(iii) Consents. No permission, approval or consent by third parties or any other governmental authorities is required in order for Sublessor to enter into this Sublease or make the agreements herein contained, other than those which have been obtained.

(iv) Quiet Enjoyment. So long as the Franchise Agreement is in full force and effect and there has been no revocation of the Franchise, Sublessee shall have the quiet enjoyment and peaceable possession of the Subleased Premises and the Common Facilities, in common with Sublessor and any Occupants during the Term of this Sublease in accordance with the terms of this Sublease, against hindrance or disturbance of any person or persons whatsoever claiming by, through or under Sublessor.

(v) Proceedings. To the knowledge of Sublessor, there are no actions, suits or proceedings pending or threatened or asserted against Sublessor which would, if successful, prevent Sublessor from entering into this Sublease or performing its obligations hereunder.

(vi) Limitations. Except as otherwise expressly provided herein, this Sublease is made by Sublessor without representation or warranty of any kind, either express or implied, as to the condition of the Subleased Premises, title to the Facilities Ground Leased Premises (except pursuant to the Facilities Ground Lease, Sublessor hereby represents that it is the lessee under a valid ground lease), the Facility's merchantability, its condition or its fitness for Sublessee's intended use or for any particular purpose and all of the Subleased Premises is leased or licensed on an "as is" basis with all faults, provided, however, Sublessor covenants and warrants that it has not taken any action or done anything that has or would adversely affect the Sublessee's

ability to (i) conduct its racing operations on the Racetrack Ground Leased Premises, (ii) conduct its Permitted Uses, (as such terms are hereinafter defined) within the Subleased Premises, or (iii) abrogate any rights of Sublessee under the terms and conditions of this Sublease.

(vii) Subordination. Sublessor covenants and warrants that as of the date of this Sublease it has not in any manner encumbered its leasehold interest as lessee under the Facilities Ground Lease and Sublessor agrees that it will not in any manner encumber its leasehold interest as lessee under the Facilities Ground Lease during the Term of this Sublease. Notwithstanding the foregoing, Sublessor shall have the right to encumber its leasehold interest under the Facilities Ground Lease provided Sublessor procures from the lender and delivers to Sublessee a Subordination and Non-Disturbance Agreement ("SNDA") in favor of the Sublessee, which SNDA shall be acceptable to Sublessee.

(b) Sublessee's Representations, Warranties and Special Covenants. Sublessee hereby represents, warrants and covenants as follows:

(i) Existence. Sublessee is a not-for-profit racing corporation duly incorporated pursuant to Section 402 of the Not-for-Profit Corporation Law of the State of New York, as authorized by Chapter 18 of the Laws of 2008, validly existing and in good standing under the laws of the State of New York and its adopted and currently effective articles of incorporation.

(ii) Authority. Sublessee has all requisite power and authority to operate its business, own its property, enter into this Sublease and consummate the transactions herein contemplated, and by proper action has duly authorized the execution and delivery of this Sublease and the consummation of the transactions herein contemplated.

(iii) Binding Obligations. This Sublease constitutes a valid and legally binding obligation of Sublessee and is enforceable against Sublessee in accordance with its terms.

(iv) No Default. The execution by Sublessee of this Sublease and the consummation by Sublessee of the transactions contemplated hereby do not, as of the Commencement Date, result in a breach of any of the terms or provisions of, or constitute a default or a condition which upon notice or lapse of time or both would ripen into a default under the Legislation, the articles of organization of Sublessee, or under any resolution, indenture, agreement, instrument or obligation to which Sublessee is a party or by which the Subleased Premises or any portion thereof is bound; and does not to the knowledge of Sublessee, constitute a violation of any order, rule or regulation applicable to Sublessee or any portion of the Subleased Premises of any court or of any federal or state or municipal regulatory body or administrative agency or other governmental body having jurisdiction over Sublessee or any portion of the Subleased Premises.

(v) Consents. No permission, approval or consent by third parties or any other governmental authorities is required in order for Sublessee to enter into this Sublease or make the agreements herein contained, other than those which have been obtained.

(vi) Proceedings. To the knowledge of Sublessee, there are no actions, suits or proceedings pending or threatened or asserted against Sublessee which would, if successful, prevent Sublessee from entering into this Sublease or performing its obligations hereunder.

4.2 USE OF SUBLEASED PREMISES.

(a) Sublessee's use of the Subleased Premises shall be primarily for the management and operations of all functions as may be necessary or appropriate to conduct racing, racing operations, pari-mutuel and simulcast wagering (collectively, the "Uses"), together with various activities related thereto, including, without limitation, live wagering and retail, food, beverage, trade expositions and entertainment facilities, racing equestrian, social and community activities, and other uses and activities historically conducted on the Facilities Ground Leased Premises (collectively, the "Ancillary Uses," and, together with the Uses being the "Permitted Uses") at or with respect to the Subleased Premises and the Common Facilities, subject to and in compliance with the provisions of the Franchise Agreement, applicable Requirements, including, without limitation, the Legislation. Sublessee shall not conduct, manage or otherwise operate VLT Operations at the Subleased Premises or any other area of the Facilities Ground Leased Premises.

(b) In the event that this Sublease is terminated pursuant to an amendment to the Franchise Agreement and the Legislation whereby Sublessee is permitted to discontinue operating its business within its Subleased Premises, this Sublease shall terminate and Sublessee shall have no further obligations to Sublessor with respect to this Sublease. If Sublessee discontinues its operations in the Subleased Premises pursuant to this section, Sublessee shall deliver the Subleased Premises back to Sublessor vacant, clean and in safe condition, whereby the physical condition of the Subleased Premises would not detract from the commercial appeal of the VLT Operations.

4.3 SUBLETTING AND ASSIGNING.

(a) Assignment. Sublessee may, subject to requirements of Section 138 of the State Finance Law and the receipt of all required governmental approvals in connection with any permitted assignment (if any) of Sublessee's rights and obligations under the Franchise Agreement, assign, sublease, license or otherwise transfer Sublessee's leasehold interest granted to Sublessee under this Sublease, in whole only (and not in part). It is understood and agreed that Sublessee's interest in this Sublease may only be assigned or transferred to a party in which the Franchise is being assigned and which party shall hold the Franchise at the time of assignment, or any successor thereto. Upon any such assignment, the assignee shall execute and deliver to Sublessor a

written assumption of all of the obligations of Sublessee under this Sublease. Sublessee shall be released from any obligations arising under this Sublease which accrue from and after such an assignment, but not those accruing before such assignment.

(b) Concessions, Sub-subletting and Licensing. Sublessee shall have the right from time to time, without the prior written consent of Sublessor but with the consent of the State to the extent required by the Legislation (including without limitation Section 206 thereof), to grant concessions at the Subleased Premises as Sublessee may deem proper for the conduct at the Subleased Premises of Ancillary Uses as permitted in Section 4.2 hereof ("Concessions"). All Concessions shall be entered into in compliance with the Legislation (including without limitation Section 208-6 thereof), and other Requirements. Agreements for the operation of Concessions may, at the election of Sublessee, be in the form of sub-subleases, licenses or concession agreements; provided, that no sub-subletting or licensing shall relieve Sublessee of any of its obligations under the Sublease, and all Concessions, whether in the form of sub-subleases, licenses or concession agreements, shall be strictly subject and subordinate to the terms and provisions of this Sublease.

(c) Other than with respect to the grant of Concessions, Sublessee may not sublet all or any portion of the Subleased Premises without the prior written consent of the State, as required by Section 138 of the State Finance Law, but without the consent of Sublessor, upon the receipt of all required governmental approvals in connection with any sub-sublease or transfer. Notwithstanding anything to the contrary contained herein, (x) the stabling of horses belonging to third parties shall not constitute a sublease under the terms of this Sublease and (y) those subleases set forth on Exhibit J hereto (the "Permitted Subleases") shall not be subject to the general subleasing prohibition set forth in this Section 4.3(a) and Sublessor hereby consents to the Permitted Subleases. In addition to the foregoing, Sublessee shall also have the right to enter into any sublease or occupancy agreement with The New York Thoroughbred Breeders Inc., The New York Thoroughbred Horsemen's Association (or such other entity as is certified and approved pursuant to Section 228 of the New York State Racing, Pari-Mutuel Wagering and Breeding Law, as amended), The New York State Racing and Wagering Board, The New York State Department of Taxation and Finance, and with any governmental authorities, agencies, boards or regulators of the State, without the consent of Sublessor or the State.

(d) General Provisions. Sublessee shall, in connection with any assignment, license or sub-sublease, provide notice to Sublessor, as provided below in Section 7.2, of the name, legal composition and address of any Concessionaire, together with a complete copy of the agreement under which such Concession is granted. In addition, Sublessee shall provide Sublessor with a description of the nature of the Concessionaire's business to be carried on in the Subleased Premises.

4.4 LEASEHOLD MORTGAGE.

Sublessee shall have the right, subject to any requirements of the Legislation and the Franchise Agreement and the State's reasonable approval of the form

and content of the loan documentation evidencing such mortgage or encumbrance, to mortgage or encumber this Sublease and/or in any improvements made and owned by Sublessee and/or in Sublessee's personal property, furniture, fixtures and equipment (collectively, "Sublessee's Property"). No mortgagee shall foreclose upon Sublessee's leasehold interest hereunder, unless such mortgagee or a purchaser at the foreclosure sale is a holder of the Franchise at the time of such foreclosure.

4.5 COMPLIANCE WITH LAWS/MAINTENANCE OF SUBLEASED PREMISES.

(a) Sublessee shall use, operate and maintain the Subleased Premises and the improvements situated thereon in compliance with all Requirements and the Building Standard.

(b) Sublessee shall have the right to contest the validity, enforceability or applicability of any Requirements applicable to the Land, Building and Improvements constituting the Subleased Premises, provided that there is no danger of an imminent threat of Sublessor losing title to the Subleased Premises and provided that Sublessee's failure to comply with any Requirements would not subject Sublessor or the State to criminal liability and/or create interference in any material respect with the VLT Operations. During such contest, compliance with any such contested Requirements may be deferred by Sublessee; provided, however, that Sublessee shall promptly comply with the final determination of any such contest. If non-compliance shall result in a lien being filed against the Subleased Premises, Sublessor may require Sublessee to deposit with Sublessor a surety bond issued by a surety company of recognized responsibility guaranteeing and securing the payment in full of such lien. Prior to instituting such proceeding, if required by law, Sublessee shall provide notice to the Attorney General of the State of New York, which may choose to be a party in such contest. Any such proceeding instituted by Sublessee shall be commenced as soon as is reasonably possible after the issuance of any such contested matters, or after actual notice to Sublessee of the applicability of such matters to the Subleased Premises, and shall be prosecuted with reasonable dispatch. In the event that Sublessee shall institute any such proceeding, Sublessor shall cooperate with Sublessee in connection therewith, and Sublessee shall be responsible for the reasonable and actual out-of-pocket costs and expenses incurred by Sublessor in connection with such cooperation.

(c) Sublessor shall comply with all Requirements affecting the Facilities Ground Leased Premises, other than that portion of the Subleased Premises Sublessee is obligated to maintain pursuant to Section 4.7. Sublessor shall have the right to contest the validity, enforceability or applicability of any Requirements provided that Sublessor's failure to comply with any Requirements would not subject Sublessee or the State to criminal liability and/or create interference in any material respect with Sublessee's operations within the Subleased Premises. Any such proceeding instituted by Sublessor shall be commenced as soon as is reasonably possible after the issuance of any such contested matters, or after actual notice to Sublessor of the applicability of such matters to the Facilities Ground Leased Premises, and shall be prosecuted with reasonable

dispatch. During such contest, compliance with any such contested Requirements may be deferred by Sublessor; provided, however, that Sublessor shall promptly comply with the final determination of any such contest.

4.6 SUBLESSOR COVENANTS.

(a) Sublessor Services. From and after the date hereof, provided that Sublessee is not in default in the payment of Rent after the expiration of any applicable notice and cure period, Sublessor shall furnish Sublessee through existing facilities at the Facilities Ground Lease Premises, with the following services in connection with the Subleased Premises:

(i) hot and cold water in sufficient quantities to meet the needs of Sublessee, its employees, customers and invitees for use in the restrooms and, (ii) elevator service, (iii) electricity in accordance with the terms and conditions contained in Section 3.3, (iv) access to the Subleased Premises for Sublessee and its employees 24 hours per day/ 7 days per week, (v) the right to connect to the Building's standard telecommunication system and service at the point of connection on each floor of the Subleased Premises and (vi) such other services as Sublessee shall reasonably require.

(ii) heat, ventilation and air-conditioning ("hvac") to the Subleased Premises as required by Sublessee. Notwithstanding the foregoing, Sublessor shall not be held liable to Sublessee for failure to provide any such services which failure is caused by any utility provider.

Notwithstanding the foregoing, Sublessor shall not be obligated to provide any utility services to Sublessee in the Subleased Premises to the extent that Sublessee is obtaining its own utility services from Sublessee's Existing Utility Systems or from replacements thereof, or from any other systems that exclusively serve the Subleased Premises, and making payment for such utility services directly to the utility providers. In all other cases, Sublessor is obligated to comply with this Section 4.6(a).

(b) Other Building Services. Except and to the extent the following shall be Sublessee's obligation pursuant to this Sublease, Sublessor shall, at Sublessor's cost and expense (subject to reimbursement by Sublessee as Operating Expenses to the extent provided for in Section 3.2 hereof) operate, maintain, repair and replace (but only if reasonably necessary instead of repairing) (collectively, the "Sublessor Repair Obligations") (i) all exterior portions of the Facilities Ground Leased Premises (including the exterior portions of the Subleased Premises) and all appurtenances thereto including paving and landscaping of the Facilities Ground Leased Premises (excluding the Future Development Area and all improvements thereon,) including the Common Facilities, (ii) all structural parts of the Building (including the Subleased Premises), both exterior and interior, including, but not limited to, floor slabs, walls, windows and window sills, foundations, facades and roofs, and all repairs thereto necessary to make same sound and watertight, (iii) all exterior doors and plate glass, (iv) all Building systems serving the Common Facilities including concealed water, sewer, gas, electric

and other utility lines and all sprinkler systems, (v) all mechanical equipment, including but not limited to, the hvac system and any elevators and escalators, (vi) all fences located within or located at the Facilities Ground Leased Premises, including but not limited to providing crowd control, and (vii) all other portions of the Common Facilities.

(c) Future Development Area. Sublessor and Sublessee acknowledge and agree that it is anticipated that the Future Development Area will not be occupied or utilized for some time. During such time and to the extent that all or any portion of the Future Development Area is not utilized, Sublessor's maintenance and repair obligations with respect to such Future Development Area shall be minimal, and Sublessor shall only be obligated to ensure that the Future Development Area is safe, insured and does not deteriorate. Sublessor shall have the right to expand its VLT Premises into all or a portion of the Future Development Area which is not utilized by Sublessee or any Occupant, to be exercised upon thirty (30) days prior written notice to Sublessee, and, in such event, Sublessee's Building Area Proportionate Share shall be adjusted as provided herein and Sublessor shall be obligated to operate, maintain, restore, replace, repair, secure, improve and alter such expanded space consistent with its obligations with respect to the VLT Premises. Sublessor, in its reasonable discretion, shall make Alterations and shall construct at the perimeter of the Future Development Area such demising walls as are necessary to separate the Subleased Premises located within the Building from the Future Development Areas being subleased by Sublessor if such Future Development Area impinges on the non-public areas of the Subleased Premises, using materials customarily used for this type of space, the location and design of such demising walls to be reasonably acceptable to Sublessee. Sublessee shall have the right to expand its Subleased Premises into all or a portion of the Future Development Area that is not utilized by Sublessor or any Occupant, to be exercised upon thirty (30) days prior written notice to Sublessor provided Sublessee has obtained the State's consent to such expansion, and in such event, Sublessee's Building Area Proportionate Shares shall be adjusted as provided herein. Sublessee shall not make any Alterations in any portion of the Future Development Area until such portion of the Future Development Area becomes a part of the Subleased Premises other than Alterations with respect to Building systems or mechanical systems that service the Subleased Premises that are located in or run through the Future Development Area. Sublessee shall provide Sublessor with ten (10) days notice prior to commencing any Alterations in any portion of the Future Development Area, except in the case of an emergency, whereby Sublessee may make Alterations as necessary without prior notice to Sublessor. Further, Sublessee shall operate, maintain, restore, replace, repair, secure, improve and alter such expanded space consistent with its obligations with respect to the Subleased Premises, including Section 4.11 hereof.

(d) Parking. Sublessor acknowledges that the number of parking spaces provided at the Facilities Ground Leased Premises must, at all times during the Term of the Sublease, take into account Sublessee's parking requirements. Sublessor also acknowledges that on approximately three (3) days each year, which at this time is expected to be when the Wood Memorial (1 day) and the Breeders Cup (2 days)

traditionally take place ("Peak Parking Days"), Sublessee requires parking well in excess of its usual requirements. Sublessee's parking requirements on Peak Parking Days for any calendar year shall be based upon the number of parking spaces for Peak Parking Days used in the prior calendar year. Sublessee shall provide Sublessor with at least thirty (30) days prior notice to each such event advising as to the date or dates of such event. If, at any time during the Term of this Sublease, due to the use by Sublessor, Phase II Developer (hereinafter defined) and/or any Occupants, or their respective customers or invitees, of any parking spaces within the Parking Areas, or as a result of any Facilities Ground Leased Premises Development (hereinafter defined), Sublessee is unable to use any of the parking spaces on the Facilities Ground Leased Premises that are currently utilized by Sublessee, Sublessor shall provide to Sublessee and its customers and invitees alternate parking sufficient in number and convenient to the Clubhouse in order to satisfy Sublessee's and its customers' and invitees' parking requirements. For purposes of determining what parking spaces are currently utilized, such determination shall be based on the number of parking spaces utilized in the prior calendar year. Sublessor may reserve a reasonable number of parking spaces in a section to be specified by the VLT Operator, of the Parking Areas for VIP parking and the VLT Operator's exclusive use, provided same are not located directly in front of Sublessee's entrance to the Clubhouse.

(e) Sublessor Repair Obligations. Sublessor shall be obligated to make all repairs which are expressly made Sublessor's responsibility under any other article of this Sublease, unless such repairs are not covered by the insurance required to be maintained by the Sublessor hereunder and are necessitated by the negligence or misconduct of Sublessee or such repairs as are necessary to remedy any defect, structural or otherwise, in any portion of the Facilities Ground Leased Premises (including but not limited to the Subleased Premises and the Common Facilities) existing by reason of Sublessor's failure to perform properly its obligations under this Sublease.

(f) Sublessor's Warranties. It is agreed and understood that Sublessee shall have the benefit of all warranties which Sublessor may have with respect to all mechanical equipment, including but not limited to, the hvac system, for as long as all such warranties continue in force and effect.

(g) Construction Costs, Interference and Obligations. Sublessor covenants and agrees that (i) Sublessee shall have no responsibility or obligation to incur any costs in connection with the construction, maintenance or repair in connection with the VLT Operations, the Future Development Area (except as specifically set forth in this Sublease) or the Phase II Development, (ii) at Sublessee's reasonable discretion and subject to Section 4.6(j) Sublessor shall construct at the perimeter of the VLT Premises and/or Future Development Area such demising walls as are necessary to separate the Subleased Premises and/or the Common Facilities located within the Building from the VLT Premises and Future Development Area using materials customarily used for this type of space, the location and design of such demising walls to be reasonably acceptable to Sublessee, (iii) the VLT Premises shall be maintained in a manner comparable to other first class VLT Premises facilities operating similar operations under similar conditions

in the United States, and (iv) Sublessor shall, and shall cause any Occupant to, not interfere in any material respect with Sublessee and with Sublessee's Permitted Uses, which obligation shall survive the termination of this Sublease, for the benefit of Sublessee as lessee under the Racetrack Ground Lease.

(h) Trade Union Workers. Sublessee currently employs union workers on the Subleased Premises and in other areas of the Facilities Ground Leased Premises pursuant to the Racetrack Ground Lease, including but not limited to plumbers, laborers, carpenters, heavy equipment workers and window washers. Since the union workers will continue to work at the Subleased Premises and the Parking Areas and during and after the Facilities Ground Leased Premises Development (hereinafter defined), Sublessor and Sublessee agree that, in order to prevent strife between and among competing union workforces, Sublessor and its employees and Contractors shall work harmoniously with such union workforces and Sublessee and its employees and Contractors shall work harmoniously with Sublessor's union workforces. Any issues arising in connection with competing jurisdictions within the Subleased Premises and Common Facilities between Sublessee's union workforces and Sublessor's union workforces shall be resolved pursuant to union grievance procedures, insofar as that is permissible under state law.

(i) Security. Sublessee shall be permitted to retain and provide its own security forces (" Sublessee's Security Forces") in order to provide security to the Subleased Premises and Common Facilities, including the Parking Areas located on the Facilities Ground Leased Premises. If Sublessor desires Sublessee's Security Forces to provide security on and within the Common Facilities, Sublessee shall provide such Security Forces to the extent available and the parties agree that such costs shall be allocated equitably and proportionately between Sublessor, Sublessee, the Phase II Developer and other Occupants. Notwithstanding that the State, Sublessor or the Phase II Developer may be providing security for the Parking Areas at the Property, the Sublessee's Security Forces shall not be restricted from acting in accordance with their legal authority with respect to illegal, disruptive, dangerous or inappropriate actions occurring outside of the Subleased Premises.

(j) Coordination of VLT Premises and Subleased Premises. It is the intent of the Sublessor and the Sublessee that there may be demising walls separating the VLT Premises and the Subleased Premises in those areas of the Subleased Premises and the VLT Premises which are generally open to the public for purposes of the business being conducted at the Subleased Premises and the VLT Premises, with such demising walls to contain doors that connect the public areas of the Building with the Subleased Premises and the VLT Premises. At such time as Sublessee's business operations are closed, the connecting doors for said demising walls shall be locked and no access to the Subleased Premises will be allowed. The VLT Operator shall erect demising walls for all non-public areas within the VLT Premises as are necessary to separate the VLT Premises from such public areas using materials customarily used for this type of space, the location and design of such demising walls to be reasonably acceptable to the Sublessee.

(k) Sublessor Improvement Rights to Subleased Premises. Sublessor shall have the right, subject to Sublessee's consent, which consent shall not be unreasonably withheld, to make improvements to the Subleased Premises, which improvements shall be solely for the purpose of changing or modifying finishes within the Subleased Premises to be consistent or complementary to the finishes contained within the VLT Premises. In Sublessor's performance of such improvement work, Sublessor shall not interfere with Sublessee's business operations other than to a deminimus extent or in any manner reconfigure the Subleased Premises.

4.7 SUBLESSEE COVENANTS.

(a) Sublessee Repairs. Sublessee shall be responsible for keeping the Subleased Premises in accordance with the Building Standard. Sublessee shall be solely responsible for maintenance and repair within the Subleased Premises and may undertake the performance of any maintenance and repair within the Subleased Premises without the consent of Sublessor. Sublessee's maintenance, repair and replacement obligations shall include, without limitation, repairs to and replacements of: (i) floor covering; (ii) interior partitions, including interior windows and glass; (iii) interior doors; (iv) the interior side of demising walls; (v) electronic, fiber, phone and data cabling and related equipment that is installed by or for the exclusive benefit of Sublessee and located within the Subleased Premises; and (vi) air conditioning units, kitchens, personal restrooms or showers, hot water heaters, plumbing and similar facilities exclusively serving Sublessee and located within the Subleased Premises. Notwithstanding the foregoing, at such time as the VLT Operator has occupied the VLT Premises, Sublessee shall have a reasonable period of time to perform such improvement work that may be required to bring the Subleased Premises to Building Standard. Upon the Expiration Date, the Subleased Premises will be surrendered to Sublessor in accordance with the Building Standard, subject to damages caused by ordinary wear and tear or damage or destruction by acts of God, causes beyond Sublessee's control, or conditions which, under the provisions of this Sublease, it is the obligation of Sublessor to remedy.

(b) Interference and Obligations. Sublessee shall not interfere in any material respect with Sublessor or any Occupant or their respective uses of the VLT Premises and Future Development Area. This provision shall survive the termination of this Sublease.

4.8 DAMAGE CLAUSE.

(a) Notice of Damage. If the Building or the Subleased Premises shall be totally or partially damaged or destroyed by fire or other casualty (each, a "Casualty"), Sublessee shall, upon actual knowledge of the occurrence of such Casualty, give to Sublessor prompt notice thereof.

(b) Obligation to Restore. (i) If all or any portion of the Subleased Premises becomes untenantable due to a Casualty, this Sublease shall not terminate except as expressly set forth herein. Sublessor, with reasonable promptness, shall cause a general

contractor selected by Sublessor to provide Sublessor and Sublessee with a written estimate (the "Completion Estimate") of the amount of time required, using standard working methods, to substantially complete the repair and restoration of the Subleased Premises and the Common Facilities necessary to provide access to the Subleased Premises and sufficient parking to meets the needs of Sublessee and its employees, customers and invitees. Sublessor shall promptly and diligently restore the Subleased Premises (including Sublessee's improvements but excluding Sublessee's Property). Such restoration shall be to substantially the same condition that existed prior to the date of the Casualty.

(c) Substantial Damage. If the structural portions of the Subleased Premises and/or the remainder of the Building suffers such severe damage or are destroyed to such an extent that, in Sublessor's and Sublessee's reasonable opinion exercising sound business judgment, it is in the best interests of the Parties to rebuild the Subleased Premises and/or Building in a manner different from that which existed prior to the date of the Casualty, Sublessor shall not unreasonably withhold its consent to such alternate rebuilding and shall rebuild the Subleased Premises and/or the remainder of the Building in such alternate manner, provided that the same does not materially adversely affect Sublessor and any excess costs resulting from such alternate rebuilding (in excess of insurance proceeds) shall be paid by Sublessee.

4.9 INSURANCE.

(a) Sublessor shall obtain and maintain in full force and effect all such insurance as required by the State under the Facilities Ground Lease, as amended between the Sublessor and the State, provided, however, Sublessor shall be required, at a minimum, to carry all such insurance in coverages and amounts as was required by the Sublessee, as lessee, under the Facilities Ground Lease.

(b) Sublessee shall be required to maintain the insurance, coverages and amounts as shown in the attachment attached hereto as Exhibit L.

4.10 UNPERFORMED COVENANTS OF SUBLESSOR OR SUBLESSEE.

(d) Failure of Sublessor to Perform. If Sublessor shall fail to perform any of the terms, provisions, covenants or conditions to be performed or complied with by Sublessor pursuant to this Sublease, or if Sublessor should fail to make any payment which Sublessor agrees to make, and any such failure shall, if it relates to a matter which is not of an emergency nature, remain uncured for a period of thirty (30) days after Sublessee shall have served upon Sublessor notice of such failure, or for a period of 48 hours after service of such notice if in Sublessee's judgment reasonably exercised such failure relates to a matter which is of an emergency nature, then Sublessee may, at Sublessee's option, perform any such term, provision, covenant or condition or make any such payment, as Sublessor's agent, and in Sublessee's sole discretion as to the necessity therefor, and the full amount of the cost and expense entailed, or the payment so made, shall immediately be owing by Sublessor to Sublessee, and Sublessee may, at its option,

deduct the amount thereof, together with interest at the Default Rate thereon from the date of payment, without liability of forfeiture, from Rents then due or thereafter coming due hereunder (the "Offset"), and irrespective of who may own or have an interest in the Subleased Premises at the time Offsets are made. Any such Offset shall not constitute a default in the payment of Rent unless Sublessee shall fail to pay the amount of the Offset to Sublessor within 30 days after final adjudication that such amount is owing to Sublessor. The option given in this article is for the sole protection of Sublessee, and its existence shall not release Sublessor from the obligation to perform the terms, provisions, covenants and conditions herein provided to be performed by Sublessor or deprive Sublessee of any legal rights which it may have by reason of any such default by Sublessor. Sublessor and Sublessee acknowledge and agree that the remedies of Rent abatement or lease termination provided for throughout this Sublease may be insufficient as Sublessee's remedy for Sublessor breaches or other events that may give rise to such remedies hereunder. In addition to the rights of Sublessee described herein, and any and all rights hereunder, at law or at equity, Sublessor and Sublessee agree that Sublessee shall have the right to seek specific performance and/or injunctive relief from a court of competent jurisdiction or in any other appropriate legal or administrative proceeding. Notwithstanding the foregoing, if Sublessor disputes Sublessee's right to take one or more Offsets or any amount constituting a portion of any such Offset, Sublessor may require that such dispute be settled by arbitration, as provided in Section 7.14 herein.

(e) Failure of Sublessee to Perform. If Sublessee shall fail to perform any of the terms, provisions, covenants or conditions to be performed or complied with by Sublessee pursuant to this Sublease, or if Sublessee should fail to make any payment which Sublessee agrees to make, and any such failure shall, if it relates to a matter which is not of an emergency nature, remain uncured for a period of thirty (30) days after Sublessor shall have served upon Sublessee notice of such failure, or for a period of 48 hours after service of such notice if in Sublessor's judgment, reasonably exercised, such failure relates to a matter which is of an emergency nature, then Sublessor may, at Sublessor's option, perform any such term, provision, covenant or condition or make any such payment, as Sublessee's agent, and in Sublessor's sole discretion as to the necessity therefore, and the actual out of pocket cost and expense incurred by Sublessor, shall immediately be owing by Sublessee to Sublessor, and Sublessor may, at its option, add the amount thereof, together with interest at the Default Rate thereon from the date of payment, without liability of forfeiture, to amounts then due or thereafter coming due hereunder. In addition to the rights contained herein, Sublessor shall have any legal rights or other rights they have under this Sublease which they may have by reason of any such default by Sublessee.

4.11 ALTERATIONS.

(f) Sublessee shall have the right, subject to the restrictions imposed by Legislation, the Franchise Agreement, the Omnibus Agreement and the Applicable Requirements, to develop, redevelop, refurbish, renovate or make such other improvements, capital expenditures or otherwise ("Alterations"), to the Subleased Premises and the fixtures and improvements thereon, as shall be necessary or desirable

for the operation of the Subleased Premises for the uses permitted under this Sublease and the Franchise Agreement.

(g) Sublessee has heretofore delivered to Sublessor a five-year capital expenditure plan (such capital plan as amended and extended from time to time, as approved by the State, the "Capital Plan") setting forth in reasonable detail the capital expenditures and the budgeted costs therefore which Sublessee proposes to make with respect to the Subleased Premises for the Sublease Years 2008-2013, and which has been approved by the State. A copy of the approved Capital Plan 2008-2013 is annexed hereto as Exhibit I. Sublessee shall submit to Sublessor all amendments and extensions of the Capital Plan approved by the State, promptly upon such approval, which shall be similar to the detail contained in the then-existing approved Capital Plan.

(h) Sublessee shall be entitled to perform all Alterations which are set forth in the approved Capital Plan. If Sublessee desires to perform any Alterations which are not set forth in the approved Capital Plan, Sublessee shall obtain the prior written consent of the State, in accordance with the Omnibus Agreement, to such Alterations, unless such Alterations (i) do not affect any structural elements or Building systems or the improvements and (ii) in the good faith estimation of Sublessee's architect or engineer, cost more than $100,000 to complete, which, in the case of (i) and (ii) above, the State's prior written consent shall not be required.

(i) Prior to performing any proposed Alterations, Sublessee shall, at Sublessee's expense, procure and maintain in its possession and provide to Sublessor: (i) detailed plans and specifications for such Alterations, to the extent same is required by any governmental authorities having jurisdiction over the Subleased Premises, (ii), insurance certificates from all Contractors evidencing the insurance coverages required under this Sublease, and (iii) all permits, approvals, and certifications required by any governmental authorities having jurisdiction over the Subleased Premises. Upon completion of any Alterations, Sublessee shall obtain any certificates of final approval of such Alterations required by any governmental authority, together with the "as-built" plans and specifications for such Alterations (together, the "Completion Documents"). Upon Sublessor's request, Sublessee shall promptly provide to Sublessor, in hard copy or electronic form (as Sublessor may request), any or all of the documents required to be obtained under this Section 4.11(d) including the Completion Documents, upon the completion of the Alteration.

(j) All Alterations shall be made and performed, in all material respects, in accordance with the plans and specifications therefore, as same may be modified from time to time. All Alterations shall be made and performed in a good and workmanlike manner, using materials substantially similar in quality to the existing materials at the Subleased Premises, and in good compliance with all applicable Requirements, as well as requirements of insurance bodies having jurisdiction over the Subleased Premises. No Alterations shall impair the structural integrity of soundness of any improvements and cause damage to any of Sublessor's property.

(k) All Contractors that Sublessee proposes to employ in connection with the performance of Alterations in the Subleased Premises, must be properly bonded and licensed. Notwithstanding the foregoing, all Contractors shall have such insurance coverage and bonding (i) as is commercially reasonable with respect to the form and amounts of coverage, taking into account the size and cost of the Alterations, or (ii) as otherwise required by the State, using the same standard.

(l) All Alterations made by Sublessee shall become the property of Sublessor or the State, as the case may be, upon the expiration of the Sublease. Throughout the Term of this Sublease, to the extent permitted under the applicable tax laws, rules and regulations, Sublessee shall have the sole and exclusive right to take depreciation of all Alterations made by Sublessee.

(m) Any Alterations made to the Facilities Ground Leased Premises, whether performed by Sublessor or any Occupant, when performed or completed, will not impair the structural integrity or soundness of the Building, impede the operation of any of Sublessee's Building systems within the Subleased Premises or cause damage to Sublessee's Property. In no event shall any structure or obstruction of any kind be erected at the Facilities Ground Leased Premises which would in any manner block access to the entrance to the Aqueduct Racetrack, the Building, or the Parking Areas, unless specifically set forth herein.

(i) Indemnification for Mechanics Liens.

(A) Sublessee will pay or cause to be paid all costs and charges for work performed by Sublessee or caused to be performed by Sublessee in or to the Subleased Premises. Sublessee will indemnify Sublessor against, and hold Sublessor and the Facilities Ground Leased Premises free, clear and harmless of and from, all mechanics' liens and claims of liens, and all other liabilities, liens, claims and demands on account of such work by or on behalf of Sublessee. If any such lien, at any time, is filed against the Facilities Ground Leased Premises or any part thereof, on account of work performed or caused to be performed by Sublessee in or to the Subleased Premises, Sublessee will cause such lien to be discharged of record within forty-five (45) days after the filing of such lien. If Sublessee fails to pay any charge for which a mechanics' lien has been filed, and has not discharged same of record as described above, Sublessor may, at its option, in addition to exercising any other remedies Sublessor has under this Sublease on account of a default by Sublessee, pay such charge and related costs and interest, and the amount so paid, together with reasonable attorneys' fees incurred in connection with the removal of such lien, will be immediately due from Sublessee to Sublessor.

(B) Sublessor will pay or cause to be paid all costs and charges for work performed by Sublessor or caused to be performed by Sublessor in or to the Facilities Ground Leased Premises. Sublessor will indemnify Sublessee against, and hold Sublessee and the Subleased Premises free, clear and harmless of and from, all mechanics' liens and claims of liens, and all other liabilities, liens, claims and demands

on account of such work by or on behalf of Sublessor. If any such lien, at any time, is filed against the Facilities Ground Leased Premises or any part thereof, on account of work performed or caused to be performed by Sublessor in or to the Facilities Ground Leased Premises, Sublessor will cause such lien to be discharged of record within forty-five (45) days after the filing of such lien. If Sublessor fails to pay any charge for which a mechanics' lien has been filed, and has not discharged same of record as described above, Sublessee may, at its option, in addition to exercising any other remedies Sublessee has under this Sublease on account of a default by Sublessor, pay such charge and related costs and interest, and the amount so paid, together with reasonable attorneys' fees incurred in connection with the removal of such lien, will be immediately due from Sublessor to Sublessee.

4.12 SIGNAGE.

(n) Sublessor hereby consents to any and all of Sublessee's signage and sponsorship signage that is currently installed on the Facilities Ground Leased Premises ("Sublessee's Existing Signage") and to any upgrade of Sublessee's Existing Signage, provided such signage does not detract from the commercial appeal of the VLT Operations. Sublessee may sell, lease or otherwise permit any signage or sponsorship signage that is related to Sublessee's business operations to be erected within the Subleased Premises, without the consent of Sublessor. Subject to Sublessor's reasonable approval thereof, Sublessee shall have the right to install and maintain any other of its signs or its sponsor's signs on any part of the Facilities Ground Leased Premises, including the exterior of the Facilities Ground Leased Premises, the Building and the Common Facilities. All such signs shall be furnished, installed and maintained by Sublessee at its sole cost and expense but Sublessor shall, at Sublessee's sole reasonable cost and expense, provide the electrical connections and wiring for all such signs as required by Sublessee. Sublessor agrees that if a pylon sign is erected at or near the Facilities Ground Leased Premises or Building and the Occupants of the Facilities Ground Leased Premises are permitted to place their logo signs on said pylon sign, then Sublessee shall, at its sole cost and expense, be permitted to place its logo on the pylon sign. In the event such a sign is erected, such sign shall be kept in good order and repair by Sublessor and lighted during the evening hours, as determined by Sublessor, and Sublessee shall pay Sublessee's Building Area Proportionate Share of the costs thereof. In no event shall Sublessee erect any signage in any area of the Facilities Ground Leased Premises to competitors of Sublessor and Sublessee shall, upon written notice from Sublessor, not renew or extend any current lease or license for any signage that is leased or licensed to competitors of Sublessor.

(o) Sublessor may sell, lease or otherwise permit signage or sponsorship signage (other than sponsorship signage for racing) to be erected on or about the Facilities Ground Leased Premises other than the Subleased Premises, including but not limited to the exterior of the Building and the Common Facilities, without the consent of Sublessee provided such signage does not block any of the windows of the Subleased Premises or is not placed on the exterior portions of the Subleased Premises or the Clubhouse. Notwithstanding the foregoing, if Sublessor commences VLT Operations

within the VLT Premises, Sublessor shall be permitted to install and maintain signs or sponsorship signage on or about the VLT Premises, provided same do not impede or interfere with Sublessee's signs. In no event shall Sublessor or any other Occupant sell or lease signage or advertising space on or about the VLT Premises or the Facilities Ground Leased Premises, including but not limited to the exterior of the Building and the Common Facilities, to competitors of Sublessee and in no event shall Sublessor erect sponsorship signage which relates to racing operations in or on any area of the Property. This provision shall survive the termination of the Sublease, for the benefit of Sublessee as lessee under the Racetrack Ground Lease.

4.13 SUBLESSOR MORTGAGE

Sublessor represents and warrants that, as of the date hereof, except for a mortgage disclosed to Sublessee which is subject to a non-disturbance agreement executed by Sublessee and such mortgagee, it has not mortgaged or encumbered its leasehold interest in the Facilities Ground Leased Premises. Sublessor may not mortgage or encumber all or any part of the Facilities Ground Leased Premises that includes all or any portion of the Subleased Premises without obtaining a non-disturbance agreement in favor of Sublessee, which may be on such mortgagee's customary form, in form and content reasonably satisfactory to Sublessee, modified as necessary to preserve Sublessee's rights under this Sublease, including that under no circumstances may this Sublease be terminated except as set forth herein.

4.14 NAME OF RACETRACK.

The name of the racetrack shall be Aqueduct Racetrack, and such name shall not be changed during the term of this Sublease without the written consent of both Sublessor and Sublessee having been first obtained. Sublessor may not use the name of the racetrack for any purpose or in any manner that would benefit any competitor of Sublessee.

4.15 INDEMNIFICATION, WAIVER AND RELEASE.

(p) Sublessee Indemnification. Sublessee shall indemnify, defend and hold harmless Sublessor, Empire State Development Corporation, the FOB and their respective officers, directors, trustees, employees, members, managers, and agents (collectively, the "Indemnitees"), from and against any and all claims, actions, damages, liability and expense which (i) arise from or in connection with the possession, use or occupancy of the Subleased Premises, (ii) result from or are in connection with any act or omission by Sublessee or its agents, Contractors or employees, (iii) result from any default or breach of this Sublease or any provision herein by Sublessee, or (iii) result in injury to person or property or loss of life sustained within the Subleased Premises, except if caused by the negligence, acts or omissions of Sublessor, or its agents, Contractors or employees. In case any Indemnitee shall be made a party to any litigation covered by this indemnity, whether or not also commenced by or against Sublessee, then Sublessee shall protect and hold the Indemnitees harmless and shall pay all costs,

expenses and reasonable attorneys' fees incurred or paid by such parties in connection with such litigation.

(q) Sublessor's Indemnification. Sublessor shall indemnify, defend and hold harmless Sublessee from and against any and all claims, actions, damages, liability and expense which (i) arise from or in connection with the possession, use or occupancy of the Common Facilities, (ii) result from or are in connection with any act or omission by Sublessor, its agents, Contractors or employees, (iii) result from any default or breach of this Sublease or any provision herein by Sublessor, or (iii) result in injury to person or property or loss of life sustained within the Common Facilities, except if caused by the negligence, acts or omissions of Sublessee or its agents, Contractors or employees. In case Sublessee shall be made a party to any litigation covered by this indemnity, whether or not also commenced by or against Sublessor, then Sublessor shall protect and hold Sublessee harmless and shall pay all costs, expenses and reasonable attorneys' fees incurred or paid by such parties in connection with such litigation.

ARTICLE V
DEVELOPMENT CLAUSE

5.1 DEVELOPMENT OF THE FACILITIES GROUND LEASED PREMISES.

(a) The parties acknowledge that from time to time during the Term of this Sublease, (i) Sublessor shall develop and construct all or a portion of the VLT Premises for the operation of video lottery gaming terminals and activities and uses associated with such operation (the "VLT Operations") and in such capacity, Sublessor may from time to time be referred to herein as the "VLT Operator", (ii) Sublessor may expand its VLT Operations into all or a portion of the Future Development Area and/or may sublease or license, for the direct benefit of the State, all or any portion of the Future Development Area to any Occupant, subject to applicable Requirements, provided Sublessor shall not sublet or license any Future Development Area to any competitor of Sublessee other than for executive offices for New York City OTB (the "Future Development"), and (iii) Sublessor may release one or more of those portions of the Facilities Ground Leased Premises identified as the "Real Estate Development Parcels" (each, a "Real Estate Development Parcel"), to the State to lease or license to a third party entity or entities selected in accordance with the terms of the Franchise Agreement (collectively, the "Phase II Developer") for the development of retail, hotel and entertainment facilities or such other uses and facilities as are approved by the FOB (the "Phase II Development"), provided there shall be no pari-mutuel or simulcast wagering or horse racing conducted at the Aqueduct Racetrack by any party other than Sublessee, and from and after such release, the provisions of this Sublease shall not apply to the portions so released. The construction and development of the VLT Premises, the Future Development and the Phase II Development, to the extent undertaken on the premises subject to the Facilities Ground Lease, may herein be collectively referred to as the "Facilities Ground Leased Premises Development" and shall at all times be conducted in a manner which satisfies the conditions set forth in the Franchise Agreement and Article 5 of this Sublease. The

provisions of this paragraph prohibiting Sublessor from subletting or licensing any Future Development Area to any competitor of Sublessee other than New York City OTB shall survive the termination of this Sublease, for the benefit of Sublessee as lessee under the Racetrack Ground Lease.

(b) Pursuant to the Omnibus Agreement, and in connection with the Phase II Development, Sublessee shall be entitled to receive from the State such information, including, but not limited to, site development and construction plans, specifications, schedules, reports, contracts, agreements, budgets, surveys and such other documentation (the "Development Documentation"), as shall be in the possession of the State in order to allow Sublessee to determine the nature, scope, design and conformity of such Phase II Development to the Development Requirements (defined below). Sublessor shall also provide to Sublessee such Development Documentation as it has in its possession. At such times as Sublessor expands its VLT Operations or commences Future Development, Sublessor shall also provide Sublessee with all available Development Documentation for its review. Sublessor covenants that the Facilities Ground Leased Premises Development shall not interfere with Sublessee's Permitted Uses and Ancillary Uses of the Subleased Premises in any material respect.

5.2 DEVELOPMENT REQUIREMENTS.

Supplementing Section 5.1 of this Sublease, in connection with any or all of the Facilities Ground Leased Premises Development undertaken on premises then subject to the Facilities Ground Lease, Sublessor agrees that Sublessor shall comply with the following requirements, which are collectively defined as the "Development Requirements":

(a) Compliance with Franchise Agreement. Sublessor shall have complied, and continue to comply, with the requirements contained in Section 2.13(a) of the Franchise Agreement applicable to Sublessor.

(b) Development Costs. Sublessee shall not be required to incur any costs in connection with the development and construction of the Facilities Ground Leased Premises Development.

(c) Timing, Noise and Interference During Initial Construction. Sublessor acknowledges that, due to the presence of horses on the Property, the Property should not be subjected to excessive noise to the extent commercially practicable. Sublessee acknowledges that the construction of the Facilities Ground Leased Premises Development will inherently create noise and disruption. Sublessor therefore agrees that it will take appropriate measures to minimize the likelihood and extent of interference with horse racing, training and stabling of horses. In particular, the initial construction of the Facilities Ground Leased Premises Development or any part thereof (the "Initial Phase II Construction") which could reasonably be expected to interfere with racing, training and stabling of horses shall, to the extent commercially practicable, be conducted at such times and in such manner so as to minimize the likelihood of any such

interference, but Sublessor or any Occupants shall not be obligated to incur any additional overtime costs in order to minimize noise and disruption on the Property. In order to cooperate and to assist with the compliance of this provision, at such time as there is any construction work or any other activity scheduled that is reasonably likely to interfere with racing, training and stabling of horses, the Parties shall establish a procedure of coordination with each other in order to make each other aware of such potential disruption so that the Parties can take appropriate action. Sublessor agrees that it will take appropriate measures to minimize the likelihood and extent of interference with Sublessee's and its employees', customers' and invitees' use and occupancy of the Facilities Ground Leased Premises and the Ground Leased Premises, including parking, as a result of the development and construction of the Facilities Ground Leased Premises Development, including, without imitation, the staging of all construction related vehicles and equipment and the storing of construction materials and supplies. This provision shall survive the termination of this Sublease, for the benefit of Sublessee as lessee under the Racetrack Ground Lease.

(d) Timing, Noise and Interference Other Than During Initial Construction. Other than during Initial Phase II Construction, which is covered by subparagraph 5.2(c) above, Sublessee and Sublessor each agree and Sublessor shall require any Occupants to agree that each party shall conduct or permit the conduct of its respective permitted uses in a manner that does not interfere in any material respect with the other party's operations within the Facilities Ground Leased Premises or the Ground Leased Premises. Other than during the Initial Phase II Construction, to the extent that either Sublessee, Sublessor or Occupant engages in an activity that is reasonably likely to cause interference in any material respect with another party's operations (an "Impact Activity"), each party engaging in the activity shall provide, or Sublessor shall require Occupant to provide, to the other party or parties, as applicable, with five (5) business days notice of its intention to engage in such Impact Activity (the "Impact Notice"). In the event that a party (the "Objecting Party") objects to another party's (the "Non-Objecting Party") Impact Activity, the Objecting Party shall have two (2) business days from the date of receipt of the Impact Notice in question to object thereto, provided that, if the Objecting Party shall not object within such two (2) business days, the Objecting Party shall be deemed to have no objection thereto. In the event that the Objecting Party does object to a particular Impact Activity, the Objecting Party and the Non-Objecting Party shall cooperate in good faith to determine a date and time during which the Non-Objecting Party may engage in the applicable Impact Activity (such date not to be more than ten (10) days subsequent to Objecting Party's receipt of the Impact Notice). Notwithstanding the foregoing, nothing contained in this Section 5.2(d) shall be construed to require any party to incur overtime costs or incur other extra expense. This provision shall survive the termination of the Sublease, for the benefit of Sublessee as lessee under the Racetrack Ground Lease.

ARTICLE VI
DEFAULT CLAUSE

6.1 EVENTS OF DEFAULT NOT RESULTING IN FRANCHISE REVOCATION

The following events shall each constitute a "Non-Revocation Event of Default" under this Sublease:

(a) Monetary Defaults. Failure on the part of Sublessee to pay Rent or any other sums and charges when due to Sublessor hereunder and the continuation of such failure for ten (10) days after written notice to Sublessee.

(b) Nonmonetary Defaults. Failure on the part of Sublessee to perform any of the terms or provisions of this Sublease other than the provisions (x) requiring the payment of Rent, and (y) breach of which would give rise to the revocation of the Franchise Agreement pursuant to the terms thereof, and the continuation of such failure for thirty (30) days after written notice to Sublessee, provided that if the default is of such character as to require more than thirty (30) days to cure, if Sublessee shall fail to commence curing such default within thirty (30) days following notice and thereafter to use reasonable diligence in curing such default.

6.2 REMEDIES FOR NON-REVOCATION EVENT OF DEFAULT NOT RESULTING IN FRANCHISE REVOCATION

If a Non-Revocation Event of Default shall occur, Sublessor shall be entitled, at Sublessor's election, to exercise any remedies available at law or in equity on account of such Non-Revocation Event of Default, including without limitation, to bring one or more successive suits for monetary damages and/or specific performance, but Sublessor shall not be entitled to terminate this Sublease and remove Sublessee from possession of the Subleased Premises. In addition to the foregoing, Sublessor may undertake to cure such Non-Revocation Event of Default for the account of Sublessee, and Sublessee shall be responsible for the reasonable and actual out of pocket cost and expenses incurred by Sublessor in performing such cure (with interest accruing at the Default Rate) which shall immediately be owing by Sublessee to Sublessor.

6.3 REVOCATION OF FRANCHISE AGREEMENT

Notwithstanding anything in this Sublease to the contrary, if Sublessee's Franchise shall be duly revoked pursuant to Racing Law §§244 and 245, then this Sublease shall be deemed automatically, without further notice or legal action, terminated as of the date of such Franchise revocation, and Sublessor shall have the right, at Sublessor's election, to exercise any of the remedies set forth in Section 6.4 of this Sublease which are applicable following termination of the Sublease. Sublessee shall have the right to remain in possession of the Subleased Premises for a period of not more than thirty (30) days following termination of the Sublease, solely for the purposes of

orderly vacating the Subleased Premises in the condition required by this Sublease, TIME BEING OF THE ESSENCE to the obligation of Sublessee to vacate the Subleased Premises as provided in this Sublease no later than the thirtieth (30th) day following the termination of this Sublease. Sublessor has no other rights to terminate this Lease other than those stated in this Section 6.3.

6.4 LEASE TERMINATION FOLLOWING REVOCATION OF FRANCHISE AGREEMENT

(a) If this Sublease shall be terminated as provided in Section 6.3, Sublessor, without notice, may re-enter and repossess the Subleased Premises using such force for that purpose as may be necessary and permissible pursuant to applicable laws, without being liable to indictment, prosecution or damages therefore and may dispossess Sublessee by summary proceedings or otherwise.

(b) No termination of this Sublease pursuant to Section 6.3, or taking possession of or reletting the Subleased Premises or any part thereof, shall relieve Sublessee of its liabilities and obligations under this Sublease which shall survive such expiration, termination, repossession or reletting.

6.5 NO WAIVER

No failure by Sublessor to insist upon the strict performance of any covenant, agreement, term or condition of this Sublease or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial rent during the continuance of any such breach, shall constitute a waiver of any such breach or of such covenant, agreement, term or condition. No covenant, agreement, term or condition of this Sublease to be performed or complied with by Sublessee, and no breach thereof, shall be waived, altered or modified except by a written instrument executed by Sublessor. No waiver of any breach shall affect or alter this Sublease, but each and every covenant, agreement, term and condition of this Sublease shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

6.6 REMEDIES CUMULATIVE

All amounts expended by either party to cure any default by the other party or to pursue remedies hereunder shall be paid by the defaulting party to such other party upon demand. Each right and remedy of Sublessor and Sublessee provided for in this Sublease shall be cumulative and shall be in addition to every other right or remedy provided for in this Sublease or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by either party to this Sublease of any one or more of the rights or remedies provided for in this Sublease or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by such party of any or all other rights or remedies provided for in this Sublease or now or hereafter existing at law or in equity or by statute or otherwise.

ARTICLE VII
MISCELLANEOUS

7.1 ESTOPPEL CERTIFICATES

Either party shall, at any time and from time to time upon not less than ten (10) days' prior request by the other Party, execute, acknowledge and deliver to such other Party, a statement in writing certifying (i)its ownership of its interest hereunder, (ii)that this Sublease is unmodified and in full force and effect (or if there have been any modifications, that the same is in full force and effect as modified and stating the modifications), (iii) the dates to which the rent and any other charges have been paid, and (iv) that, to the best of its knowledge, no default hereunder on the part of the other Party exists (except that if any such default does exist, such Party shall specify such default).

7.2 NOTICES

All notices hereunder to the respective Parties will be in writing and will be served by personal delivery or by prepaid, express mail (next day) via a reputable courier service, or by prepaid, registered or certified mail, return receipt requested, addressed to the respective parties at their addresses set forth below. Any such notice to Sublessor or Sublessee will be deemed to be given and effective: (i) if personally delivered, then on the date of such delivery, (ii) if sent via express mail (next day), then one (1) business day after the date such notice is sent, or (iii) if sent by registered or certified mail, then three (3) business days following the date on which such notice is deposited in the United States mail addressed as aforesaid. For purposes of this Sublease, a business day shall be deemed to mean a day of the week other than a Saturday or Sunday or other holiday recognized by banking institutions of the State of New York. Copies of all notices will be sent to the following:

If to Sublessee:

The New York Racing Association, Inc.
Aqueduct Racetrack
110-00 Rockaway Boulevard
South Ozone Park, New York 11417
Attn: General Counsel

With a copy to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Attn: Brian S. Rosen, Esq.

If to Sublessor:

[VLT Operator]

With a copy to:

The New York State Franchise Oversight Board
Franchise Oversight Board
c/o Executive Chamber
The Capitol
Albany, NY 12224
Attention: Chairman
Telecopy: _____

With a copy to:

The State of New York
Office of the Attorney General
of the State of New York
The Capitol
Albany, New York 12224-0341
Attention: Nancy Hershey Lord, Esq.
Fax: (508) 408-2057

With a copy to:

Charities Bureau
Department of Law
120 Broadway - 3rd Floor
New York, New York 10271

With a copy to:

The Racing and Wagering Board
Chairman
N.Y.S. Racing and Wagering Board
1 Broadway Center, Suite 600
Schenectady, New York 12305
Telecopy: (518) 347-1250

With a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019
Attn: Alan S. Kornberg, Esq.

7.3 ACCESS TO SUBLEASED PREMISES

Sublessee shall permit Sublessor and the authorized representatives of Sublessor to enter the Subleased Premises at reasonable times upon prior reasonable notice to Sublessee (i) for the purpose of serving or posting or keeping posted thereon notices required by law; (ii) for the purpose of conducting periodic inspections of the same and (iii) for the purpose of performing any work thereon required to be performed by Sublessor pursuant to this Sublease or that Sublessor, in the reasonable exercise of Sublessor's judgment, is required to perform to prevent waste, loss, damage or deterioration to or in connection with the Subleased Premises.

7.4 WAIVER OF PERFORMANCE BY EITHER PARTY

No waiver of any of the provisions of this Sublease shall be deemed, or shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver, nor shall a waiver in any instance constitute a continuing waiver, nor shall a waiver in any instance constitute a waiver in any subsequent instance.

7.5 CAPTIONS

Captions throughout this instrument are for convenience and reference only and the words contained therein shall in no way be held to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions of this Sublease.

7.6 SUBLEASE BINDING ON SUCCESSORS/MODIFICATION

All covenants, agreements, provisions and conditions of this Sublease shall be binding upon and inure to the benefit of the parties hereto and their heirs, devisees, executors, administrators, successors in interest and assigns and grantees, and shall be deemed to run with the land. No modification of this Sublease shall be binding unless evidenced by an agreement in writing signed by Sublessor and Sublessee.

7.7 BROKERAGE COMMISSION

Sublessor and Sublessee represent and warrant one to the other that no broker commission, finder's fees or similar compensation is due to any party claiming through Sublessor or Sublessee, as applicable, and Sublessor and Sublessee agree to hold the other Party harmless from any liability to pay any such brokerage commission, finder's fees or similar compensation to any parties claiming same through the indemnifying Party.

7.8 ATTORNEYS' FEES

Either Party shall be entitled to recover its reasonable attorneys' fees and similar costs incurred in connection with the enforcement of its rights and remedies under this Sublease.

7.9 MEMORANDUM OF LEASE

Sublessor and Sublessee agree to execute and deliver to each other a short form of this Sublease in recordable form which incorporates all of the terms and conditions of this Sublease by reference in the form mutually agreed upon by Sublessor and Sublessee and attached hereto as Exhibit K ("Memorandum of Lease"). Sublessor and Sublessee agree that at such recording party's cost, either party may record such Memorandum of Lease, in the office of the county clerk in which the Facilities Ground Leased Premises is located.

7.10 PARTIAL INVALIDITY

If any term, provision, condition or covenant of this Sublease or the application thereof to any Party or circumstances shall, to any extent, be held invalid or unenforceable, the remainder of this Sublease, or the application of such term, provisions, condition or covenant to persons or circumstances other than those as to whom or which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Sublease shall be valid and enforceable to the fullest extent permitted by law.

7.11 APPLICABLE LAW AND VENUE

This Sublease shall be governed by and construed in accordance with the laws of the State of New York.

7.12 PRIMACY OF DOCUMENTS

In the event of a conflict between the provisions of the Legislation and the provisions of this Sublease or the Franchise Agreement, the provisions of the Legislation shall prevail. In the event of a conflict between this Sublease and the Franchise Agreement, the provisions of the Franchise Agreement shall prevail.

7.13 COUNTERPARTS

This Sublease may be executed in two or more fully or partially executed counterparts, each of which shall be deemed an original, binding the signer thereof against the other signing Party, but all counterparts together will constitute one and the same instrument.

7.14 ARBITRATION. (a) If this Sublease shall require any dispute between Sublessor and Sublessee to be settled by arbitration, then each Party shall have the right to submit such dispute to arbitration, which shall be conducted in Manhattan in accordance with the Commercial Arbitration Rules (Expedited Procedures) of the AAA. The Party requesting arbitration shall do so by giving notice to that effect to the other Party, specifying in said notice the nature of the dispute, and that said dispute shall be determined in the City of New York, by a panel of three (3) arbitrators in accordance

with this Section 7.14. Sublessor and Sublessee shall each appoint their arbitrator within five (5) days after such Party's notice. The arbitrators so appointed shall meet and shall, if possible, determine such matter within ten (10) days after the second arbitrator is appointed and their determination shall be binding on the parties. If for any reason such two arbitrators fail to agree on such matter within such period of ten (10) days, then either Sublessor or Sublessee may request ENDISPUTE/JAMS (or any organization which is the successor thereto or any other arbitration or mediation entity that is an active or retired state or federal judge) to appoint an arbitrator who shall be impartial within seven (7) days of such request and both parties shall be bound by any appointments so made within such 7-day period. The third arbitrator (and the second arbitrator if selected by the other arbitrator as provided above) only shall subscribe and swear or affirm to an oath fairly and impartially to determine such dispute. Within seven (7) days after the third arbitrator has been appointed, each of the first two arbitrators shall submit their respective determinations to the third arbitrator who must select one or the other of such determinations (whichever the third arbitrator believes to be correct or closest to a correct determination) within seven (7) days after the first two arbitrators shall have submitted their respective determinations to the third arbitrator, and the selection so made shall in all cases be binding upon the parties, and judgment upon such decision may be entered into any court having jurisdiction. In the event of the failure, refusal or inability of an arbitrator to act, a successor shall be appointed within ten (10) days as hereinbefore provided. In the case of all disputes to be determined by arbitration in accordance with this Section 7.14, the arbitrator shall be engaged in such field for a period of at least ten (10) years before the date of his appointment. The third arbitrator shall be an active or retired New York State or federal judge experienced with the subject matter with which the arbitration is concerned and shall schedule a hearing where the parties and their advocates shall have the right to present evidence, call witnesses and experts and cross-examine the other Party's witnesses and experts. Either Party shall have the right, at any time, to make a motion to the third arbitrator to grant summary judgment as to any question of law.

(b) Sublessor and Sublessee agree to sign all documents and to do all other things necessary to submit any such matter to arbitration and further agree to, and hereby do, waive any and all rights they or either of them may at any time have to revoke their agreement hereunder to submit to arbitration and to abide by the decision rendered thereunder. For such period, if any, as this agreement to arbitrate is not legally binding or the arbitrator's awards is not legally enforceable, the provision requiring arbitration shall be deemed deleted and matters to be determined by arbitration shall be subject to litigation.

(c) Except as otherwise specifically provided herein, the losing Party shall pay the fees and expenses for all arbitrators.

7.15 CLUBHOUSE PREMISES.

The parties agree and acknowledge that notwithstanding the exhibits attached hereto, in connection with the initial occupancy of the VLT Premises by the

VLT Operator, if any portion of the Clubhouse included in the exhibits as the VLT Premises is not actually demised under this Sublease to the VLT Operator for the VLT Premises, such portion of the Clubhouse shall become part of the Subleased Premises. If any part of the Clubhouse that is not included in the exhibits as VLT Premises is required by the VLT Operator for VLT gaming, the parties shall negotiate in good faith to allocate a reasonable amount of alternate or additional space within the Clubhouse to reasonably accommodate the requirements of both parties, provided that the Sublessee shall be under no obligation to agree to any allocation of alternate or additional space to the VLT Operator within the Clubhouse if such allocation would result in an adverse impact upon Sublessee's operations or customer experience within the Subleased Premises to more than a de minimus extent. If the Parties' good faith negotiations result in a reasonable accommodation that is mutually satisfactory to each, in such case the Subleased Premises and the VLT Premises shall be appropriately adjusted. Moreover, if the VLT Operator proposes to use or operate any additional or alternate space within the Clubhouse for non-gaming activities, such as dining, Sublessee shall participate in good faith discussions with the VLT Operator regarding such activities, however, Sublessee shall be under no obligation to agree to any such activities within the Clubhouse if such activities or allocation of spaces attendant thereto would result in an adverse impact upon Sublessee's operations or customer experience within the Subleased Premises to more than a de minimus extent.

7.16 RESTRICTIONS ON PARI-MUTUEL WAGERING.

The Parties hereby acknowledge and agree that there shall be no pari-mutuel or simulcast wagering or horse racing conducted at the Aqueduct Racetrack by any party other than Sublessee.

7.17 TIME PERIOD FOR PAYMENT OBLIGATIONS.

All payments to be made by Sublessor and Sublessee pursuant to this Sublease shall be made within ten (10) business days after demand therefor, unless a time period for such payment is otherwise specifically set forth herein. If either Party fails to make any payment due within the time period required under this Sublease, then such Party shall pay to the other Party the amount so due together with interest thereon at the Default Rate, which interest shall accrue from the date such payment is due through the date such payment is made.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Sublessor and Sublessee have executed this Sublease as of the day and year first above written.

SUBLESSOR:

JJLV.

By: NEW YORK GAMING VENTURES LLC
Name: JOHN V. FINAMORE
Title: PRESIDENT

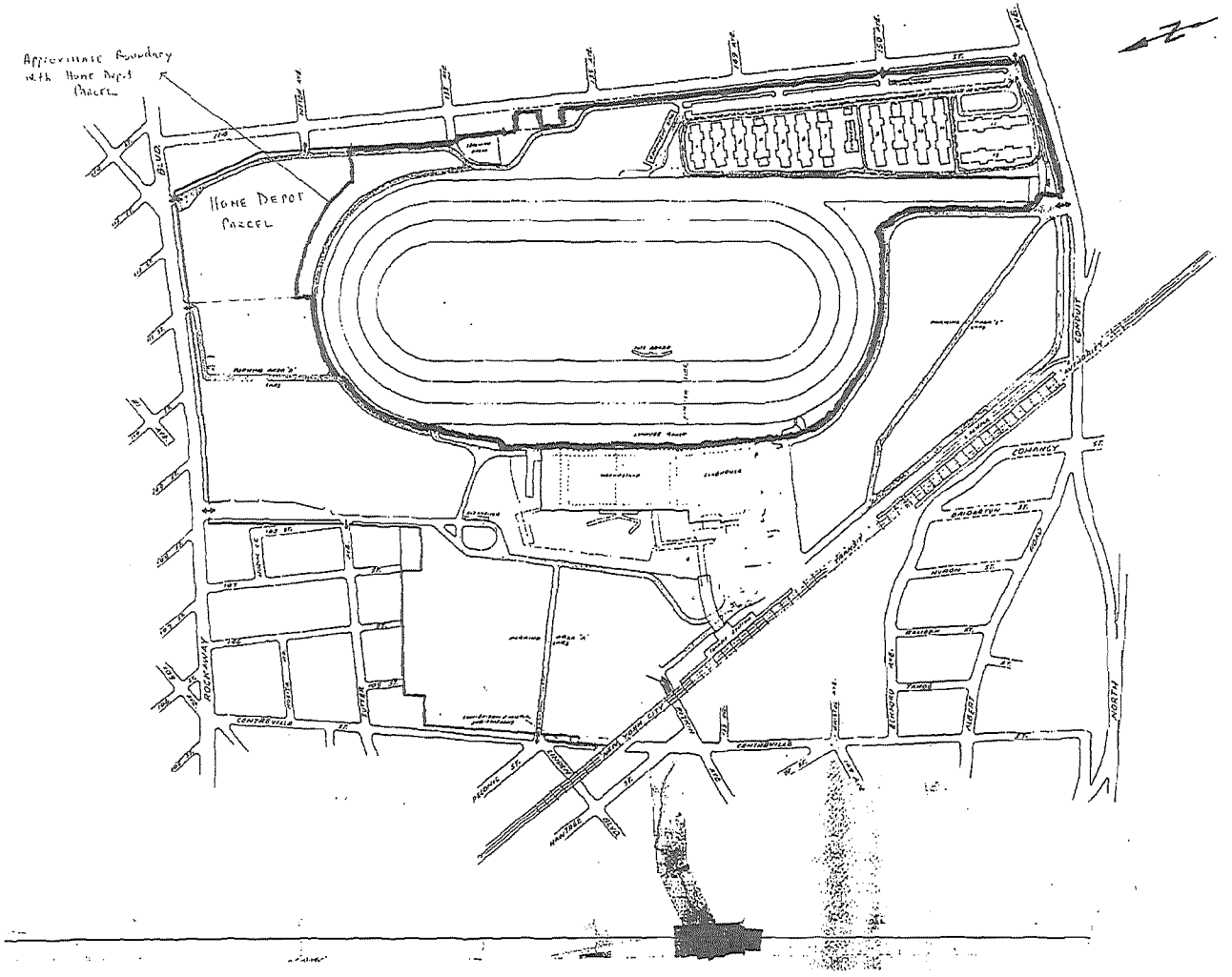
SUBLESSEE:

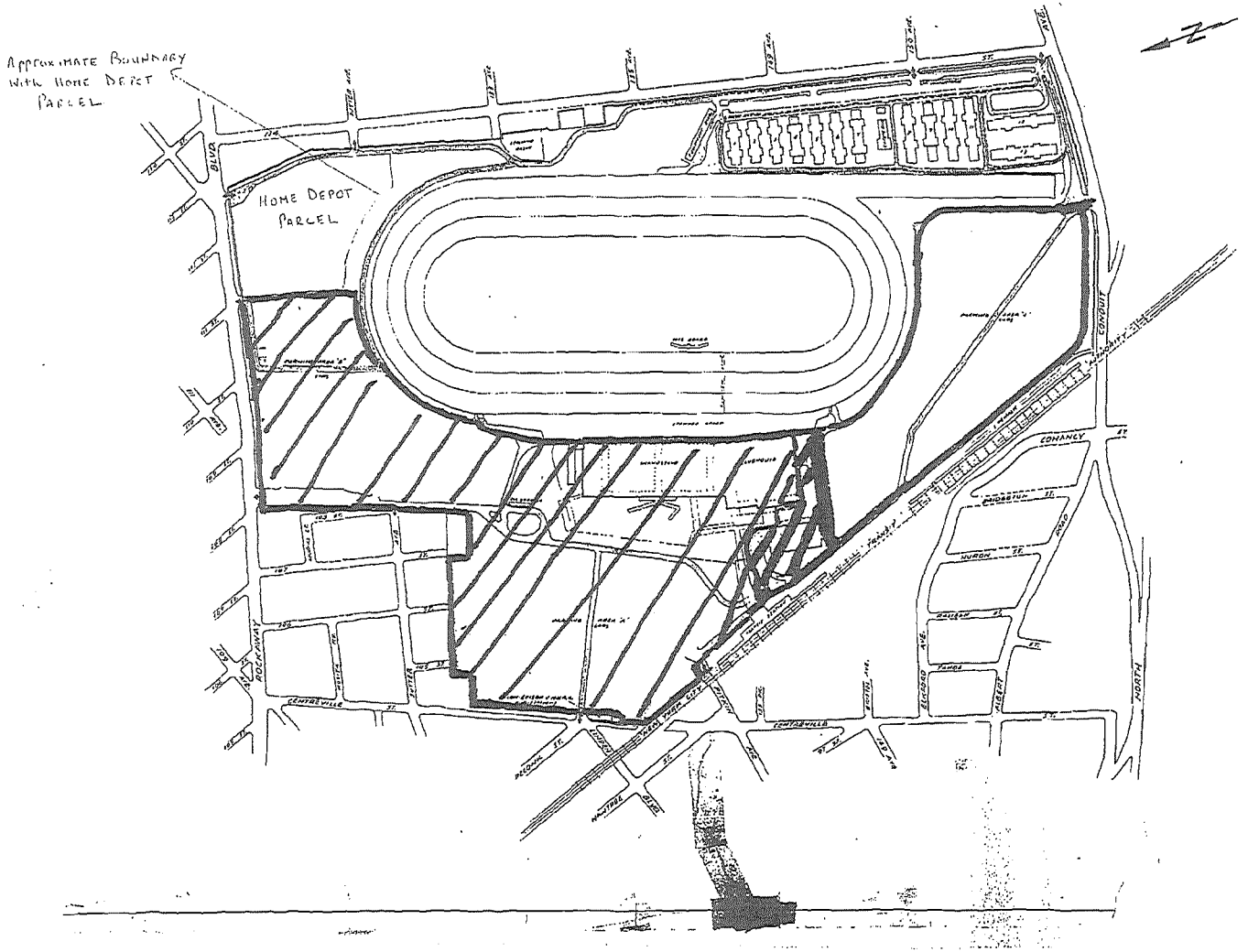
THE NEW YORK RACING
ASSOCIATION, INC.

By: _____
Name: Patrick L. Kehoe
Title: General Counsel

EXHIBIT A-1

PROPERTY


Approximate Boundary with Home Depot Parcel
Home Depot Parcel
Aqueduct Racetrack Ground Lease
Leased Premises
General Site Plan
Aqueduct Race Track
The New York Racing Association Inc.



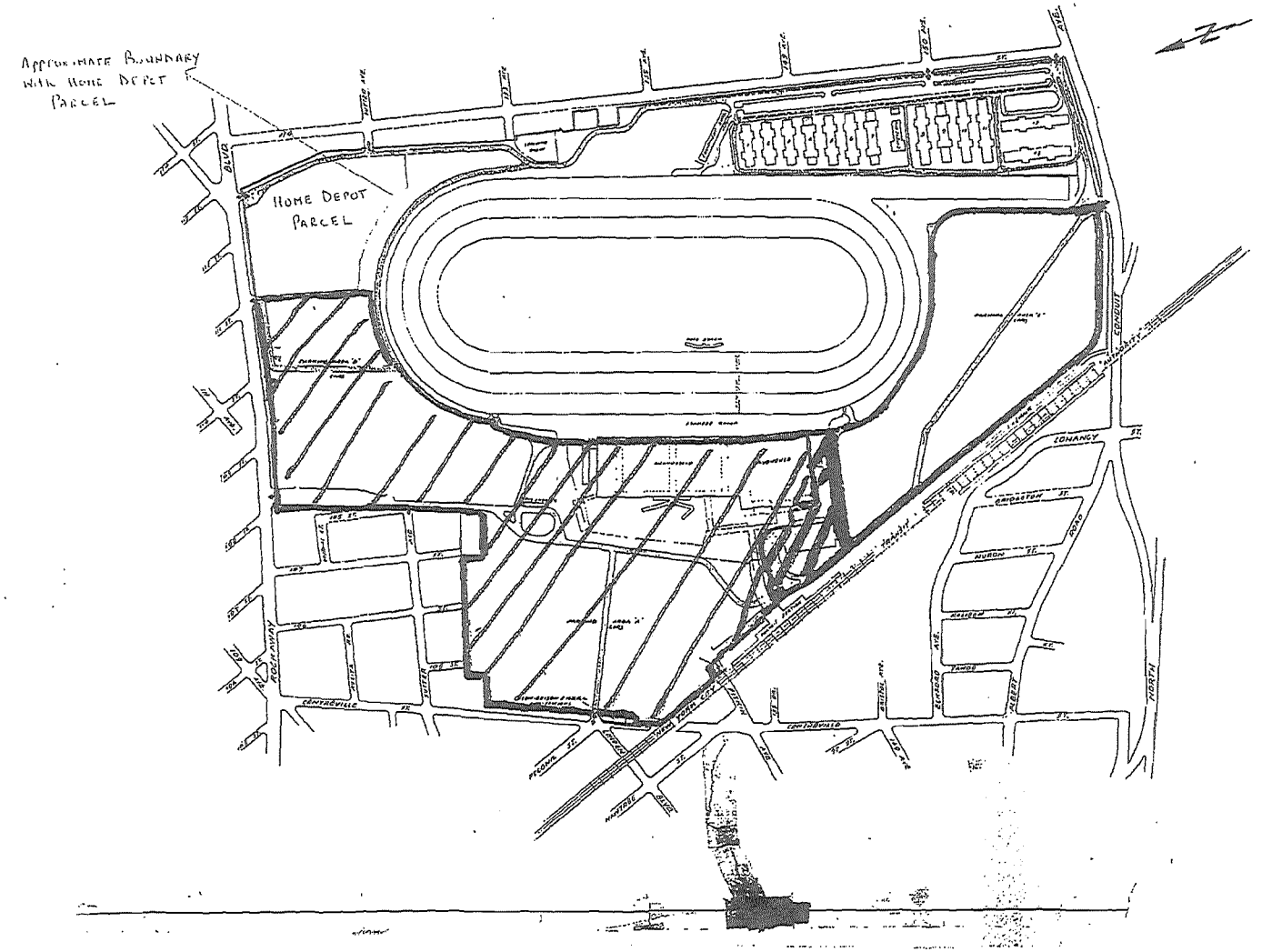
Aqueduct Racetrack Facilities Ground Lease

Leased Premises Is Cross-Hatched And Blue And Orange Road (Orange Road Is Common Use With Port Authority of NY NJ)

GENERAL SITE PLAN
AQUEDUCT RACE TRACK
THE NEW YORK RACING ASSOCIATION INC.

EXHIBIT A-2

FACILITIES GROUND LEASED PREMISES



AQUEDUCT RACETRACK FACILITIES GROUND LEASE

LEASED PREMISES IS CROSS-HATCHED AND BLUE AND ORANGE ROAD (ORANGE ROAD IS COMMON USE WITH PORT AUTHORITY OF NY NJ)

GENERAL SITE PLAN
AQUEDUCT RACE TRACK
THE NEW YORK RACING ASSOCIATION INC

EXHIBIT B

SUBLEASED PREMISES

The Subleased Premises shall be comprised of the following interior portions of the Building:

Ground Floor: The entire floor comprising the ground level, with the exception of approximately 28,000 square feet, the location of which is to be agreed to between Sublessor and Sublessee, to be used by the VLT Operator for retail purposes (but in no event greater than 1,000 square feet for such purpose), trade shops, utilities and building systems, maintenance, food and beverage storage, building storage, and armored car access bay and secured back of house room.

The ground floor Common Facilities shall include the "tunnel" on the racetrack side of the Building and hallways needed for general access to the areas provided above, the location of which is to be agreed to between Sublessor and Sublessee.

First Floor: The entire Clubhouse located on the first floor . Notwithstanding the foregoing, to the extent required in any of the bid proposals submitted on or prior to September 12, 2008 by potential bidders, the VLT Operator shall be entitled to utilize up to approximately 55,000 square feet of the first floor of the Clubhouse that is adjacent to the Grandstand, but in no event will the VLT Premises comprise (i) any area that is between the glass windows facing the racetrack and the second row therefrom of interior structural columns, running from the south wall to the north end of the viewing end of the paddock, and (ii) any area between the south wall and the sixth row therefrom of structural columns running from the east side to the west side of the Building.

The ground level entry that allows ingress and egress to the first floor by means of the escalator existing on September 12, 2008 shall be deemed Common Facilities.

Second Floor: The entire second floor of the Clubhouse.

Third Floor: The entire third floor of the Clubhouse up to and including the space known as the Manhattan Terrace and including the interior area above the third floor Clubhouse area.

Roof: All improvements and structures located on the roof in existence on September 12, 2008 and utilized for racing operations, including without limitation, the press box, the judges box, the steward stand and the photo finish box.

EXHIBIT C

VLT PREMISES

The VLT Premises shall be comprised of those areas within the interior of the Building selected by the VLT Operator as the VLT Premises and which shall exclude the Subleased Premises, the Future Development Area and the Common Facilities.

EXHIBIT D

FUTURE DEVELOPMENT AREA

The Future Development Area shall be comprised of those areas within the interior of the Building which shall exclude the Subleased Premises, the VLT Premises and the Common Facilities.

EXHIBIT E

CLUBHOUSE

The Clubhouse shall be comprised of the space that is currently utilized by Sublessee as of September 12, 2008, the charges for entrance thereto being different than the charges to the Grandstand (as of September 12, 2008) and which shall include on the third floor of the Building the area commonly known as the Manhattan Terrace.

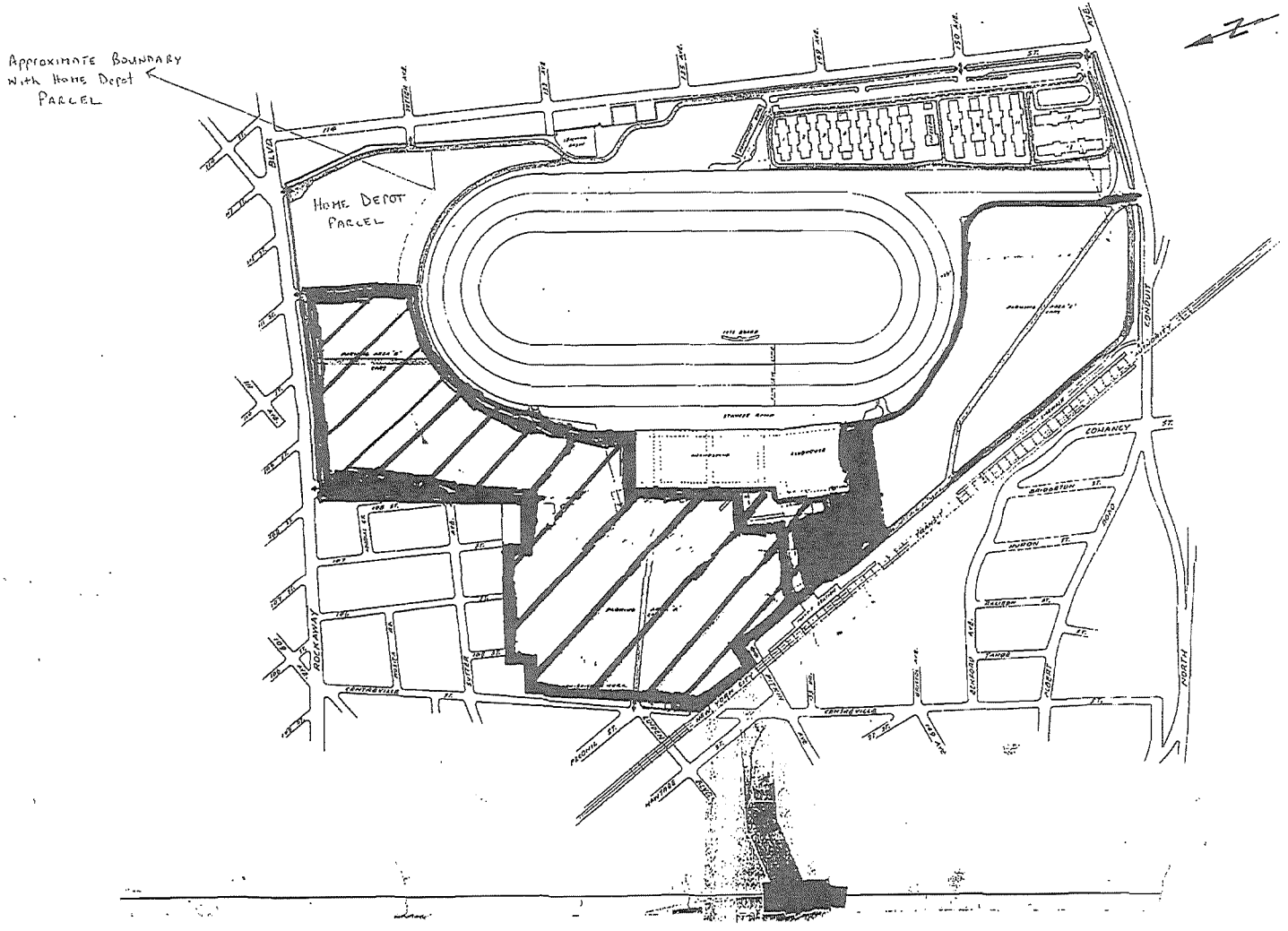
EXHIBIT F

GRANDSTAND

The Grandstand shall be comprised of all interior areas of the Building other than the Clubhouse and the ground floor.

EXHIBIT G

PARKING AREAS



See Exhibit G-1 attached hereto

EXHIBIT G-1

If a Phase II Developer desires to change the Clubhouse Entrance Area (as shown on the attached Exhibit G), the Parties shall negotiate in good faith to accommodate the needs of the Parties, and upon reaching agreement, the Clubhouse Entrance Area shall be included in the Real Estate Development Parcel in accordance with such agreement, provided that Sublessee shall not be under any obligation to agree to any change which would result in an adverse impact upon Sublessee's operations or customer experience, except to a de minimus extent.

The roads within the Real Estate Development Parcels may be modified only if comparable alternate road(s) to access the Clubhouse are provided which are convenient to Sublessee and its customers and invitees. The Parties shall negotiate in good faith regarding such modification.

EXHIBIT H

REAL ESTATE DEVELOPMENT PARCELS

Refer to Exhibit G

EXHIBIT I

CAPITAL PLAN

PROPOSED FIVE-YEAR CAPITAL IMPROVEMENT PLAN

2008 - 2012

THE NEW YORK RACING ASSOCIATION INC.

September 28, 2007

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MASTER SCHEDULE
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012 Total	
AQUEDUCT						
Grandstand and Clubhouse	460,000	2,270,000	3,340,000	160,000	10,000	6,240,000
Backstretch and Paddock	25,000	1,350,000	1,335,000	1,825,000	1,825,000	6,360,000
Other Stable Areas	25,000	0	2,100,000	2,000,000	0	4,125,000
Parking Lots	0	335,000	260,000	0	0	595,000
Track and Infield Maintenance	0	850,000	540,000	0	0	1,390,000
Miscellaneous	3,000,000	0	0	0	0	3,000,000
SUBTOTAL	**3,510,000**	**4,805,000**	**7,575,000**	**3,985,000**	**1,835,000**	**21,710,000**
BELMONT						
Grandstand and Clubhouse	375,000	3,135,000	5,280,000	5,010,000	710,000	14,510,000
Backstretch and Paddock	676,000	1,645,000	1,210,000	2,210,000	835,000	6,576,000
Dormitories	125,000	125,000	125,000	125,000	65,000	565,000
Facilities, Other	2,500,000	1,500,000	3,500,000	1,800,000	500,000	9,800,000
Parking and Roadways	0	200,000	2,775,000	100,000	100,000	3,175,000
Track and Infield Maintenance	0	300,000	15,000,000	10,585,000	12,000,000	37,885,000
Miscellaneous	2,190,000	8,500,000	6,000,000	3,000,000	0	19,690,000
SUBTOTAL	**5,866,000**	**15,405,000**	**33,890,000**	**22,830,000**	**14,210,000**	**92,201,000**
SARATOGA						
Grandstand and Clubhouse	480,000	1,217,000	1,996,000	1,345,000	26,422,000	31,460,000
Backstretch and Paddock	670,000	2,020,000	2,031,200	2,242,848	2,229,962	9,194,010
Dormitories	40,000	340,000	1,090,000	2,995,000	1,151,200	5,616,200
Facilities, Other	1,570,000	1,390,000	1,400,000	3,450,000	1,290,000	9,100,000
Track and Infield Maintenance	650,000	100,000	0	75,000	12,279,000	13,104,000
Miscellaneous	3,160,000	850,000	4,700,000	0	0	8,710,000
SUBTOTAL	**6,570,000**	**5,917,000**	**11,217,200**	**10,107,848**	**43,372,162**	**77,184,210**
EQUIPMENT GENERAL	**1,819,000**	**2,454,000**	**2,243,700**	**1,825,800**	**1,964,500**	**10,307,000**
GRAND TOTAL	**17,765,000**	**28,581,000**	**54,925,900**	**38,748,648**	**61,381,662**	**201,402,210**

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AQUEDUCT RACETRACK
PROPOSED FIVE-YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	TOTAL
GRANDSTAND & CLUBHOUSE						
Turf & Field Club and Clubhouse Entrances	0	1,500,000	1,500,000	0	0	3,000,000
Remodel Pari-Mutuel Bays	0	400,000	400,000	0	0	800,000
Install Exterior Lighting	100,000	0	100,000	0	0	200,000
Remodel Jock's Room	0	0	150,000	150,000	0	300,000
Upgrade Electrical System	100,000	0	0	0	0	100,000
Hazardous Materials Abatement Program GS	250,000	0	250,000	0	0	500,000
Sound System	0	150,000	150,000	0	0	300,000
Exterior Walls/Grandstand Seating	0	0	300,000	0	0	300,000
Renovate Facade	0	210,000	0	0	0	210,000
Repair/Replace Deteriorated Support Columns	10,000	10,000	10,000	10,000	10,000	50,000
Renovate Press Box	0	0	400,000	0	0	400,000
Renovate 2nd Floor Box Seat Area	0	0	80,000	0	0	80,000
SUBTOTAL	**460,000**	**2,270,000**	**3,340,000**	**160,000**	**10,000**	**6,240,000**
BACKSTRETCH AND PADDOCK						
Replace Barn sliding Doors	15,000	30,000	15,000	15,000	15,000	90,000
Replace 200 Stall Doors	10,000	20,000	20,000	10,000	10,000	70,000
Replacement of Barn Windows	0	500,000	500,000	500,000	500,000	2,000,000
New Barn Roofs (8)	0	800,000	800,000	800,000	800,000	3,200,000
Renovate Garage	0	0	0	500,000	500,000	1,000,000
SUBTOTAL	**25,000**	**1,350,000**	**1,335,000**	**1,825,000**	**1,825,000**	**6,360,000**
OTHER STABLE AREAS						
CAFO Upgrades	0	0	2,000,000	2,000,000	0	4,000,000
Renovate Recreation Hall & Kitchen Area	25,000	0	100,000	0	0	125,000
SUBTOTAL	**25,000**	**0**	**2,100,000**	**2,000,000**	**0**	**4,125,000**

AQUEDUCT RACETRACK
PROPOSED FIVE-YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	TOTAL
PARKING LOTS						
Repave Roads	0	260,000	260,000	0	0	520,000
Recoat Rockaway Parking Lot	0	75,000	0	0	0	75,000
SUBTOTAL	**0**	**335,000**	**260,000**	**0**	**0**	**595,000**
TRACK AND INFIELD MAINTENANCE						
Clean & Waterproof Ponds	0	750,000	0	0	0	750,000
Warning Lights on Main and Training Track	0	100,000	0	0	0	100,000
Install New Safety Rail on Inner Track	0	0	235,000	0	0	235,000
Install New Safety Rail on Outer Track	0	0	305,000	0	0	305,000
SUBTOTAL	**0**	**850,000**	**540,000**	**0**	**0**	**1,390,000**
MISCELLANEOUS						
New Data Center: (includes Back-up Power Generation, Buildout, and HVAC upgrade)	3,000,000	0	0	0	0	3,000,000
SUBTOTAL	**3,000,000**	**0**	**0**	**0**	**0**	**3,000,000**
AQUEDUCT TOTALS	**3,510,000**	**4,805,000**	**7,575,000**	**3,985,000**	**1,835,000**	**21,710,000**

AQUEDUCT RACETRACK
PROPOSED FIVE-YEAR CAPITAL IMPROVEMENT PLAN

GRANDSTAND & CLUBHOUSE

Turf and Field Club and Clubhouse Entrances: Estimate is based upon a combining of the two entrances into one at the Southwest corner of the building, outside of the Chairman's office. Cost includes demo of the existing window wall, establishing new roadways, installing a glass enclosed elevator from ground to fourth floor and a rebuild to match the look of the casino entrance. No drawings were commissioned, so estimate is based upon the scale of the job. Input was given by Tishman and John Olin based on cost for the casino entrance.
Reference: 6(a), 6(b), 6(e), 6(f), 6(g)

Est. Cost: $ 3,000,000

Remodel Pari-Mutuel Bays 2nd Floor Clubhouse: Open up the mutuel window areas to a bank teller, open counter format. Will improve surveillance of activity and would include modification to Interior access routes, rest rooms and money room distribution points.
Reference: 6(a), 6(b), 6(c), 6(g)

Est. Cost: $ 800,000

Install Exterior Lighting: Enhance exterior lighting to improve safety and security of patrons and staff.
Reference: 6(e)

Est. Cost: $ 200,000

Remodel Jockey's Room: Continued renovation of a 30 year-old facility to provide operating efficiencies, laundry operations, increased storage and upgraded conditioning equipment and food service.
Reference: 6(a), 6(c), 6(g)

Est. Cost: $ 300,000

Upgrade Electrical System: Capacity-Upgrade to accommodate additional TV's, SAMS, computers and fax machines. Need transformers, control panels, outlets. This number is applicable for casino or non-casino.
Reference: 6(e), 6(f)

Est. Cost: $ 100,000

Hazardous Materials Abatement Program (Grandstand): Remove asbestos.
Reference: 6(f)

Est. Cost: $ 500,000

Sound System: Upgrade exterior speakers, improve interior acoustics.
Reference: 6(b), 6(e), 6(g)

Est. Cost: $ 300,000

Exterior Walls/Grandstand Seating: Water leaking through the roof and wall seams has caused a progressive deterioration of the steel and the mortar composition of the walls. If significant structural damage is observed costs could escalate an additional $200K.
Reference: 6(e)

Est. Cost: $ 300,000

Renovate Facade: Update appearance and weather resistance of facade of building. Priority to seating area facade. 1700 linear ft @ $100 linear ft inflated by 4% since 2001 estimate.
Reference: 6(e), 6(f), 6(g)

Est. Cost: $ 210,000

Repair/Replace Deteriorated Support Columns: engineering and repair.
Reference: 6(e), 6(f),

Est. Cost: $ 50,000

Renovate Press Box: Upgrade a 40 year-old area with current technologies for the interactive communication: improve HVAC and safety measures.
Reference: 6(c), 6(e), 6(f), 6(g)

Est. Cost: $ 400,000

Renovate 2nd Floor Box Seat Area: First stage of renovation will be completed summer of 2007. One-third of the seats most used will be done. To complete the remaining two-thirds will require additional painting, ceiling and heaters.
Reference: 6(e), 6(g)

Est. Cost: $ 80,000

BACKSTRETCH & PADDOCK

Replace Barn Sliding Doors: Doors in need of immediate attention.
Reference: 6(d), 6(f), 6(g)

Est. Cost: $ 90,000

Replace 200 Stall Doors: Continue the annual replacement program for stall and tack room doors. Cost of in-house labor must be added.
Reference: 6(d), 6(f), 6(g)

Est. Cost: $ 70,000

Replacement of Barn Windows: Initiate a replacement program for the 24 doublewide double tier steel casement windows in each barn. Highest priority.
Reference: 6(d), 6(f), 6(g)

Est. Cost: $ 2,000,000

New Roofs: Continue replacement program for the eight remaining barn roofs.
Reference: 6(d), 6(f), 6(g)

Est. Cost: $ 3,200,000

Renovate Garage: Total upgrade of the garage facility.
Reference: 6(c), 6(g)

Est. Cost: $ 1,000,000

OTHER STABLE AREAS:

CAFO: Allocation for potential impact of CAFO Regulations.
Reference: 6(f), 6(g)

Est. Cost: $ 4,000,000

Renovate Recreation Hall & Kitchen Area: Renovate existing structure to provide a more durable and patron friendly facility.
Reference: 6(c), 6(g)

Est. Cost: $ 125,000

PARKING AREAS

Repave Roads: Three miles of road, 30 ft. wide $1.1/sq/ft.
Reference: 6(e), 6(g)

Est. Cost: $ 520,000

Rockaway: Re-coat for lasting durability.
Reference: 6(e), 6(g)

Est. Cost: $ 75,000

TRACK AND INFIELD MAINTENANCE

Clean and Waterproof Ponds:
Reference: 6(d), 6(f), 6(g)

Est. Cost: $ 750,000

Warning Lights for Training Track and Main Track: Strobe lights on a 12 volt system to warn riders. This will replace the inadequate siren system.
Reference: 6(f)

Est. Cost: $ 100,000

Install New Safety Rail on Inner Track: Replace existing rail to increase the safety of race participants.
Reference: 6(d), 6(f)

Est. Cost: $ 235,000

Install New Safety Rail on Outer Track: Replace existing rail to increase the safety of race participants. New rail will enable existing rail to be used as outside rail on dirt or turf tracks.
Reference: 6(d), 6(e), 6(f), 6(g)

Est. Cost: $ 305,000

MISCELLANEOUS

Build New Data Center: New Data Center to includes back-up power generation, appropriate HVAC capacity, security and "clean" environment adequate to house equipment and personnel associated with current and anticipated technology initiatives.
Reference: 6(a), 6(c), 6(d), 6(f), 6(g)

Est. Cost: $ 3,000,000

GRAND TOTAL AQUEDUCT **$ 21,710,000**

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BELMONT PARK RACETRACK
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	Totals
GRANDSTAND AND CLUBHOUSE						
Teletheater Sports Bar	0	0	0	4,000,000	0	4,000,000
Upgrade Escalators and Elevators	75,000	100,000	150,000	100,000	100,000	525,000
Replace LIRR Escalators and Elevators	0	1,250,000	0	0	0	1,250,000
Upgrade Electrical Transformers	25,000	25,000	25,000	25,000	25,000	125,000
Replacement sprinklers piping work	60,000	60,000	60,000	60,000	60,000	300,000
New Grandstand Lighting	0	100,000	100,000	100,000	100,000	400,000
Replace Roof Gutters	0	50,000	50,000	50,000	50,000	200,000
Replace Water Lines	50,000	50,000	50,000	50,000	50,000	250,000
Remodel Pari-Mutuel Bays	0	300,000	300,000	300,000	300,000	1,200,000
New Jockey's Room	0	0	3,360,000	0	0	3,360,000
Replace Roof (Flat Roof)	0	600,000	600,000	300,000	0	1,500,000
Replace Emergency Back-Up Generators	0	150,000	150,000	0	0	300,000
Replace Spine Ceiling Area and Floors	0	50,000	50,000	0	0	100,000
Repair Exterior Doors	25,000	25,000	25,000	25,000	25,000	125,000
Establish 4 West Party Rooms	0	60,000	60,000	0	0	120,000
Main Lobby Ceiling area proximate to entrances and slate floor	0	315,000	300,000	0	0	615,000
New Rubber in Horse Tunnel and Paddock	140,000	0	0	0	0	140,000
SUBTOTAL	**375,000**	**3,135,000**	**5,280,000**	**5,010,000**	**710,000**	**14,510,000**
BACKSTRETCH AND PADDOCK						
Replace Roofs	350,000	350,000	350,000	350,000	350,000	1,750,000
Replace Exterior Siding	0	375,000	375,000	375,000	375,000	1,500,000
Replace Wood Floors	30,000	30,000	30,000	30,000	30,000	150,000
Upgrade Electrical Systems	50,000	50,000	50,000	50,000	50,000	250,000
Paddock Patio & Walkway Lighting	0	150,000	0	0	0	150,000
Upgrade Marquee Tent AC & Heating	0	250,000	0	0	0	250,000
Poured Rubber Paddock Walking Ring	0	200,000	0	0	0	200,000
Construct New Paddock Pavilion	0	0	0	1,000,000	0	1,000,000
Upgrade Barn Area Transformer	30,000	30,000	30,000	30,000	30,000	150,000
New Backstretch Kitchen & Rec Hall	0	0	375,000	375,000	0	750,000
New Pony Barn Pre-Fab	216,000	0	0	0	0	216,000
Replace Sprinkler Heads	0	60,000	0	0	0	60,000
Replace Paddock Entrance	0	150,000	0	0	0	150,000
SUBTOTAL	**676,000**	**1,645,000**	**1,210,000**	**2,210,000**	**835,000**	**6,576,000**

BELMONT PARK RACETRACK
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	Totals
DORMITORIES						
Electrical System	100,000	100,000	100,000	100,000	50,000	450,000
New Roofs	25,000	25,000	25,000	25,000	15,000	115,000
SUBTOTAL	**125,000**	**125,000**	**125,000**	**125,000**	**65,000**	**565,000**
FACILITIES, OTHER						
Build New Maintenance Garage and Demolish old	0	0	2,000,000	0	0	2,000,000
CAFO Upgrades	1,500,000	1,500,000	1,500,000	1,500,000	500,000	6,500,000
Drainage System **EPA MANDATES**	250,000	0	0	0	0	250,000
New Greenhouse & Upgrade	0	0	0	300,000	0	300,000
Develop backyard area adjacent to Paddock in the Saratoga "backyard" style	750,000	0	0		0	750,000
SUBTOTAL	**2,500,000**	**1,500,000**	**3,500,000**	**1,800,000**	**500,000**	**9,800,000**
PARKING AND ROADWAYS						
Upgrade LIRR Platforms to ADA Standards	0	100,000	100,000	100,000	100,000	400,000
Gate 5 and Gate 6 Entrances	0	100,000	0	0	0	100,000
Install Weigh Station	0	0	75,000	0	0	75,000
Repave Blue Field	0	0	2,600,000	0	0	2,600,000
SUBTOTAL	**0**	**200,000**	**2,775,000**	**100,000**	**100,000**	**3,175,000**
TRACK AND INFIELD MAINTENANCE						
Install New Safety Rail Inside of main track	0	0	0	385,000	0	385,000
Either Upgrade or Polytrack Main Dirt Track	0	0	15,000,000	0	0	15,000,000
Warning Lights on Main and Training Track	0	100,000	0	0	0	100,000
Training Track Lighting	0	200,000	0	0	0	200,000
Polytrack Training Track	0	0	0	0	12,000,000	12,000,000
Install Infield Irrigation System	0	0	0	200,000	0	200,000
Double Width Turf Track	0	0	0	10,000,000	0	10,000,000
SUBTOTAL	**0**	**300,000**	**15,000,000**	**10,585,000**	**12,000,000**	**37,885,000**

BELMONT PARK RACETRACK
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	Totals
MISCELLANEOUS						
IT Infrastructure Networking	630,000	0	0	0	0	630,000
IT Infrastructure Cabling	340,000	0	0	0	0	340,000
IT Infrastructure Servers	300,000	0	0	0	0	300,000
IT Infrastructure Security	160,000	0	0	0	0	160,000
IT Infrastructure Telephony	90,000	0	0	0	0	90,000
Consolidated Desktops	70,000	0	0	0	0	70,000
Wireless Networking	100,000	0	0	0	0	100,000
Replace existing soon to be obsolete CCTV equipment	0	6,000,000	0	0	0	6,000,000
Fibre Runs to support Simulcast equipment	0	2,000,000	0	0	0	2,000,000
Additional IT infrastructure and applications to support racing	500,000	0	1,000,000	500,000	0	2,000,000
Install Ingress and Egress Tunnel under the track to make Infield Event accessible	0	0	5,000,000	0	0	5,000,000
Purchase and Install Facility Management Software System	0	500,000	0	0	0	500,000
Purchase and Install KEENELAND STYLE DAKTRONICS PORTABLE DISPLAY SYSTEM	0	0	0	2,500,000	0	2,500,000
SUBTOTAL	**2,190,000**	**8,500,000**	**6,000,000**	**3,000,000**	**0**	**19,690,000**
BELMONT TOTALS	**5,866,000**	**15,405,000**	**33,890,000**	**22,830,000**	**14,210,000**	**92,201,000**

BELMONT PARK RACETRACK
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

GRANDSTAND & CLUBHOUSE

Teletheater Sports Bar: Construct a year round full-service facility that would contain pari-mutuel areas, food service and television viewing. Per Tishman $800 sq. ft. on 5,000 sq. ft
Reference: 6(a), 6(b), 6(e), 6(g)

Est. Cost: $ 4,000,000

Upgrade Escalators and Elevators: Refurbish 30 year-old equipment both electrically and mechanically.
Reference: 6(d), 6(e), 6(g)

Est. Cost: $ 525,000

Replace LIRR Escalators and Elevators: Replace 3 LIRR Escalators and 2 ADA Elevators with VLT's this will be effectively part of the entrance to the facility and much more highly trafficked
Reference: 6(d), 6(e), 6(g)

Est. Cost: $ 1,250,000

Upgrade Electrical Transformers: Reduces the possibility of power outages.
Reference: 6(e), 6(f)

Est. Cost: $ 125,000

Replace pendent sprinkler: Recommendation from Chubb Group Of Insurance Companies.
Reference: 6(f)

Est. Cost: $ 300,000

New Grandstand Lighting: Replace old 30-year fixture with energy efficient ones.
Reference: 6(e), 6(g)

Est. Cost: $ 400,000

Replace Roof Gutters: Replace rusted roof gutters.
Reference: 6(e)

Est. Cost: $ 200,000

Replace Water Lines: Replace 30-year-old water pipes that are deteriorating, in part because of the need to drain the system each winter to avoid freezing.
Reference: 6(d), 6(f)

Est. Cost: $ 250,000

Remodel Pari-Mutuel Bays: Open up the pari-mutuel windows to a bank teller, open counter format. Will improve surveillance of activity and would include improved interior access to money room. Est.
Reference: 6(a), 6(c), 6(g)

Est. Cost: $ 1,200,000

New Jockey's Room: Relocate Jockey's Room to ground level in closer proximity to the paddock. Will reduce "change time" and offer operating efficiencies and upgraded conditioning equipment. Per Tishman 11,200 sq. ft. @ $300 sq. ft.
Reference: 6(a), 6(c), 6(g)

Est. Cost: $ 3,360,000

Replace Roof: Replace the existing 30-year-old roof.
Reference: 6(e), 6(g)

Est. Cost: $ 1,500,000

Replace Emergency Back-Up Generators: To provide additional power.
Reference: 6(f)

Est. Cost: $ 300,000

Replace Ceiling: Replace deteriorating spine ceiling.
Reference: 6(e), 6(g)

Est. Cost: $ 100,000

Repair Exterior Doors: Repair doors to access facility.
Reference: 6(e), 6(g)

Est. Cost: $ 125,000

Establish Four New Catering Rooms: Four new rooms on 2nd & 3rd floor, West end of Grandstand.
Reference: 6(b)

Est. Cost: $ 120,000

Main Lobby: Replace damaged flooring and replace damaged plaster ceiling proximate to entrance. Per Tishman 12,300 sq. ft @ $50 per sq. ft.
Reference: 6(b), 6(g)

Est. Cost: $ 615,000

New Poured Rubber Walkways: Replace old pavers with poured rubber. Per contractor estimate
Reference: 6(e) 6(f) 6(g)

Est. Cost: $ 140,000

BACKSTRETCH & PADDOCK

Replace Roofs: Continue the replacement of 60-year-old roofs.
Reference: 6(d), 6(f), 6(g)

Est. Cost: $ 1,750,000

Replace Exterior Siding: Replace wood with CDX material to reduce maintenance expense.
Reference: 6(d)

Est. Cost: $ 1,500,000

Replace Wood Floors: Install new wood based flooring.
Reference: 6(c), 6(d), 6(g)

Est. Cost: $ 150,000

Upgrade Electrical Systems: Upgrade the 90-year-old electrical systems in approximately 20 barns to reduce fire risk and reduce maintenance expense.
Reference: 6(e), 6(f)

Est. Cost: $ 250,000

New Lighting in Paddock Walkway and Patio: Install lighting on walkways and patio.
Reference: 6(e)

Est. Cost: $ 150.000

Upgrade Marquee Tent Heating & AC:
Reference: 6(e)

Est. Cost: $ 250,000

Paddock Walking Ring: Install new poured rubber throughout the Walking Ring.
Reference: 6(e), 6(g)

Est. Cost: $ 200,000

Construct New Paddock Pavilion: Construct New Paddock Pavilion: Incorporate pari-mutuel bays, restrooms, Self Service Machines and TV monitors under one roof for patron convenience and operating efficiency
Reference: 6(e), 6(g)

Est. Cost: $ 1,000,000

Upgrade Barn Area Transformers: Replace, upgrade, repair test for transformers & all high voltage connections. Reference: 6(f)

Est. Cost: $ 150,000

New Backstretch Kitchen & Rec Hall: Demolish existing structure and rebuild kitchen and recreation areas.
Reference: 6(d)

Est. Cost: $ 750,000

Build New Pony Shed: Replace pony tent 5,400 Sq. ft. @$40 per sq. ft. per contractor quote.
Reference: 6(f)

Est. Cost: $ 216,000

Replace Sprinkler Heads: Code Compliance and safety upgrades.
Reference: 6(f)

Est. Cost: $ 60,000

Replace Paddock Entrance:
Reference: 6(f)

Est. Cost: $ 150,000

DORMITORIES

Electrical System: Upgrade to comply with current code.
Reference: 6(f)

Est. Cost: $ 450,000

New Roofs: Continue program to install new roofs.
Reference: 6(f), 6(g)

Est. Cost: $ 115,000

FACILITIES, OTHER

Build New Maintenance Garage and Demolish old: To accommodate mechanical work in all weather conditions and to comply with OSHA codes. Per Tishman 8,000 sq. ft. @ $250 per sq. ft.
Reference: 6(c), 6(f)

Est. Cost: $ 2,000,000

CAFO: Allocation for potential impact of CAFO regulations.
Reference: 6(f), 6(g)

Est. Cost: $ 6,500,000

Drainage System EPA MANDATES: Compliance mandate.
Reference: 6(f), 6(g)

Est. Cost: $ 250,000

New Greenhouse: Upgrade the existing buildings.
Reference: 6(a), 6(g)

Est. Cost: $ 300,000

Develop Backyard Area Adjacent to Paddock: Develop this area to emulate the yard area at Saratoga. Replicate the "carnival" style inclusive of benches, TV deployment, restroom facilities, Concession Areas, etc.
Reference: 6(a), 6 (e), 6(g)

Est. Cost: $ 750,000

PARKING & ROADWAYS

Upgrade LIRR Platform to ADA Standards: Repair and update deteriorating train platform. Some costs are responsibility of MTA
Reference: 6(e), 6(f), 6(g)

Est. Cost: $ 400,000

Gate 5 and Gate 6: Continue renovation of Gate 6 and renovate Gate 5 to allow for safer and easier ingress and egress.
Reference: 6(e), 6(f)

Est. Cost: $ 100,000

Install Weigh Station: Improve management of straw and waste removal contractors.
Reference: 6(e), 6(f)

Est. Cost: $ 75,000

Repave Blue Field: Repave the cracking asphalt which has deteriorated due to salt and water corrosion 1,300,000 sq. ft. $2.00
Reference: 6(d), 6(e), 6(f), 6(g)

Est. Cost: $ 2,600,000

TRACK & INFIELD MAINTENANCE

Install New Safety Rail Inside Track: Replace existing rail improving safety for race participants.
Reference: 6(d), 6(f)

Est. Cost: $ 385,000

Either Polytrack or Upgrade Main Dirt Track: New limestone base will make Track safer & easier to maintain.
Reference: 6(d), 6(f)

Est. Cost: $ 15,000,000

Warning Lights for Training Track and Main Track: Strobe lights on a 12 volt system to warn riders. This will replace the inadequate siren system
Reference: 6(f)

Est. Cost: $ 100,000

Training Track Training Lights: Lights and poles to be placed around the training track to illuminate the training track on dark morning and early mornings.
Reference: 6(f)

Est. Cost: $ 200,000

Polytrack the Training Track: Track will be safer & easier to maintain.
Reference: 6(d), 6(f)

Est. Cost: $ 12,000,000

Install Infield Irrigation System: Diminish ongoing operating expense and improve appearance
Reference: 6(d), 6(f)

Est. Cost: $ 200,000

Double Width Turf Track: Consolidation of the two turf tracks will increase the amount of available turf lanes.
Reference: 6(d), 6(f)

Est. Cost: $ 10,000,000

MISCELLANEOUS

IT Infrastructure Networking: 2 Packeteers, 2 6509 Cisco witches, 6 Cisco Routers, 50 Cisco switches, 2 Cisco FW modules, 2 Cisco 4500 switches
Reference: 6(c), 6(d)

Est. Cost: $ 630,000

IT Infrastructure Cabling: Network runs, Fiber runs IDF Closets.
Reference: 6(c), 6(d)

Est. Cost: $ 340,000

IT Infrastructure Servers: Replacement older outdated Servers
Reference: 6(c), 6(d)

Est. Cost: $ 300,000

IT Infrastructure Security: 1 Iron Port Systems, 1 Infoblox, 1 Varonis, 1 Reconix.
Reference: 6(c), 6(d)

Est. Cost: $ 160,000

IT Infrastructure Telephony:
Reference: 6(c), 6(d)

Est. Cost: $ 90,000

Consolidated Desktops:
Reference: 6(c), 6(d)

Est. Cost: $ 70,000

Wireless Networking: AirDefense, Aruba Networks.
Reference: 6(c), 6(d)

Est. Cost: $ 100,000

Replace existing soon to be obsolete CCTV equipment: Existing system will be obsolete in 2009. Old equipments reliability is diminishing over time.
Reference: 6(a), 6(d)

Est. Cost: $ 6,000,000

Fibre Runs to support Simulcast equipment:
Reference: 6(a), 6(d)

Est. Cost: $ 2,000,000

Additional IT infrastructure and applications to support racing: CRM, Reserved and admissions seating, data warehousing, query tools, General ledger automation.
Reference: 6(a), 6(b), 6(c), 6(d), 6(e), 6(g)

Est. Cost: $ 2,000,000

Install Ingress and Egress Tunnel under the track to make Infield Event accessible:
to further accommodate large crowds on weekends and special days. Include the cost of all related facilities such as concessions, pari-mutuels, CCTV, restroom facilities, etc.
Reference: 6(a), 6(b), 6(e), 6(g)

Est. Cost: $ 5,000,000

Purchase and Install Facility Management Software System: Manpower management tool to drive planning, management and effective and efficient use of resources.
Reference: 6(c)

Est. Cost: $ 500,000

Purchase and Install KEENELAND STYLE DAKTRONICS PORTABLE DISPLAY SYSTEM: Upgrade current dated equipment to significantly improve appearance and capability of on track communication devices.
Reference: 6(a), 6(b), 6(g)

Est. Cost: $ 2,500,000

GRAND TOTAL BELMONT: **$ 92,201,000**

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SARATOGA RACE COURSE
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	Totals
GRANDSTAND & CLUBHOUSE						
Escalator/Elevator Improvements	100,000	150,000	300,000	125,000	100,000	775,000
Fire Safety Systems Upgrades	50,000	50,000	50,000	50,000	50,000	250,000
Upgrade Electrical/Lighting Systems	125,000	150,000	150,000	125,000	125,000	675,000
Grandstand/Clubhouse Area Plumbing, HVAC Improvements	50,000	50,000	50,000	50,000	50,000	250,000
Concession Area Improvements		337,000	50,000	50,000	50,000	487,000
Awning & Canopy Replacement & Modification	75,000	150,000	150,000	150,000	25,000	550,000
Two-Story Tent, At the Rail	0	0	0	0	4,162,000	4,162,000
Permanent Roof 2nd Floor CH Terrace	0	0	0	0	2,000,000	2,000,000
Paddock Mutuel Building, Roof Replacement	0	0	416,000	0	0	416,000
Renovate Mutuel Facilities	0	50,000	100,000	250,000	200,000	600,000
New Saddling Shed	0	0	0	190,000	0	190,000
Repave the Grandstand/Clubhouse Apron	0	0	250,000	0	0	250,000
Reserved Seat Replacement Grandstand	0	0	0	0	180,000	180,000
Paint Grandstand/Clubhouse Structural Steel	0	0	150,000	150,000	25,000	325,000
New Floors in 3 Public Restrooms	0	0	50,000	25,000	0	75,000
Paddock Tent Improvements	0	0	0	0	675,000	675,000
Clubhouse Extension	0	0	0	0	18,000,000	18,000,000
New Furniture for Patron Areas	50,000	50,000	50,000	50,000	50,000	250,000
Improve Walking Ring Viewing Area	0	0	0	100,000	0	100,000
Clubhouse Slate and Metal Roofing	0	0	0	0	300,000	300,000
Grandstand Slate Roofing	0	0	0	0	400,000	400,000
Rehabilitate Clubhouse Wood Floors	0	100,000	100,000	0	0	200,000
Restore Decorative Iron Work, Fencing, Wood Finishes	0	100,000	100,000	0	0	200,000
Upgrade Roads and Horsepaths	30,000	30,000	30,000	30,000	30,000	150,000
SUBTOTAL	**480,000**	**1,217,000**	**1,996,000**	**1,345,000**	**26,422,000**	**31,460,000**

SARATOGA RACE COURSE
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	Totals
BACKSTRETCH & PADDOCK						
Stable Area Drainage Improvements	100,000	250,000	250,000	250,000	250,000	1,100,000
Stable Area Electrical Improvements	50,000	50,000	50,000	50,000	50,000	250,000
Stable Area Plumbing Improvements	50,000	50,000	50,000	50,000	50,000	250,000
Fire Safety System Upgrade	50,000	50,000	50,000	50,000	50,000	250,000
Barn Jacking and Renovation	280,000	280,000	291,200	302,848	314,962	1,469,010
New Barn Construction	0	1,200,000	1,200,000	1,200,000	1,200,000	4,800,000
Barn Roof Replacement and Reconditioning	100,000	100,000	100,000	100,000	100,000	500,000
Additional Bathroom Facilities	0	0	0	200,000	200,000	400,000
Upgrade Roads and Horsepaths	40,000	40,000	40,000	40,000	15,000	175,000
SUBTOTAL	**670,000**	**2,020,000**	**2,031,200**	**2,242,848**	**2,229,962**	**9,194,010**
DORMITORIES						
Dormitory Fire Safety Systems Upgrades	0	0	0	1,875,000	0	1,875,000
Renovations to Dormitories	0	300,000	300,000	300,000	300,000	1,200,000
New Dormitory Construction	0	0	750,000	780,000	811,200	2,341,200
Dormitory Roof Replacement and Reconditioning	40,000	40,000	40,000	40,000	40,000	200,000
SUBTOTAL	**40,000**	**340,000**	**1,090,000**	**2,995,000**	**1,151,200**	**5,616,200**
FACILITIES, OTHER						
CAFO Upgrades	1,000,000	1,000,000	1,000,000	3,000,000	1,000,000	7,000,000
Infield Pond Improvements, Water	300,000	0	0	0	0	300,000
Sanitary and Storm Water System Improvements	50,000	50,000	50,000	50,000	50,000	250,000
Upgrade Maintenance Shops and Office	40,000	40,000	50,000	100,000	60,000	290,000
Sidewalks & Curbs for Union Avenue	30,000	150,000	150,000	150,000	30,000	510,000
Rehab Perimeter Wrought Iron Fencing & Gates	80,000	80,000	80,000	80,000	80,000	400,000
Rehab Perimeter Chain Link Fencing	40,000	40,000	40,000	40,000	40,000	200,000
Tree Planting	30,000	30,000	30,000	30,000	30,000	150,000
SUBTOTAL	**1,570,000**	**1,390,000**	**1,400,000**	**3,450,000**	**1,290,000**	**9,100,000**

SARATOGA RACE COURSE
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

	2008	2009	2010	2011	2012	Totals
TRACK AND INFIELD MAINTENANCE						
Install New Safety Rail on Main Track	0	0	0	0	279,000	279,000
New Turf Track	0	0	0	0	12,000,000	12,000,000
Warning Lights on Main and Training Track	0	100,000	0	0	0	100,000
Main Turf Course Irrigation System	650,000	0	0	0	0	650,000
New Rail Claire Court	0	0	0	75,000	0	75,000
SUBTOTAL	**650,000**	**100,000**	**0**	**75,000**	**12,279,000**	**13,104,000**
MISCELLANEOUS						
Purchase and Install KEENELAND STYLE DAKTRONICS DISPLAY SYSTEM	0	0	2,200,000	0	0	2,200,000
Infrastructure Cabling	340,000	0	0	0	0	340,000
Infrastructure Network	220,000	0	0	0	0	220,000
Wireless Network	100,000	0	0	0	0	100,000
Install/Lease complete back-up data center for 100% redundancy	0	850,000	2,500,000	0	0	3,350,000
Replace soon to be obsolete Broadcasting equipment with 100% redundancy back-up	2,500,000			0	0	2,500,000
SUBTOTAL	**3,160,000**	**850,000**	**4,700,000**	**0**	**0**	**8,710,000**
SARATOGA TOTALS	**6,570,000**	**5,917,000**	**11,217,200**	**10,107,848**	**43,372,162**	**77,184,210**

SARATOGA RACE COURSE
PROPOSED FIVE-YEAR CAPITAL IMPROVEMENT PLAN

GRANDSTAND & CLUBHOUSE

Escalator/Elevator Improvements: Upgrade and improve all existing elevators, escalators and related equipment. Most equipment is over 30 years old. Install a passenger elevator somewhere in the Grandstand.
Reference: 6(d), 6(e), 6(f)

Est. Cost: $ 775,000

Fire Safety Systems Upgrade: Upgrade fire detection, fire alarm and reporting systems as needed.
Reference: 6(e), 6(f)

Est. Cost: $ 250,000

Upgrade Electrical and Lighting Systems: Upgrade facility electrical systems as required to keep pace with growing demand and code requirements. Improve the quality and efficiency of lighting in all areas. Replace deteriorated fixtures and add lighting in deficient areas.
Reference: 6(d), 6(e), 6(f)

Est. Cost: $ 675,000

Grandstand/Clubhouse Area Plumbing, HVAC Improvements: Upgrade water mains and services including expansion of hot water service. Upgrade sanitary and waste water lines. Improve air-conditioning systems. Reference: 6(e), 6(g)

Est. Cost: $ 250,000

Concession Area Improvements: Improvements to permanent concession facilities including hot water, sanitary sewer connections, interior upgrades, and permanent exterior facilities.
Reference: 6(e), 6(f)

Est. Cost: $ 487,000

Awning & Canopy Replacement and Modification: Existing units need to be replaced on a rotating basis due to normal wear and tear. Modifications as required. East Union Ave Entrance, Clubhouse/Paddock Building Connector, Paddock Escalator, Stairway to Clubhouse Terrace, Clubhouse Entrance, Rail Tent Entrance, Backyard Pari-mutuel Buildings, Winner's Circle Scale, 13 TV Umbrellas.
Reference: 6(e)

Est. Cost: $ 550,000

Two-Story Tent, At the Rail: Installation of a two-story aluminum-frame tent structure to replace the "At the Rail" dining tent. Include all utilities, furnishings, air conditioning, site preparation. The existing service building will need to be replaced by a much larger 2 story structure with kitchen/service facilities, rest rooms, utilities, elevator service, etc. Will not be necessary if Clubhouse extension project is approved. $3.7 million 2008 inflated by 4% per annum
Reference: 6(e)

Est. Cost: $ 4,162,000

Permanent Roof, 2nd Floor Clubhouse Terrace: Design and install a permanent roof structure above the 2nd floor Terrace from the Carousel to the Clubhouse Dining Terrace. Include all necessary electrical, plumbing, fire alarm and sprinkler work. Rehabilitate all concrete deck areas. Open pari-mutuel bays for accessibility and air flow. Upgrade concessions.
Reference: 6(e), 6(g)

Est. Cost: $ 2,000,000

Paddock Pari-Mutuel Building, Roof Replacement: Replace deteriorating slate roofing and wood decking. Check structural members. Rework all valley areas and dormers; repair louvers and paint. All new copper flashing and ridge caps. 16,600 sq. ft in 2008 dollars inflated at 4% per annum
Reference: 6(e), 6(g)

Est. Cost: $ 416,000

Renovate Pari-Mutuel Facilities: Rehabilitate the interior and exterior of mutual bays; upgrade catwalk areas, money rooms, and offices.
Reference: 6(c), 6(e)

Est. Cost: $ 600,000

New Saddling Shed: Design and construct a new, larger saddling shed with a permanent roof structure to replace the existing, seasonal canvas cover. Add additional stalls, and upgrade the Paddock Judges office 1,900 sq. ft $175K in 2008 dollars inflated by 4% per annum.
Reference: 6(c), 6(g)

Est. Cost: $ 190,000

Repave the Grandstand/Clubhouse Apron: Current paving is cracked, deteriorated, and uneven in many areas. Due to build up from past paving, this area needs to be milled and regraded before new paving is added. Address any utility issues before new paving is installed. A follow-up seal coat would be advisable.
Reference: 6(c), 6(e)

Est. Cost: $ 250,000

Reserved Seat Replacement, Grandstand: Replace all stadium seating in the 1964 Grandstand addition area (Sections M through Y) with weather resistant seating units. Approximately 4,300 seats.
Reference: 6(e), 6(g)

Est. Cost: $ 180,000

Paint Grandstand/Clubhouse Structural Steel: Professional cleaning, surface preparation and painting of structural steel and high ceiling areas of the 1st floor Grandstand and Clubhouse
Reference: 6(f), 6(g)

Est. Cost: $ 325,000

New Floors in 3 Public Restrooms: Upgrade the floors in the Paddock Ladies' Room and the Ladies and Men's Rooms in the Garden Terrace.
Reference: 6(c), 6(e), 6(g)

Est. Cost: $ 75,000

Paddock Tent Improvements: Replace the existing tent and service building with a permanent open pavilion type structure with kitchen facilities, storage, public restrooms, pari-mutuels, etc. $600K 2008 dollars 6000 sq. ft inflated at 4% per annum
Reference: 6(b), 6(c), 6(e), 6(f)

Est. Cost: $ 675,000

Clubhouse Extension: Design and construction of an architecturally compatible addition to the west of the existing Clubhouse encompassing the "At the Rail" tent facility. Include new boxes, patron dining facilities, reserved seats, concessions, pari-mutuels, restrooms, offices, and related facilities. Renovations to the existing 1928 Clubhouse and terrace areas.
Reference: 6(b), 6(e), 6(g)

Est. Cost: $ 18,000,000

New Furniture for Patron Areas: Purchase of additional and replacement park benches, picnic tables, tables, chairs, seating units and other equipment to enhance patron comfort.
Reference: 6(e), 6(g)

Est. Cost: $ 250,000

Improve the Walking Ring Viewing Area: Install paved walkways and standee areas around the exterior of the Walking Ring to improve patron viewing of this area.
Reference: 6(e), 6(f)

Est. Cost: $ 100,000

Clubhouse Slate and Metal Roofing: Replacement of aging slate and metal roofing on the circa 1928 Clubhouse structure. Include decking replacement as needed. Replace gutters and downspouts.
Reference: 6(e), 6(g)

Est. Cost: $ 300,000

Grandstand Slate Roofing: Replace slate roofing on the 1964 Grandstand addition. Include decking replacement as needed. Replace gutters and downspouts.
Reference: 6(e), 6(f), 6(g)

Est. Cost: $ 400,000

Rehabilitate Clubhouse Wood Floors: Wood, tongue and groove flooring in many areas of the Clubhouse is worn significantly and large areas need replacement.
Reference: 6(e), 6(f), 6(g)

Est. Cost: $ 200,000

Restore Decorative Iron Work, Fencing, Wood Finishes: Implement a program to restore various decorative wrought iron and cast iron fixtures, railings, fencing and decorative features. Restore and/or replace wood finishes as required.
Reference: 6(g)

Est. Cost: $ 200,000

Upgrade Roads and Horsepaths: Improvements to roads, pedestrian walkways and horsepath areas to address safety standards and eliminate potential hazards.
Reference: 6(e), 6(f), 6(g)

Est. Cost: $ 150,000

BACKSTRETCH AND PADDOCK

Stable Area Drainage Improvements: Design and installation of a variety of engineered and natural systems including manholes, piping, catch basins, dry wells, etc. to provide better drainage throughout the Stabling Area. Connect to City of Saratoga Springs where feasible.
Reference: 6(f), 6(g)

Est. Cost: $ 1,100,000

Stable Area Electrical Improvements: Upgrade electrical systems in barns/dorms including new services, panels, wiring, receptacles, lighting.
Reference: 6(f), 6(g)

Est. Cost: $ 250,000

Stable Area Plumbing Improvements: Install new water services to barns/dorms as required. Deepen shallow mains, re-pipe barns as needed, and additional spigots where needed.
Reference: 6(f), 6(g)

Est. Cost: $ 250,000

Fire Alarm and Sprinkler System Improvements: Improvements and upgrades to fire detection, fire alarm, and fire suppression systems and related equipment as required.
Reference: 6(f)

Est. Cost: $ 250,000

Barn Jacking and Rehabilitation: There are approximately 12 barns that are currently in need of rehabilitation work including jacking and straightening, new sills, siding and interior board replacement as needed, electrical upgrades, stall flooring, etc.
Reference: 6(g)

Est. Cost: $ 1,469,010

New Barn Construction: Design and construction of new barns with up to 200 additional stalls including all related facilities and utilities; tack/feed rooms, hay storage, offices, etc. Conforms to Saratoga Historical Society Spec.
Reference: 6(g)

Est. Cost: $ 4,800,000

Barn Roof Replacement and Reconditioning: Replace and/or rehabilitate existing barn roofs, as needed, including slate, metal, asphalt shingle.
Reference: 6(g)

Est. Cost: $ 500,000

Additional Bathroom Facilities: Refurbish stable area bathroom facilities. Design and construct additional bathroom facilities.
Reference: 6(c), 6(f)

Est. Cost: $ 400,000

Upgrade Roads and Horsepaths: Improvements to roads, pedestrian walkways and horsepaths.
Reference: 6(f), 6(g)

Est. Cost: $ 175,000

DORMITORIES

Dorm Fire Safety Systems Upgrades: Installation of dry-pipe fire sprinkler systems in all dormitories.
Reference: 6(f)

Est. Cost: $ 1,875,000

Renovations to Dormitories: Structural and interior renovations to cottages and dormitories including doors, windows with screens, ceiling and wall coverings, shelving and clothes racks, electrical, lighting and alarm systems.
Reference: 6(f)

Est. Cost: $ 1,200,000

Dormitory Construction: Construction of one new dormitory per year to provide additional housing for backstretch personnel. 14 rooms each..
Reference: 6(f)

Est. Cost: $ 2,341,200

Dormitory Roof Replacement and Reconditioning: Replace and/or rehabilitate deteriorating roofing on dorms and cottages as required.
Reference: 6(f)

Est. Cost: $ 200,000

FACILITIES, OTHER

CAFO: Allocation for potential impact of CAFO regulations.
Reference: 6(f)

Est. Cost: $ 7,000,000

Infield Pond Improvements, Water: Develop and implement a plan to deepen the infield pond and install a liner. Install a well system with pump(s) to provide water for lake and possibly for future irrigation of the turf courses. Investigate additional sources of water in other areas of property.
Reference: 6(d), 6(g)

Est. Cost: $ 300,000

Sanitary and Storm Water System Improvements: Upgrade sanitary and storm water drainage systems as needed and where feasible. Installation of sewer pumps at the Dupont and Sanford area stabling facilities.
Reference: 6(f)

Est. Cost: $ 250,000

Upgrade Maintenance Shops and Office: Remodel the interior of the Facilities Office. Interior and exterior improvements to maintenance shops including safety systems. Dust control system for carpenter shop (Installation of a dust control system covering all major equipment in the Carpenter Shop).
Reference: 6(c), 6(f), 6(g),

Est. Cost $ 290,000

Sidewalks and Curbs for Union Avenue: Installation of sidewalks and curbing as needed along Union Avenue from East Avenue toward I-87, both sides. Work with the City of Saratoga Springs and NYSDOT.
Reference: 6(e), 6(f), 6(g)

Est. Cost: $ 510,000

Rehabilitate Perimeter Wrought Iron Fencing & Gates:
Reference: 6(g)

Est. Cost: $ 400,000

Rehabilitate Perimeter Chain Link Fencing:
Reference: 6(g)

Est. Cost: $ 200,000

Tree Planting: Replacement of damaged and/or diseased trees throughout the Facility. Additional plantings where feasible.
Reference: 6(g)

Est. Cost: $ 150,000

TRACK AND INFIELD MAINTENANCE

Install New Safety Rail on Main Track: New "Safety" to replace old and outdated rail.
Reference: 6(f), 6(g)

Est. Cost: $ 279,000

New Turf Track: New track will allow for turf racing in all weather.
Reference: 6(a), 6(b)

Est. Cost: $ 12,000,000

Warning Lights for Training Track and Main Track: Strobe lights on a 12 volt system to warn riders. This will replace the inadequate siren system
Reference: 6(f)

Est. Cost: $100,000

Main Turf Course Irrigation: Replace existing agricultural pipe system which is inadequate and inconsistent.
Reference: 6(d), 6(g)

Est. Cost: $650,000

New Rail Claire Court: Existing wooden rails need to be replaced on this training oval.
Reference: 6(f), 6(g)

Est. Cost: $ 75,000

MISCELLANEOUS

Purchase and Install KEENELAND STYLE DAKTRONICS DISPLAY SYSTEM
Reference: 6(f), 6(g)

Est. Cost: $ 2,200,000

Infrastructure Cabling: 800 Network runs, 200 Fiber runs, 12 IDF closets
Reference: 6(c), 6(d)

Est. Cost: $ 340,000

Infrastructure Network; 2 Cisco 6509 switches, 2 Cisco FW modules
Reference: 6(c), 6(d)

Est. Cost: $ 220,000

Wireless Network: Airdefense, Aruba Networks
Reference: 6(c), 6(d)

Est. Cost: $ 100,000

Install/Lease complete back-up data center for 100% redundancy: Assumes construction of a 2,500 sq. ft. computer facility with back-up power for data center only and 2.5 million hardware and network expense
Reference: 6(d)

Est. Cost: $ 3,350,000

Replace soon to be obsolete Broadcasting equipment with 100% redundancy back-up: Preliminary Pricing CCTV
Reference: 6(a), 6(c), 6(d)

Est. Cost: $ 2,500,000

GRAND TOTAL SARATOGA **$ 77, 184,210**

5

EQUIPMENT

PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

EQUIPMENT - GENERAL

	2008	2009	2010	2011	2012	TOTALS
Track Equipment: Aqueduct, Belmont, Saratoga	717,000	787,000	773,500	825,000	845,000	3,947,500
Security: Aqueduct, Belmont, Saratoga	21,000	18,000	19,000	24,000	25,000	107,000
Parking: Aqueduct, Belmont, Saratoga	70,000	-	-	-	-	70,000
Ambulance (Horse/Human)	290,000	300,000	90,000	105,000	330,000	1,115,000
Vanning	-	-	-	-	-	-
Cleaning	15,000	20,000	16,200	16,800	17,500	85,500
Special Equipment (Trams)	-	600,000	572,000	-	-	1,172,000
Maintenance Equipment: Aqueduct	211,000	207,000	225,000	226,000	227,000	1,096,000
Maintenance Equipment: Belmont	320,000	340,000	352,000	435,000	320,000	1,767,000
Maintenance Equipment: Saratoga	175,000	182,000	196,000	194,000	200,000	947,000
EQUIPMENT- GENERAL GRAND TOTAL	**1,819,000**	**2,454,000**	**2,243,700**	**1,825,800**	**1,964,500**	**10,307,000** *

*This total assumes that NYRA leases equipment whenever possible. If all equipment was purchased the total may increase by as much as 100%.

EQUIPMENT
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

EQUIPMENT - GENERAL
TRACK EQUIPMENT - AQUEDUCT/BELMONT/SARATOGA

2008		2009		2010		2011		2012		TOTALS
L000 7210 Tractor	20,000	130-90 Ford Water Truck	110,000	133 Watertruck	125,000	480-80 Bomac Roller	120,000	04 John Deere 048 Payloder	120,000	
L000 7210 Tractor	20,000	126-80 Ford Water Truck	80,000	224 Horse Ambulance	175,000	255 '97 Chevy Tract. w/Kim. H/Amb	200,000	135 Boom Truck 200 Ford 8000	200,000	
L000 7210 Tractor	20,000	128-84 Ford Water Truck	105,000	129-86 Ford Boom	15,500	Turf Sweeper	45,000	Track Car	70,000	
252-86 GMC Horse Ambulance	170,000	411-89 Athey Loader	150,000	131 91 Ford Water Truck	170,000	136 2000 Sterling Water Truck	130,000	Salt Truck	80,000	
15-72 Ford Tractor/Loader	130,000	121-67 Brockway W/Truck	80,000	132-91 Ford Water Truck	110,000	137 2000 Sterling Water Truck	130,000	123 2001 Sterling Water Truck	160,000	
L111 J. Deere Tractor	75,000	Salt Spreader	20,000	Salt Spreader	19,000	L473-99 J. Deere Payloader	150,000	407 Bomac Roller	115,000	
L112 J. Deere Tractor	75,000	1997 Salt Spreader	17,000	Turf Sweeper	24,000	Track Car	50,000	Track Rollers	100,000	
L113 J. Deere Tractor	75,000	125-71 Brockway Water Truck	95,000	L51 Gate Tractor	30,000					
14000 lb GVW Trailer	7,000	488-83 John Deere Grader	130,000	L11 Gate Tractor	30,000					
Stoltzfus Material Spreader	25,000			Infield Mower	75,000					
Magnet	50,000									
Spreader	25,000									
Spreader	25,000									
	717,000		787,000		773,500		825,000		845,000	3,947,500

EQUIPMENT - GENERAL
SECURITY EQUIPMENT - AQUEDUCT/BELMONT/SARATOGA

2008		2009		2010		2011		2012		TOTALS
1-92 CUSHMAN Cart	10,000	000 2002 John Deere Gaters	18,000	000 2002 John Deere Gaters	19,000	Gator	24,000	Gator	25,000	
John Deere Gaters	11,000									
	21,000		18,000		19,000		24,000		25,000	107,000

EQUIPMENT
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

EQUIPMENT - GENERAL
PARKING - AQUEDUCT/BELMONT/SARATOGA

2008		2009		2010		2011		2012		TOTALS
19-93 Chevy Van	35,000									
20-93 Chevy Van	35,000									
	70,000		0		0		0		0	70,000

EQUIPMENT - GENERAL
AMBULANCE - HORSE/HUMAN

2008		2009		2010		2011		2012		TOTALS
252 1986 Kinsey Horse Amb.	210,000	322-99 Ford Human Amb.	80,000	325 2003 Ford	90,000	L000 2003 Ford Ambulance Human	105,000	000 2004 Ford Ambulance Human	105,000	
324 Ford Human Ambulance	80,000	224 1992 Kinsey Horse Amb.	220,000					255 Chevy Horse Ambulance	225,000	
	290,000		300,000		90,000		105,000		330,000	1,115,000

EQUIPMENT - GENERAL
VANNING

2008		2009		2010		2011		2012		TOTALS
	0		0		0		0		0	-

EQUIPMENT - GENERAL
CLEANING

2008		2009		2010		2011		2012		TOTALS
L525-98 Factory Cat Scr.	15,000	JD Gator	20,000	000 John Deere Tractor	16,200	000 John Deere Tractor	16,800	000 John Deere Tractor	17,500	
	15,000		20,000		16,200		16,800		17,500	85,500

EQUIPMENT - GENERAL
SPECIAL EQUIPMENT (TRAMS)

2008		2009		2010		2011		2012		TOTALS
		New Tram 1	300,000	Tour Bus	260,000					
		New Tram 2	300,000	Tram #3	312,000					
	0		600,000		572,000		0		0	1,172,000

EQUIPMENT
PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN

AQUEDUCT MAINTENANCE EQUIPMENT

2008		2009		2010		2011		2012		TOTALS
478 1980 Gallon Grader	90,000	58-91 Toro Mower	22,000	176-97 Chevy Dump	64,000	L000 Chevy S10 PU	34,000	1 Leaf Vac	27,000	
214-91 Chevy 5YD Dump	55,000	153-92 GMC 5YD Dump	55,000	Salt Spreader	23,000	L000 Toro Mower	27,000	251 Chevy Welder Truck	70,000	
232-91 Chevy 5YD Dump w/Plow	45,000	497 Johnston Sweeper	130,000	464 Ditch Witch	48,000	L442 Backhoe	125,000	L000 Payloder	130,000	
Salt Spreader	21,000			469 MF Forklift	90,000	56-87 Ford Tractor w/Bucket	40,000			
	211,000		207,000		225,000		226,000		227,000	1,096,000

BELMONT MAINTENANCE EQUIPMENT

2008		2009		2010		2011		2012		TOTALS
Salt Spreader	18,000	414-94 Schwartz Sweeper	130,000	2 Leaf Vacs	32,000	L444 Payloader	165,000	477 1990 Gehl Grader	110,000	
120-67 Brockway Water Truck	75,000	122-67 Brockway Water Truck	90,000	415-95 Kohatsu Payloader	160,000	L445 Payloader	145,000	185 1985 Chevy Box Truck	100,000	
41-85 Toro Groundsmaster	22,000	412-92 Gehl Grader	90,000	420-80 Case Payloader	115,000	L442 Backhoe	125,000	L000 Payloder Small	110,000	
48-86 Ford Tractor	22,000	2 Leaf Blowers	30,000	L Chevy Van	45,000					
487-86 Allot Gracer	90,000									
2 Leaf Vac	20,000									
155-92 GMC Sub'n	30,000									
253-89 Chevy Pickup	28,000									
42 Ford Tractor	15,000									
	320,000		340,000		352,000		435,000		320,000	1,767,000

SARATOGA MAINTENANCE EQUIPMENT

2008		2009		2010		2011		2012		TOTALS
8-85 Ford 1910	22,000	410-89 Ford Backhoe	75,000	L000 2 Yd Dump Truck	43,000	L000 Barn Area Tractor	55,000	376 1988 GMC Bucket Truck	115,000	
34-92 Dihatsu Utility	16,000	440-87 Strato Lift	19,000	L000 2 Yd Dump Truck	44,000	L000 Small Road Grader	110,000	L000 Chevy 5 Yard Dump	85,000	
12-92 Ford Tractor	21,000	440-87 Strato Lift	19,000	L000 3 Yd Dump Truck	44,000	409-88 Clark Lift	29,000			
257-89 Chevy Pickup	27,000	L418-96 Ford Skidsteer	37,000	L000 Sm. Stake Truck	40,000					
54-87 Graverly Mower	22,000	211-91 Chevy 2YD Dump	32,000	67-91 Ford Tractor	25,000					
150-36-89 Chevy 2YD Dump	32,000									
283 1985 Staff Truck	35,000									
	175,000		182,000		196,000		194,000		200,000	947,000
Total A/B/S Maint. Equip. 2008	1,819,000	Total A/B/S Maint. Equip. 2009	2,454,000	Total A/B/S Maint. Equip. 2010	2,243,700	Total A/B/S Maint. Equip. 2011	1,825,800	Total A/B/S Maint. Equip. 2012	1,964,500	
				Grand Total Equipment						10,307,000

EXHIBIT J

PERMITTED SUBLEASES

Permitted Subleases

1. Lease Agreement dated November 26, 2003 between The New York Racing Association, Inc., as landlord, and MMNY Land Company, Inc., as tenant.

EXHIBIT K

(Space above this line for Recording Data)

Title of Document:	Memorandum of Lease
Date of Document:	_____, 200__
Sublessor:	[VLT Operator]
Sublessor's Address:	
Sublessee:	The New York Racing Association, Inc.
Sublessee's Address:	110-00 Rockaway Boulevard, South Ozone Park, New York 11417
Full Legal Description:	See Attached Legal Description on page _____

Reference Book(s) and Page(s), if required:

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE (hereinafter this "Memorandum") is made and entered by and between [VLT OPERATOR, a _____ ("Sublessor"), whose address is _____, and THE NEW YORK RACING ASSOCIATION, INC., a not-for-profit racing corporation incorporated pursuant to Serction 402 of the Not-For_Profit Corporation Law of New York, as authorized by Chapter 18 of the Laws of 2008 as ("Sublessee"), with a place of business at 110-00 Rockaway Boulevard, South Ozone Park, New York 11417 to evidence their execution of a certain Sublease Agreement dated _____, 200__.

RECITALS

A. Sublessor, as sublessor and Sublessee, as sublesee are parties to that certain Sublease Agreement (the "Sublease") dated _____, 20___, pursuant to which, *inter alia*, Sublessor subleases to Sublessee and Sublessee subleases from Sublessor certain premises located at the Aqueduct Racetract, as more particularly described therein (the "Subleased Premises");

B. Sublessee is the holder of the ground leasehold interest in a portion of the property known as the Aqueduct Racetrack and defined in the Sublease as the Facilities Ground Leased Premises pursuant to that certain Facilities Ground Lease dated _____, 20___, by and between The People of the State of New York Acting by and Through the State Franchise Oversight Board Pursuant to Chapter 18 of the Laws of 2008, as landlord (the "State" or "Landlord") and Sublessor, as tenant, said Subleased Premises being more particularly described in Exhibit A attached hereto (the "Subleasd Premises").

C. Sublessor and Sublessee desire to have the existence of the Sublease, as it relates to the Subleased Premises, become a matter of public record.

NOW, THEREFORE, in consideration of the premises and other good and valuable considerations, the parties hereby agree as follows:

1. Sublessor hereby affirms that it is the Sublessor under the Sublease of the Subleased Premises to Sublessee, and Sublessee hereby affirms that it is the Sublessee under the Sublease of the Subleased Premises from Sublessee.

2. For the purposes of the Sublease, all notices to the Sublessor and the Sublessee may be sent to the following address:

If to Sublessee:

The New York Racing Association, Inc.
Aqueduct Racetrack
110-00 Rockaway Boulevard
South Ozone Park, New York 11417
Attn: General Counsel

With a copy to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Attn: Brian S. Rosen, Esq.

If to Sublessor:

[VLT Operator]

With a copy to:

The New York State Franchise Oversight Board
Franchise Oversight Board
c/o Executive Chamber
The Capitol
Albany, NY 12224
Attention: Chairman
Telecopy: _____

With a copy to:

The Attorney General of the State of New York

With a copy to:

Charities Bureau

Department of Law
120 Broadway - 3rd Floor
New York, New York 10271

With a copy to:

The Racing and Wagering Board
Chairman
N.Y.S. Racing and Wagering Board
1 Broadway Center, Suite 600
Schenectady, New York 12305
Telecopy: (518) 347-1250

With a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019
Attn: Alan S. Kornberg, Esq.

2. In accordance with the terms of the Sublease, Sublessee shall have and hold the Subleased Premises for a term that, unless sooner terminated as otherwise provided in the Sublease, shall expire on _____.

3. The Sublease does not grant to Sublessee the right to purchase any right, title or interest in or to any portion of the Subleased Premises or the Sublessee's property.

4. This Memorandum and any amendment to this Memorandum may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto were upon the same instrument.

THE FOREGOING IS INTENDED AS A SUMMARY ONLY TO PROVIDE NOTICE OF CERTAIN LEASE PROVISIONS, AND DOES NOT LIMIT OR OTHERWISE AFFECT THE FULL PROVISIONS OF THE LEASE. PERSONS HAVING A BONA FIDE INTEREST SHOULD NOT RELY SOLELY ON THIS MEMORANDUM OF LEASE IN TRANSACTING BUSINESS WITH THE SUBLESSOR OR THE SUBLESSEE, BUT MAY REQUEST PERMISSION TO EXAMINE THE FULL TEXT OF THE SUBLEASE, (OR RELEVANT PROVISIONS) BY CONTACTING THE SUBLESSOR OR THE SUBLESSEE AT THE ADDRESSES SET FORTH ABOVE.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties have executed this Memorandum of Sublease as of the _____ day of _____, 20__.

Sublessor:

{VLT OPERATOR}

By:_____
Name:_____
Title:_____

Sublessee:

THE NEW YORK RACING ASSOCIATION, INC.

By:_____
Name:_____
Title:_____

STATE OF _____ §
§
COUNTY OF _____ §

This instrument was acknowledged before me on _____, 20__ by _____, the _____ of _____, a [STATE OF FORMATION] corporation, on behalf of said corporation.

_____
Notary Public's Signature

(PERSONALIZED SEAL)

STATE OF _____ §
§
COUNTY OF _____ §

This instrument was acknowledged before me on _____, 20__ by _____, the _____ of _____, a Delaware limited liability company, on behalf of said limited liability company.

_____
Notary Public's Signature

(PERSONALIZED SEAL)

EXHIBIT A

Description of the Premises

EXHIBIT L

SUBLESSEE'S INSURANCE REQUIREMENTS

Sublessee Insurance Requirements

Prior to the date on which possession of the Subleased Premises is delivered to the Sublessee, the Sublessee shall file with The People of the State of New York, Office of General Services (together with Sublessor, collectively referred to hereinafter as "OGS"), Certificates of Insurance executed by a duly authorized representative of each insurer evidencing compliance with all requirements contained in this Sublease. Such Certificates shall be of form and substance acceptable to OGS.

Acceptance and/or approval by the OGS does not and shall not be construed to relieve Sublessee of any obligations, responsibilities or liabilities under the Sublease or represent adequacy of the insurance or limits.

All insurance required by the Sublease shall be obtained at the sole cost and expense of the Sublessee, shall be maintained with insurance carriers licensed to do business in New York State, and acceptable to OGS; shall be primary and non-contributing to any insurance or self insurance maintained by OGS; shall be endorsed to provide written notice be given to OGS, at least thirty (30) days prior to the cancellation, non-renewal, or material alteration of such policies, and Sublessee shall request that such notice be evidenced by return receipt of United States Certified Mail, and such notice shall be sent to Landlord and Sublessor and such policies shall name Sublessor, The People of the State of New York, NY State Urban Development Corp. dba Empire State Development Corp., The Franchise Oversight Board and their respective officers, agents, trustees, directors and employees as additional insureds thereunder. (General Liability Additional Insured Endorsement shall be on Insurance Service Office's (ISO) form number **CG 20 26 11 85**). The additional insured requirement does not apply to Workers Compensation or Disability coverage.

The Sublessee shall require any subcontractors hired, to carry insurance with the same provisions provided herein . Contractors involved in the construction, maintenance, renovation or repair of the Subleased Premises will maintain Commercial General Liability limits of not less than $5,000,000 each occurrence or in the case of major construction, additions or renovations limits agreed to by OGS and General Liability Additional Insured Endorsement shall be on Insurance Service Office's (ISO) form number **CG 20 10 11 85**. Notwithstanding the foregoing, all Contractors shall have such insurance coverage (i) as is commercially reasonable with respect to the form and amounts of coverage, taking into account the size and cost of any construction, maintenance, renovation or repair of the Subleased Premises, or (ii) as otherwise required by the State, using the same standard.

The Sublessee shall be solely responsible for the payment of all deductibles and self insured retentions to which such policies are subject. Deductibles and self insured retentions must be approved by OGS. Such approval shall not be unreasonably withheld.

Each insurance carrier must be rated at least "A-" Class "VIII" in the most recently published Best's Insurance Report. If, during the term of the policy, a carrier's rating falls below "A-" Class "VII", the insurance must be replaced no later than the renewal date of the policy with an insurer acceptable to OGS and rated at least "A-" Class "VII" in the most recently published Best's Insurance Report.

The Sublessee shall cause all insurance to be in full force and effect as of the commencement date of this Sublease and to remain in full force and effect throughout the term of this Sublease and as further required by this Sublease. The Sublessee shall not take any action, or omit to take any action that would suspend or invalidate any of the required coverages during the period of time such coverages are required to be in effect.

Not less than thirty (30) days prior to the expiration date or renewal date, the Sublessee shall supply OGS updated replacement Certificates of Insurance, and amendatory endorsements.

The Sublessee, throughout the term of this Sublease, or as otherwise required by this Sublease, shall obtain and maintain in full force and effect, the following insurance with limits not less than those described below and as required by the terms of this Sublease, or as required by law, whichever is greater (limits may be provided through a combination of primary and umbrella/excess policies):

(a) Commercial General Liability Insurance with a limit of not less than $50,000,000 each occurrence. Such liability shall be written on the Insurance Service Office's (ISO) occurrence form CG 00 01, or a substitute form providing equivalent coverages and shall cover liability arising from premises operations, independent contractors, products-completed operations, broad form property damage including completed operations, personal & advertising injury, cross liability coverage, liability assumed in a contract including the tort liability of another and explosion, collapse and underground. The limit for Fire Damage Legal shall not be less than $100,000.

(b) Workers Compensation, Employers Liability, and Disability Benefits as required by New York State. If employees will be working on, near or over navigable waters, US Longshore and Harbor Workers Compensation Act endorsement must be included.

(c) Comprehensive Business Automobile Liability Insurance with a limit of not less than $10,000,000 each accident. Such insurance shall cover liability arising out of any automobile including owned, leased, hired and non owned automobiles.

(d) Commercial Property Insurance covering at a minimum, the perils insured under the ISO Special Causes of Loss Form (CP 10 30), or a substitute form providing equivalent coverages, for loss or damage to any owned, borrowed, leased or rented personal property, equipment, tools, including tools of their agents and employees, and property of OGS held in their care, custody and/or control.

(e) Rental Value Insurance providing coverage for fair rental value of any portion of the described Subleased Premises occupied by the Sublessee.

(f) Equipment Breakdown Insurance covering all of the boilers, fired or unfired pressure vessels, heating, ventilating and air-conditioning units or any other mechanical equipment which services the premises exclusively and which may malfunction or cause damage to property or injury to persons for the Full Insurable Value of the Subleased Premises. Sublessee shall be responsible for the regular inspection of the Boiler. A joint loss agreement endorsement should be attached to the Equipment Breakdown and Commercial Property Insurance policies if with different insurance carriers. OGS is to be named as an insured.

(g) Bailees insurance with limits of not less than $10,000,000 covering liability arising from loss or damage to the property of others while being transported, in storage or otherwise in the care, custody or control of the Sublessee.

(h) Garage Keepers Legal Liability Coverage with a limit of not less than $1,000,000 at each location for Comprehensive and Collision Coverage for damage to a customer's automobile or automobile equipment in Sublessee's care, custody or control.

(i) If the Sublessee uses, stores, handles, processes or disposes of Hazardous Materials, then Sublessee shall maintain in full force and effect through the term, Environmental Impairment Liability insurance with limits of not less than $5,000,000, providing coverage for bodily injury, property damage or loss of use of damaged property or of property that has not been physically injured. Such policy shall provide coverage for actual, alleged or threatened emission, discharge, dispersal, seepage, release or escape of pollutants, including any loss,

cost or expense incurred as a result of any cleanup of pollutants or in the investigation, settlement or defense of any claim, suit, or proceedings against The People of the State of New York, arising from Sublessee's use, storage, handling, processing or disposal of Hazardous Materials.

(j) If the Sublessee sells, distributes, serves or furnishes alcoholic beverages, then Sublessee shall maintain in full force and effect through the term, Liquor Liability Insurance with limits of not less than $5,000,000.

(k) During the performance of any Construction Work, Restoration or Alteration ,the Sublessee will maintain or require the contractors to maintain Builder's risk coverage on a completed value form covering the perils insured under the ISO special causes of loss form, including collapse, water damage, and transit and theft of building materials, with deductible reasonably approved by OGS, in non reporting form, covering the total value of work performed and equipment, supplies and materials at the location of the job as well as at any off-site storage location used with respect to such work. The policy shall cover the cost of removing debris, including demolition as may be legally necessary by the operation of any law, ordinance or regulation. Such policy shall name as insureds, The People of the State of New York, the Sublessee, Contractor and Subcontractors. Consent of the carrier must be included to allow for the occupancy or use of the Subleased Premises by Sublessee and OGS.

(l) If any Construction Work, Restoration or Alteration involves abatement, removal, repair, replacement, enclosure, encapsulation and/or disposal of any hazardous material or substance, petroleum or petroleum product, the Sublessee will require the Contractor to maintain in full force and effect throughout the term hereof, Pollution Legal Liability insurance with limits of not less than $10,000,000, providing coverage for bodily injury and property damage, including loss of use of damaged property or of property that has not been physically injured. Such policy shall provide coverage for actual, alleged or threatened emission, discharge, dispersal, seepage, release or escape of pollutants, including any loss, cost or expense incurred as a result of any cleanup of pollutants or in the investigation, settlement or defense of any claim, suit, or proceedings against OGS arising from Contractor's work.

1. Coverage should be written on an occurrence basis. If not available and subject to the approval of OGS, coverage is

written on a claims-made policy, Sublessee shall require the Contractor to warrant that any applicable retroactive date precedes the effective date of the Contractor's contract (the "Contract"); and that continuous coverage will be maintained, or an extended discovery period exercised, for a period of not less than 2 years from the time work under the Contract is completed.

2. If the Contract includes disposal of materials from the job site, the Contractor must furnish to OGS, evidence of pollution legal liability insurance with a limit of not less than $5,000,000 maintained by the disposal site operator for losses arising from the disposal site accepting waste under the Contract.

3. If autos are to used for transporting hazardous materials, the Contractor shall provide pollution liability broadened coverage for covered autos (endorsement CA 99 48) as well as proof of MCS 90.

Waiver of Subrogation. Sublessee shall cause to be included in each of its policies insuring against loss, damage or destruction by fire or other insured casualty a waiver of the insurer's right of subrogation against OGS or, if such waiver is unobtainable (i) an express agreement that such policy shall not be invalidated if Sublessee waives or has waived before the casualty, the right of recovery against OGS or (ii) any other form of permission for the release of OGS.

Appendix 5

NYRA Financing Agreement

Exhibit J

NYRA FINANCING AGREEMENT
CONTRACT #

THIS AGREEMENT ("Agreement") is made as of the __ day of _____, 2010 by and among _____ having an address at _____ ("Video Lottery Facility Operator"), the NEW YORK STATE DIVISION OF THE LOTTERY ("Lottery"), an executive agency of the State of New York, with a mailing address of One Broadway Center, P.O. Box 7500, Schenectady, New York 12301, and the NEW YORK RACING ASSOCIATION, INC. ("NYRA"), a not-for-profit corporation incorporated pursuant to Section 402 of the Not-For-Profit Corporation Law of the State of New York as authorized by Chapter 18 of the Laws of 2008, with a place of business at 110-00 Rockaway Boulevard, Jamaica, New York 11417, sometimes collectively referred to herein as the "Parties" or singularly as a "Party."

WITNESSETH:

WHEREAS, the Lottery, on behalf of the State of New York, issued a Request for Proposals ("RFP") on May 11, 2010 to solicit Proposals from Vendors seeking the award of a Video Lottery License to develop and operate a Video Lottery Facility at Aqueduct Racetrack ("Aqueduct") in the Borough of Queens in the City of New York ("Video Lottery Facility"); and,

WHEREAS, pursuant to Chapter 90 of the Laws of 2010 and the _____ Agreement, dated _____ ("ESDC Loan Agreement"), New York State Urban Development Corporation d/b/a Empire State Development Corporation ("ESDC") shall make a working capital loan to NYRA of up to twenty five million dollars ($25,000,000) for expenses at Aqueduct, Belmont and Saratoga racetracks.

WHEREAS, the Vendor selected to develop and operate the Video Lottery Facility (the "Video Lottery Facility Operator") is required to make payments to NYRA to enable NYRA to repay such advance to ESDC and maintain racing operations until such time as Video Lottery revenues become available to NYRA pursuant to Tax Law Section 1612 (f).

WHEREAS, the Parties desire to enter into this Agreement upon the provisions contained herein.

NOW, THEREFORE, in consideration of the promises and the agreements of the Parties contained herein, the Parties agree as follows:

ARTICLE I
LOAN AMOUNT

1.1. Pursuant to the ESDC Financing Agreement, ESDC shall make a loan to NYRA of twenty five million dollars ($25,000,000) through three (3) disbursements, with the first to occur in June, and the second and third disbursements to be made on dates prior to March 31, 2011, as determined by the Director of the Division of the Budget. Within ten (10) business days after the Aqueduct Memorandum of Understanding ("MOU") is signed and delivered to the Vendor by the Governor, the

Temporary President of the Senate, and the Speaker of the Assembly pursuant to Subdivision e of Section 1612 of the Tax Law, the Video Lottery Facility Operator shall repay to ESDC an amount equal to the monies disbursed to NYRA by ESDC. The Video Lottery Facility Operator will assume from ESDC the obligation to disburse any portion of the $25 million loan not disbursed by ESDC to NYRA under the ESDC Loan Agreement and shall lend such remaining portion to NYRA, in accordance with a plan approved by the Director of the Budget.

1.2. Upon the disbursement of the twenty five million dollar ($25,000,000) loan pursuant to section 1.1 of this Agreement, at the direction of the Director of the Division of the Budget, the Video Lottery Facility Operator shall advance funds of no more than $2 million per month to NYRA for racing operation expenses at Aqueduct, Belmont and Saratoga racetracks until video lottery gaming operations commence at the Video Lottery Facility. The amount that the Video Lottery Facility Operator shall advance to NYRA monthly for such racing operation expenses shall be approved by the Director of the Division of the Budget. The Video Lottery Facility Operator shall not advance any amount of such expenses unless approved by the Director of the Division of the Budget.

1.3. The annual rate of interest shall be equal to two percent per annum commencing each date any monies are paid to NYRA under the ESDC Loan Agreement and this Agreement until all monies are fully repaid to the Video Lottery Facility Operator.

ARTICLE II
REPAYMENT

2.1. All monies paid to NYRA under the ESDC Loan Agreement and this Agreement shall be repaid to the Video Lottery Facility Operator from the portion of the vendor fee that would otherwise be due to NYRA pursuant to paragraphs 3 and 4 of subdivision f of section 1612 of the Tax Law on account of video lottery revenues from the Video Lottery Facility ("NYRA Portion").

2.2. The Video Lottery Facility Operator shall have no other recourse against NYRA, ESDC or the Lottery to collect repayment of any monies paid to NYRA under the ESDC Loan Agreement and this Agreement, except from the NYRA Portion.

2.3. The Parties agree that, commencing six months from the date VLT operations at Aqueduct begin, the Lottery will authorize the Video Lottery Facility Operator to retain amounts in accordance with a plan approved by the Director of the Division of the Budget equal to twenty-five percent (25%) of the total NYRA Portion until all monies paid to NYRA under the ESDC Agreement and this Agreement are fully repaid to the Video Lottery Facility Operator.

ARTICLE III
MISCELLANEOUS

3.1. This Agreement may not be amended, modified, supplemented or terminated unless in writing and duly executed by the party against whom the same is sought to be asserted, subject to the approval of the Office of the State Comptroller and the Office of the Attorney General, and constitutes the entire agreement between the parties with respect to the subject matter hereof.

3.2 The interpretation, validity and enforcement of this Agreement shall be governed by and construed under the laws of the State of New York.

3.3. Documents Incorporated: Appendix A, "Standard Clauses for all New York State Contracts" and Appendix B, The ESDC Loan Agreement.

It is expressly agreed between the Parties that the terms of this Agreement shall be deemed to incorporate in full the amendments to this Agreement provided in the Addendum attached hereto, and that the enforceability of such terms is a condition to the effectiveness of this Agreement (despite Video Lottery Facility Operator signing below).

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above-written.

VIDEO LOTTERY FACILITY OPERATOR

By: NEW YORK GAMING VENTURES, LLC
Name: JOHN V. FINNEGAN
Title: PRESIDENT
Date: 6/28/2010

NEW YORK STATE DIVISION OF THE LOTTERY

By: _____
Name:
Title:
Date:

THE NEW YORK RACING ASSOCIATION, INC.

By: _____
Name:
Title:
Date:

3.2. The interpretation, validity and enforcement of this Agreement shall be governed by and construed under the laws of the State of New York.

3.3. Documents Incorporated: Appendix A, "Standard Clauses for all New York State Contracts" and Appendix B, The ESDC Loan Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above-written.

VIDEO LOTTERY FACILITY OPERATOR

By:_____
Name:
Title:
Date:

NEW YORK STATE DIVISION OF THE LOTTERY

By:_____
Name:
Title:
Date:

The NEW YORK RACING ASSOCIATION, INC.

By:_____
Name: Charles E. ~~Hayward~~
Title: ~~President~~/CEO
Date: June 9, 2010

ACKNOWLEDGMENTS

STATE OF NEW YORK)
): ss.
COUNTY OF Nassau)

On the 9th day of June, in the year 2010, before me, the undersigned, personally appeared Charles E. Hayward, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Witness My Hand and Official Seal.

Signature

Pasquale Viscusi
Notary Public, State of New York
No. 02VI6068172
Qualified in Queens County
Commission Expires Dec. 24, 2013

My Commission expires on _____

STATE OF NEW YORK)
): ss.
COUNTY OF)

On the 28th day of June, in the year 2010, before me, the undersigned, personally appeared JOHN J. FINAMORE, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Witness My Hand and Official Seal.

Signature Sherry L. Shuman

My Commission expires on _____

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
SHERRY L. SHUMAN, Notary Public
Wyomissing Boro., Berks County
My Commission Expires January 19, 2014

NYRA FINANCING AGREEMENT - ADDENDUM

The NYRA Financing Agreement (the "Agreement") shall be amended as follows and shall only be binding to the extent that the amendments below are accepted (and any required conforming revisions are made):

1. Section 1.2 of the Agreement shall be amended by adding the following sentence to the end of the provision: "Notwithstanding the foregoing, the Video Lottery Facility Operator's obligations to advance funds to NYRA on a monthly basis shall (a) terminate upon the termination of the MOU or any uncured default by the Lottery of the MOU or by the ESDC of the Grant Disbursement Agreement and (b) be suspended during (i) any period in which construction is delayed for more than thirty (30) days as a result any circumstance outside of the Video Lottery Facility Operator's control and (ii) a "force majeure" delay which shall include delays cause by any circumstances beyond the control of the parties, including, without limitation, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, embargo or government action, including any laws, ordinances, regulations, governmental action or the like.

2. Section 2.1 of the Agreement shall be amended by adding the following sentence to the end of the provision: "Notwithstanding anything to the contrary contained in this Agreement, the Video Lottery Facility Operator's right to repayment for amounts advanced pursuant to this Agreement as provided by this Article II shall survive the termination of this Agreement, the MOU, the Facilities Ground Lease, the ESDC Loan Agreement or any other agreement or understanding contemplated or otherwise entered into in connection with any such agreement."

3. Section 2.3 of the Agreement shall be amended and restated in its entirety to read as follows: "The Lottery hereby authorizes the Video Lottery Facility Operator to retain amounts, in accordance with a plan approved by the Director of the Division of the Budget, equal to twenty-five percent (25%) of the total NYRA Portion until all monies paid to NYRA under the ESDC Agreement and this Agreement are fully repaid to the Video Lottery Facility Operator.".

Appendix 6

Grant Disbursement Agreement

Exhibit I

LOAN AGREEMENT

by and between

THE NEW YORK RACING ASSOCIATION, INC.

and

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a
EMPIRE STATE DEVELOPMENT CORPORATION

SPECIAL APPROPRIATION
$25,000,000 LOAN

TABLE OF CONTENTS

ARTICLE 5 MISCELLANEOUS.

EXHIBITS

LOAN AGREEMENT

THIS AGREEMENT made this 10th day of June 2010 by and between THE NEW YORK RACING ASSOCIATION, INC., a not-for-profit corporation incorporated pursuant to Section 402 of the Not-For-Profit Corporation Law of the State of New York as authorized by Chapter 18 of the Laws of 2008, having its principal office and place of business at 110-00 Rockaway Boulevard, Jamaica, NY 11417 ("Borrower"), and NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT CORPORATION, a corporate governmental agency of the State of New York, constituting a political subdivision and public benefit corporation, having its principal office and place of business at 633 Third Avenue, New York, New York 10017 ("Lender" or "ESDC").

RECITALS

WHEREAS, the New York State Division of the Lottery, (the "Division"), an executive agency of the State of New York, on behalf of the State of New York, has solicited proposals from vendors seeking the award of a video lottery license to develop and operate a video lottery facility at Aqueduct Racetrack ("Aqueduct") in the Borough of Queens in the City of New York ("Video Lottery Facility"); and,

WHEREAS, pursuant to Chapter 90 of the Laws of 2010 , ESDC is authorized to make a working capital loan to the Borrower of up to Twenty Five Million dollars ($25,000,000) for operating expenses at Aqueduct, Belmont and Saratoga racetracks.

WHEREAS, the Division has informed the parties that the Division contemplates that it will require the vendor selected to develop and operate the Video Lottery Facility (the "Selected Vendor") to pay to ESDC an amount equal to the aggregate of ESDC's outstanding loan advances to Borrower pursuant to this Agreement and the Note (as hereinafter defined) in order to acquire ESDC's rights and assume ESDC's obligations with respect to the loan and the Note, and that upon receipt of such payment ESDC intends to assign the loan, this Agreement and the Note to the

Selected Vendor.

WHEREAS, the parties desire to enter into this Agreement upon the provisions contained herein.

NOW, THEREFORE, in consideration of the promises and the agreements of the parties contained herein, the Parties agree as follows:

ARTICLE 1. DEFINITIONS.

Section 1.01. Certain Defined Terms. As used herein, the following terms have the following meanings (terms defined in the singular shall have the same meaning when used in the plural and vice versa):

"Loan" means the loan made by Lender to Borrower pursuant to this Agreement and the Note.

"Loan Documents" means this Agreement and the Note.

"Note" shall have the meaning assigned to such term in Section 2.02 hereof.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

ARTICLE 2. THE CREDIT.

Section 2.01. The Loan. Subject to the representations and warranties, terms, covenants and conditions of the Loan Documents, Lender intends to make a loan (the "Loan") to Borrower

not to exceed in aggregate the amount of Twenty-Five Million Dollars ($25,000,000.00), and that the proceeds of the Loan will be disbursed to Borrower in three disbursements as follows: in June 2010, Eight Million Four Hundred Thousand Dollars ($8,400,000); with the second and third disbursements to be made on dates prior to March 31, 2011, as determined by the New York State Director of the Division of the Budget. The making of the Loan and the disbursement of the advances are contingent upon ESDC receiving the full amount of funds appropriated for each such advance.

Section 2.02. The Note. The Loan shall be evidenced by a promissory note of even date herewith duly completed and executed by Borrower in substantially the form attached hereto as Exhibit A (the "Note"), the terms, covenants, and conditions of which are by this reference incorporated herein.

Section 2.03. Purpose of Loan. The Loan is to be used for the Borrower's operating expenses at Aqueduct, Belmont and Saratoga racetracks.

Section 2.04. Prepayments. Borrower shall have the right to prepay the Loan at any time or from time to time without penalty.

Section 2.05. Interest. Interest shall accrue on the outstanding and unpaid principal amount of the Loan and shall be calculated in accordance with the Note.

Section 2.06. Payments. The Loan shall be payable in accordance with the Note.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF BORROWER.

Borrower hereby represents and warrants as follows:

Section 3.01. Incorporation, Good Standing and Due Qualification. Borrower's legal

name is The New York Racing Association, Inc., and Borrower is a not-for-profit corporation duly organized and validly existing in the State of New York and in good standing under the laws of the State of New York, has the power and authority to own its assets, to transact the business in which it is now engaged or proposed to be engaged, and to enter into and consummate the transactions contemplated by the Loan Documents.

Section 3.02. Power and Authority; No Conflicts. The execution, delivery and performance by Borrower of the Loan Documents have been duly authorized by all necessary action and do not and will not: (a) require any consent or approval of its owners; (b) contravene its articles of incorporation; (c) violate any provision of, or require any filing, registration, consent or approval under any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Borrower or affiliates, (d) result in a breach of, or constitute a default or require any consent under, any indenture or loan or credit agreement or any other agreement, lease or instrument to which Borrower is a party or by which it or its properties may be bound or affected; (e) result in, or require, the creation or imposition of any lien, upon or with respect to any of the properties now owned or hereafter acquired by Borrower; or (f) cause Borrower to be in default under any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

Section 3.03. Legally Enforceable Agreements. Each Loan Document is, or when delivered under this Agreement will be, a legal, valid and binding obligation of Borrower enforceable against Borrower in accordance with its terms, except to the extent that such enforcement may be limited by general equity principles, or by bankruptcy, insolvency and other similar laws affecting creditor's rights generally.

ARTICLE 4. AFFIRMATIVE COVENANTS.

So long as the Note shall remain unpaid Borrower agrees as follows:

Section 4.01. Maintenance of Existence. Borrower shall preserve and maintain its existence and good standing in the jurisdiction of its organization,

Section 4.02. Conduct of Business. Borrower shall continue to engage in its business substantially as conducted by it on the date of this Agreement.

Section 4.03. Maintenance of Properties. Borrower shall maintain, keep and preserve, all of its properties (tangible and intangible) necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear and tear excepted.

Section 4.04. Maintenance of Records. Borrower shall keep adequate records and books of account, in which complete entries will be made in accordance with GAAP, reflecting all financial transactions of Borrower and retain such records and books for three years after payment in full of the Loan at the address of Borrower set forth above.

Section 4.05. Compliance with Laws. Borrower shall comply in all material respects with all applicable federal, state and local laws, rules, regulations and orders.

Section 4.06. Taxes. Borrower shall file when due all tax returns required to be filed by all applicable federal, state and local laws and shall make timely payment of all taxes, assessments and governmental charges and levies assessed, charged or imposed upon Borrower or any of its properties. Borrower shall not permit any such tax, assessment, charge or levy to become a lien upon any of its assets; provided that Borrower shall not be required to pay any such tax, assessment or other charge whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 4.07. Right of Inspection and Audit. At any reasonable time and from time to time, Borrower shall permit Lender or any agent or representative thereof at Lender's cost, to

examine and make copies and abstracts from the records and books of account of, and visit the properties of, Borrower and to discuss the affairs, finances and accounts of Borrower with any of its officers and directors and Borrower's independent accountants. Lender's right of inspection and audit pursuant to this Section shall survive the repayment of the Loan and remain in full force and effect for three years thereafter.

Section 4.08. Reporting Requirements. Borrower shall furnish to Lender the following financial information:

General Information. Such other information respecting the condition or operations, financial or otherwise, of Borrower as Lender may from time to time reasonably request.

Section 4.09. Non-Discrimination and Affirmative Action. Borrower shall comply with the requirements of Exhibit B attached hereto and incorporated herein.

Section 4.10. Expenses. Borrower shall reimburse Lender for all costs, expenses, and charges (including, without limitation, reasonable fees and charges of external legal counsel for Lender) incurred by Lender in connection with the enforcement of this Agreement or the Note. The obligations of Borrower under this Section shall survive the assignment or transfer of the Loan Agreement and Note and the repayment of the Loan.

Section 4.11. Indemnification. Borrower agrees to indemnify Lender and its directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to any actual or proposed use by Borrower of the proceeds of the Loan, including without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the

gross negligence or willful misconduct of Lender). The obligations of Borrower under this Section shall survive the assignment or transfer of the Loan Agreement and Note and the repayment of the Loan.

Section 4.12 Further Agreements. The Borrower shall execute and deliver, or cause to be executed and delivered, all such instruments, and take all such action as the Lender may reasonably request in order to effectuate the intent and purposes of, and carry out the terms of the Loan Documents.

ARTICLE 5. MISCELLANEOUS.

Section 5.01. Amendments and Waivers. No amendment or waiver of any provision of this Agreement nor consent to any departure by Borrower therefrom shall in any event be effective unless the same shall be in writing and signed by an authorized officer of Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof or preclude any other or further exercise thereof or the exercise of any other right.

Section 5.02. Usury. Anything herein to the contrary notwithstanding, the obligations of Borrower under this Agreement and the Note shall be subject to the limitation that payments of interest shall not be required to the extent that receipt thereof would be contrary to provisions of law applicable to Lender limiting rates of interest which may be charged or collected by Lender.

Section 5.03. Assignment. This Agreement shall be binding upon, and shall inure to the benefit of, Borrower, Lender and their respective successors and assigns, except that Borrower may not assign or transfer its rights or obligations hereunder. Lender may assign all or any part of the Loan to a bank or other entity, including, without limiting the foregoing, a video lottery facility operator, in which event upon notice thereof by Lender to Borrower, the assignee shall have, to the extent of such assignment (unless otherwise provided therein), the same rights and

benefits as it would have if it were Lender hereunder. Lender may furnish any information concerning Borrower in the possession of Lender from time to time to assignees and prospective assignees. ESDC intends to assign the Loan to the Selected Vendor.

Section 5.04. Notices. Unless the party to be notified otherwise notifies the other party in writing as provided in this Section, and except as otherwise provided in this Agreement, notices shall be given to Lender and to Borrower by hand or by certified mail, return receipt requested, addressed to such party at its address set forth below. Notices shall be effective: (a) if given by certified mail, 72 hours after deposit in the mails with first class postage prepaid, addressed as aforesaid; and (b) if given by hand, upon receipt; provided that notices to Lender shall be effective only upon receipt:

Address for notices to Lender

New York State Urban Development Corporation
d/b/a Empire State Development Corporation
633 Third Avenue
New York, New York 10017
Attention: Senior Vice President and General Counsel

Address for notices to Borrower

Charles E. Hayward, President and CEO
New York Racing Association
110-00 Rockaway Boulevard
Jamaica, NY 11417
cc. General Counsel

Section 5.05. Jurisdiction; Immunities. (a) Borrower hereby irrevocably submits to the jurisdiction of any New York State or United States Federal court sitting in New York County or, at Lender's sole discretion, in the county where the principal office of the Borrower is located over any action or proceeding arising out of or relating to this Agreement or the Note, and Borrower hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State or Federal court. Borrower irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of

such process to Borrower at its address set forth above. Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Borrower further waives any objection to venue in such county and any objection to an action or proceeding in such county on the basis of forum non conveniens. Borrower further agrees that any action or proceeding brought against Lender shall be brought only in New York State or United States Federal court sitting in New York County.

(b) Nothing in this Section shall affect the right of Lender to serve legal process in any other manner permitted by law or affect the right of Lender to bring any action or proceeding against Borrower or its property in the courts of any other jurisdictions.

(c) To the extent that Borrower has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Borrower hereby irrevocably waives such immunity in respect of its obligations under this Agreement and the Note.

Section 5.06. Captions. The captions and headings hereunder are for convenience only and shall not affect the interpretation or construction of this Agreement.

Section 5.07. Severability. The provisions of this Agreement are intended to be severable. If for any reason any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

Section 5.08. Counterparts. This Agreement may be executed in any number of

counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing any such counterpart.

Section 5.09. Governing Law. This Agreement shall be governed by, and interpreted and construed in accordance with, the laws of the State of New York (without reference to the conflicts of law provisions thereof).

Section 5.10 Entire Agreement. Loan Documents together with all documents and agreements entered into pursuant to this Agreement, including, but not limited to the Note, and applicable legislation, including but not limited to Chapter 90 of the Laws of 2010, constitute the full and entire agreement between the Borrower and the Lender.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed as of the day and year first above written.

THE NEW YORK RACING ASSOCIATION, INC.,

By:
Name: Ellen McClain
Title: SVP. Chief Financial Officer

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT CORPORATION

By:
Name:
Title:

STATE OF NEW YORK)
) SS:
COUNTY OF Queens)

On the 9th day of June in the year 2010, before me, the undersigned, personally appeared Ellen McClain, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to within the instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Pasquale Viscusi
Notary Public, State of New York
No. 02VI6068172
Qualified in Queens County
Commission Expires Dec. 24, 2013

Notary Public

ASSIGNMENT

The undersigned, New York State Urban Development Corporation d/b/a Empire State Development Corporation, hereby assigns to _____this Loan Agreement, the Note, as defined in the Loan Agreement, and all of the undersigned's rights, interests, and obligations pursuant to this Loan Agreement and the Note.

Dated as of this _____
Day of _____,
201__.

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT CORPORATION

By:
Name:
Title:

NOTE

$25,000,000

June 10, 2010
New York, New York

FOR VALUE RECEIVED, THE NEW YORK RACING ASSOCIATION, INC., a not-for-profit corporation incorporated pursuant to Section 402 of the Not-For-Profit Corporation Law of the State of New York as authorized by Chapter 18 of the Laws of 2008, with a principal office at 110-00 Rockaway Boulevard, Jamaica, NY 11417 (the "Borrower"), hereby unconditionally promises to pay to the order of NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT CORPORATION with offices at 633 Third Avenue, New York, New York 10017 (the "Lender" or "ESDC"), the principal sum of Twenty-Five Million Dollars ($25,000,000.00).

The Borrower also unconditionally promises to pay interest on the unpaid principal amount of the loan evidenced by this Note ("Loan") at two percent (2%) per annum (the "Base Rate"). Interest shall accrue on the outstanding and unpaid principal amount of each Loan advance from and including the date of the Loan advance and shall be calculated on the basis of a year of 360 days.

This is the Note referred to in that certain Loan Agreement of even date herewith between Borrower and Lender (the "Loan Agreement"), the terms, covenants and conditions of which Loan Agreement are by this reference incorporated herein. Defined terms utilized and not otherwise defined herein shall have the meaning assigned to such terms in the Loan Agreement. The Loan Agreement provides for the acceleration of the amounts payable under this Note upon the occurrence and/or continuance of Events of Default.

1. Payments. The Loan shall be repaid as follows:

(a) Consecutive payments of principal and interest (applied as set forth below) commencing six months from the date VLT operations at Aqueduct begin, from

Borrower's portion of video lottery revenues from the video lottery facility at Aqueduct Racetrack, pursuant to Tax Law Section 1612 subdivision f paragraphs 3 and 4 (the "NYRA Portion"). Each such payment shall be equal to Twenty-Five percent (25%) of the NYRA Portion. Each payment shall be applied equally to the cumulative amount of accrued interest and principal as of the date of such payment until the Loan, including, without limiting the foregoing, accrued interest thereon, is paid in full. Notwithstanding the foregoing, the Loan, must be repaid to ESDC in accordance with Chapter 90 of the Laws of 2010, unless the Loan Agreement and this Note have been assigned by ESDC to a VLT operator designated by the State of New York to operate the VLT facility at the Aqueduct racetrack, provided, however, that if such repayment to ESDC in accordance with Chapter 90 of the Laws of 2010 is required, Borrower shall promptly enter into a repayment agreement with the Director of the New York State Division of the Budget regarding the terms and conditions of such repayment.

(b) Borrower hereby irrevocably consents to the New York State Division of the Lottery (the "Division"), an executive agency of the State of New York, making or directing transfers and payments to Lender, or the holder hereof, of Twenty-Five percent (25%) of each distribution of the NYRA Portion until all amounts due with respect to the Loan, including, without limiting the foregoing, accrued interest thereon, have been paid in full.

(c) All payments of principal and interest shall be made in lawful funds of the United States of America and sent to the New York State Urban Development Corporation d/b/a Empire State Development Corporation, 633 Third Avenue, New York, New York 10017, to the attention of the Controller, or to such other address as the holder hereof may designate in writing to Borrower from time to time. Payments shall be deemed made when received by the holder hereof in accordance with the foregoing.

Borrower hereby waives presentment, notice of dishonor, demand, protest and any other notice or formality with respect to this Note.

2. Prepayments. Borrower shall have the right from time to time to prepay the unpaid balance due hereunder, in whole or in part, without premium or penalty.

3 Governing Law. This Note shall be construed in accordance with and governed by the Laws of the State of New York without regard to conflicts of law principles that would require the application of the laws of another jurisdiction.

4. Miscellaneous. This Note may not be modified, amended, waived or otherwise altered in whole or in part except by a further writing signed by the party to be charged. This Note shall be binding upon the Borrower and its successors and assigns and shall inure to the benefit of Lender and its successors, assigns and transferees. Notwithstanding the foregoing, Borrower may not assign or transfer its rights or obligations hereunder.

IN WITNESS WHEREOF, Borrower has caused this Note to be executed by its duly authorized officer as of the date and year set forth above.

The New York Racing Association, Inc.

By:
Name: Ellen McClain
Title: SVP, Chief Financial Officer

STATE OF NEW YORK)
) SS:
COUNTY OF Queens)

On the 9th day of June in the year 2019, before me, the undersigned, personally appeared Ellen McClain, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to within the instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

Pasquale Viscusi
Notary Public, State of New York
No. 02VI6068172
Qualified in Queens County
Commission Expires Dec. 24, 2023

ASSIGNMENT

The undersigned, New York State Urban Development Corporation d/b/a Empire State Development Corporation, hereby assigns to _____this Note, the Loan Agreement, as defined in the Note, and all of the undersigned's rights, interests, and obligations pursuant to this Note and the Loan Agreement.

Dated as of this _____
Day of _____,
201__.

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT CORPORATION

By:
Name:
Title:

EXHIBIT B:

NON-DISCRIMINATION AND AFFIRMATIVE ACTION POLICY FOR THE PROJECT

It is the policy of the State of New York and ESDC, to comply with all federal, State and local law, policy, orders, rules and regulations which prohibit unlawful discrimination because of race, creed, color, national origin, sex, sexual orientation, age, disability or marital status, and to take affirmative action to ensure that Minority and Women-owned Business Enterprises (M/WBEs), Minority Group Members and women share in the economic opportunities generated by ESDC's participation in projects or initiatives, and/or the use of ESDC funds. The recipient of State funds represents that its equal employment opportunity policy statement incorporates, at a minimum, the policies and practices set forth below:

1) Borrower shall (i) not unlawfully discriminate against employees or applicants for employment because of race, creed, color, national origin, sex, sexual orientation, age, disability or marital status, (ii) undertake or continue existing programs of affirmative action to ensure that Minority Group Members and women are afforded equal employment opportunities, and (iii) make and document its conscientious and active efforts to employ and utilize M/WBEs, Minority Group Members and women in its workforce on contracts. Such action shall be taken with reference to, but not limited to, solicitations or advertisements for employment, recruitment, job assignment, promotion, upgrading, demotion, transfer, layoff or termination, rates of pay or other forms of compensation, and selection for training or retraining, including apprenticeship and on-the-job training.

2) Borrower represents and warrants that, for the duration of the Agreement, it shall furnish all information and reports required by the ESDC Affirmative Action Unit and shall permit access to its books and records by ESDC, or its designee, for the purpose of ascertaining compliance with provisions hereof.

ESDC NON-DISCRIMINATION AND AFFIRMATIVE ACTION DEFINITIONS

Affirmative Action

Shall mean the actions to be undertaken by the Borrower, Grantee and any Contracting Party in connection with any project or initiative to ensure non-discrimination and Minority/Women-owned Business Enterprise and minority/female workforce participation.

Minority Business Enterprise (MBE)

Shall mean a business enterprise, including a sole proprietorship, partnership or corporation that is: (i) at least fifty-one percent (51%) owned by one or more Minority Group Members; (ii) an enterprise in which such minority ownership is real, substantial and continuing; (iii) an enterprise in which such minority ownership has and exercises the authority to control and operate, independently, the day-to-day business decisions of the enterprise; (iv) an enterprise authorized to do business in the

State of New York and is independently owned and operated; and (v) an enterprise certified by New York State as a minority business.

Minority Group Member

Shall mean a United States citizen or permanent resident alien who is and can demonstrate membership in one of the following groups: (i) Black persons having origins in any of the Black African racial groups; (ii) Hispanic persons of Mexican, Puerto Rican, Dominican, Cuban, Central or South American descent of either Indian or Hispanic origin, regardless of race; (iii) Asian and Pacific Islander persons having origins in any of the Far East countries, South East Asia, the Indian subcontinent or the Pacific Islands; and (iv) Native American or Alaskan native persons having origins in any of the original peoples of North America.

Women-owned Business Enterprise (MWBE)

Shall mean a business enterprise, including a sole proprietorship, partnership or corporation that is: (i) at least fifty-one percent (51%) owned by one or more citizens or permanent resident aliens who are women; (ii) an enterprise in which the ownership interest of such women is real, substantial and continuing; (iii) an enterprise in which such women ownership has and exercises the authority to control and operate, independently, the day-to-day business decisions of the enterprise; (iv) an enterprise authorized to do business in the State of New York and is independently owned and operated; and (v) an enterprise certified by New York State as woman-owned.

Appendix 9

Bidder/Offeror Disclosure/Certification Form

Appendix B

BIDDER/OFFERER DISCLOSURE/CERTIFICATION FORM

CONTRACT/PROJECT DESCRIPTION:
CONTRACT/PROJECT NUMBER:
RESTRICTED PERIOND FOR THIS PROCUREMENT: From date: To Date:
PERMISSABLE CONTACTS:

1. CONTACTS - Contractor affirms that it understands and agrees to comply with the procedures on procurement lobbying restrictions regarding permissible contacts in the restricted period for a procurement contract in accordance with State Finance Law §§ 139-j and 139-k. ☑ I agree

2. BIDDER/OFFERER DISCLOSURE OF PRIOR NON-RESPONSIBILITY DETERMINATIONS Pursuant to Procurement Lobbying Law (SFL §139-j)

(a) Has any Governmental Entity made a finding of non-responsibility regarding the individual or entity seeking to enter into the Procurement Contract in the previous four years?

☐ Yes ☑ No

If yes, please answer the following question:

(b) Was the basis for the finding of non-responsibility due to a violation of State Finance Law §139-j?

☐ Yes ☐ No

(c) If "Yes" was the basis for the finding of non-responsibility due to the intentional provision of false or incomplete information to a governmental entity?

☐ Yes ☐ No

If "Yes", please provide details regarding the finding of non-responsibility:
Governmental Entity:_____
Date of Finding of Non-Responsibility:_____
Basis of Finding of Non-Responsibility (attach additional sheets if necessary):

(d) Has any governmental agency terminated or withheld a procurement contract with the above-named individual or entity due to the intentional provision of false or incomplete information?

☐ Yes ☑ No

If yes, provide details:
Governmental Entity:_____
Date of Termination or Withholding of Contract:_____
Basis of Termination or Withholding: (add additional pages if necessary)

_____
_____

3. TERMINATION CLAUSE:
Contractor certifies that all information provided to the Agency with respect to State Finance Law §§139 (j) and 139 (k) is complete true and accurate. If found to be in violation of State Finance Law §§139 (j) and 139 (k), the contract will result in termination.

☑ I agree

Name of Contractor's Firm/Company: NEW YORK GAMING VENTURES, LLC

Contractor Address: 825 BERKSHIRE BOULEVARD
WYOMISSING, PA 19610

Contractor's signature: _____

I understand that my signature represents that I am signing and responding to both certifications listed above

Print Name: JOHN V. FINAMORE

Occupation of Person signing this form: PRESIDENT

Email Address: JOHN.FINAMORE@PNGAMING.COM

Appendix 10

Non-Collusive Bidding Certificate

Non-Collusive Bidding Certification
Required By Section 139-D of the State Finance Law

By submission of this bid, bidder and each person signing on behalf of bidder certifies, under penalty of perjury, that to the best of his/her knowledge and belief:

[1] The prices of this bid have been arrived at independently, without collusion, consultation, communication, or agreement, for the purposes of restricting competition, as to any matter relating to such prices with any other Bidder or with any competitor;

[2] Unless otherwise required by law, the prices which have been quoted in this bid have not been knowingly disclosed by the Bidder and will not knowingly be disclosed by the Bidder prior to opening, directly or indirectly, to any other Bidder or to any competitor; and

[3] No attempt has been made or will be made by the Bidder to induce any other person, partnership or corporation to submit or not to submit a bid for the purpose of restricting competition.

A BID SHALL NOT BE CONSIDERED FOR AWARD NOR SHALL ANY AWARD BE MADE WHERE [1], [2], [3] ABOVE HAVE NOT BEEN COMPLIED WITH; PROVIDED HOWEVER, THAT IF IN ANY CASE THE BIDDER(S) CANNOT MAKE THE FORGOING CERTIFICATION, THE BIDDER SHALL SO STATE AND SHALL FURNISH BELOW A SIGNED STATEMENT WHICH SETS FORTH IN DETAIL THE REASONS THEREFORE:

[AFFIX ADDEDUM TO THIS PAGE IF SPACE IS REQUIRED FOR STATEMENT.]

Subscribed to under penalty of perjury under the laws of the State of New York, this 28th **day** June, ~~2009~~ 2010 **as the act and deed of said corporation.**

JOHN V. FINAMORE, PRESIDENT

Title

JVF

Signature

Appendix 11

New York State Vendor Responsibility Questionnaire

NEW YORK STATE
VENDOR RESPONSIBILITY QUESTIONNAIRE
FOR-PROFIT BUSINESS ENTITY

BUSINESS ENTITY INFORMATION		
Legal Business Name: New York Gaming Ventures, LLC	EIN: [redacted] Redacted	
Address of the Principal Place of Business/Executive Office: 825 Berkshire Boulevard, Wyomissing, PA 19610	Phone Number: 610-373-2400	Fax Number: 610-373-2804
E-mail	Website: pngaming.com	
Authorized Contact for this Questionnaire		
Name: Thomas N. Auriemma	Phone Number: 610-401-2932	Fax Number: 610-373-2804
Title: Vice President/Chief Compliance Officer	Email: Thomas.Auriemma@pngaming.com	

List any other DBA, Trade Name, Other Identity, or EIN used in the last five (5) years, the state or county where filed, and the status (active or inactive): (if applicable)

Type	Name	EIN	State or County where filed	Status
N/A				

I. BUSINESS CHARACTERISTICS

1.0 Business Entity Type – Please check appropriate box and provide additional information:

a) ☐ Corporation (including PC)	Date of Incorporation
b) ☑ Limited Liability Co. (LLC or PLLC)	Date Organized: 5/26/2010
c) ☐ Limited Liability Partnership	Date of Registration
d) ☐ Limited Partnership	Date Established
e) ☐ General Partnership	Date Established — County (if formed in NYS)
f) ☐ Sole Proprietor	How many years in business?
g) ☐ Other	Date Established
If Other, explain:	

1.1 Was the Business Entity formed in New York State? ☐ Yes ☑ No

If 'No' indicate jurisdiction where Business Entity was formed:
☑ United States State: DE
☐ Other Country: ____

1.2 Is the Business Entity currently registered to do business in New York State with the Department of State? Note: *Select 'Not Required' if the Business Entity is a Sole Proprietor or General Partnership* ☑ Yes ☐ No ☐ Not required

If 'No' explain why the Business Entity is not required to be registered in New York State.

1.3 Is the Business Entity registered as a Sales Tax Vendor with the New York State Department of Taxation and Finance? ☑ Yes ☐ No

If 'No', explain and provide detail, such as "not required", "application in process", or other reason for not being registered.

1.4 Is the Business Entity publicly traded? ☐ Yes ☑ No

NEW YORK STATE
VENDOR RESPONSIBILITY QUESTIONNAIRE
FOR-PROFIT BUSINESS ENTITY

I. BUSINESS CHARACTERISTICS

CIK Code or Ticker Symbol

1.5 Is the responding Business Entity a Joint Venture? *Note: If the Submitting Business Entity is a Joint Venture, also submit a questionnaire for each Business Entity comprising the Joint Venture*	☐ Yes ☑ No
1.6 Does the Business Entity have a DUNS Number?	☐ Yes ☑ No
Enter DUNS Number	
1.7 Is the Business Entity's Principal Place of Business/Executive Office in New York State? If 'No', does the Business Entity maintain an office in New York State?	☐ Yes ☑ No ☐ Yes ☑ No
Provide the address and telephone number for one New York office.	
1.8 Is the Business Entity a New York State Certified Minority Owned Business Enterprise (MBE), Women Owned Business Enterprise (WBE), New York State Small Business or a Federally Certified Disadvantaged Business Enterprise (DBE)?	☐ Yes ☑ No

If 'Yes', check all that apply:
- ☐ New York State Certified Minority Owned Business Enterprise (MBE)
- ☐ New York State Certified Women Owned Business Enterprise (WBE)
- ☐ New York State Small Business
- ☐ Federally Certified Disadvantaged Business Enterprise (DBE)

1.9 Identify Business Entity Officials and Principal Owners. For each person, include name, title and percentage of ownership, if applicable. *Attach additional pages if necessary.*

Name	Title	Percentage Ownership *(Enter 0% if not applicable)*
DELVEST CORP.		100%

II. AFFILIATES AND JOINT VENTURE RELATIONSHIPS

2.0 Does the Business Entity have any Affiliates? *Attach additional pages if necessary.* ☑ Yes ☐ No

Affiliate Name	Affiliate EIN *(If available)*	Affiliate's Primary Business Activity
Please see attached.		

Explain relationship with the Affiliate and indicate percent ownership, if applicable (enter N/A, if not applicable):

Are there any Business Entity Officials or Principal Owners that the Business Entity has in common with this Affiliate? Please see attached. ☑ Yes ☐ No

Individual's Name	Position/Title with Affiliate

2.1 Has the Business Entity participated in any Joint Ventures within the past three (3) years? *Attach additional pages if necessary* ☐ Yes ☑ No

Joint Venture Name:	Joint Venture EIN *(If available)*:	Identify parties to the Joint Venture:

NEW YORK STATE
VENDOR RESPONSIBILITY QUESTIONNAIRE
FOR-PROFIT BUSINESS ENTITY

III. CONTRACT HISTORY	
3.0 Has the Business Entity held any contracts with New York State government entities in the last three (3) years? If "Yes" attach a list including the Contract Number, Agency Name, Contract Amount, Contract Start Date, Contract End Date, and the Contract Description.	☐ Yes ☑ No

IV. INTEGRITY – CONTRACT BIDDING Within the past five (5) years, has the Business Entity or any Affiliate	
4.0 been suspended or debarred from any government contracting process or been disqualified on any government procurement?	☐ Yes ☑ No
4.1 been subject to a denial or revocation of a government prequalification?	☐ Yes ☑ No
4.2 been denied a contract award or had a bid rejected based upon a finding of non-responsibility by a government entity?	☐ Yes ☑ No
4.3 had a low bid rejected on a government contract for failure to make good faith efforts on any Minority Owned Business Enterprise, Women Owned Business Enterprise or Disadvantaged Business Enterprise goal or statutory affirmative action requirements on a previously held contract?	☐ Yes ☑ No
4.4 agreed to a voluntary exclusion from bidding/contracting with a government entity?	☐ Yes ☑ No
4.5 initiated a request to withdraw a bid submitted to a government entity or made any claim of an error on a bid submitted to a government entity? Please see attached.	☑ Yes ☐ No
For each "Yes" answer above provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, relevant dates, the government entity involved, and any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	

V. INTEGRITY – CONTRACT AWARD Within the past five (5) years, has the Business Entity or any Affiliate	
5.0 been suspended, cancelled or terminated for cause on any government contract?	☐ Yes ☑ No
5.1 been subject to an administrative proceeding or civil action seeking specific performance or restitution in connection with any government contract? Please see attached.	☑ Yes ☐ No
5.2 entered into a formal monitoring agreement as a condition of a contract award from a government entity?	☐ Yes ☑ No
For each "Yes" answer provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, relevant dates, the government entity involved, and any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	

VI. CERTIFICATIONS/LICENSES Within the past five (5) years, has the Business Entity or any Affiliate	
6.0 had a revocation, suspension or disbarment of any business or professional permit and/or license?	☐ Yes ☑ No
6.1 had a denial, decertification, revocation or forfeiture of New York State certification of Minority Owned Business Enterprise, Women Owned Business Enterprise or federal certification of Disadvantaged Business Enterprise status, for other than a change of ownership?	☐ Yes ☑ No
For each "Yes" answer provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, relevant dates, the government entity involved, and any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	

NEW YORK STATE
VENDOR RESPONSIBILITY QUESTIONNAIRE
FOR-PROFIT BUSINESS ENTITY

VII. LEGAL PROCEEDINGS Within the past five (5) years, has the Business Entity or any Affiliate	
7.0 been the subject of an investigation, whether open or closed, by any government entity for a civil or criminal violation?	☐ Yes ☑ No
7.1 been the subject of an indictment, grant of immunity, judgment or conviction (including entering into a plea bargain) for conduct constituting a crime?	☐ Yes ☑ No
7.2 received any OSHA citation and Notification of Penalty containing a violation classified as serious or willful?	☐ Yes ☑ No
7.3 had a government entity find a willful prevailing wage or supplemental payment violation?	☐ Yes ☑ No
7.4 had any New York State Labor Law violation deemed willful?	☐ Yes ☑ No
7.5 entered into a consent order with the New York State Department of Environmental Conservation, or a Federal, State or local government enforcement determination involving a violation of federal, state or local environmental laws?	☐ Yes ☑ No
7.6 other than the previously disclosed: (i) Been subject to the imposition of a fine or penalty in excess of $1,000 imposed by any government entity as a result of the issuance of citation, summons or notice of violation, or pursuant to any administrative, regulatory, or judicial determination; or (ii) Been charged or convicted of a criminal offense pursuant to any administrative and/or regulatory action taken by any government entity?	☑ Yes ☐ No
For each "Yes" answer provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, relevant dates, the government entity involved, and any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	

VIII. LEADERSHIP INTEGRITY NOTE: If the Business Entity is a Joint Venture Entity, answer 'N/A – Not Applicable' to questions 8.0 through 8.4.) Within the past five (5) years has any individual previously identified , any other Business Entity Leader not previously identified, or any individual having the authority to sign, execute or approve bids, proposals, contracts or supporting documentation with New York State been subject to	
8.0 a sanction imposed relative to any business or professional permit and/or license?	☐ Yes ☑ No ☐ N/A
8.1 an investigation, whether open or closed, by any government entity for a civil or criminal violation for any business related conduct?	☐ Yes ☑ No ☐ N/A
8.2 an indictment, grant of immunity, judgment, or conviction of any business related conduct constituting a crime including, but not limited to, fraud, extortion, bribery, racketeering, price fixing, bid collusion or any crime related to truthfulness?	☐ Yes ☑ No ☐ N/A
8.3 a misdemeanor or felony charge, indictment or conviction for: (i) any business-related activity including but not limited to fraud, coercion, extortion, bribe or bribe-receiving, giving or accepting unlawful gratuities, immigration or tax fraud, racketeering, mail fraud, wire fraud, price fixing or collusive bidding; or (ii) any crime, whether or not business related, the underlying conduct of which related to truthfulness, including but not limited to the filing of false documents or false sworn statements, perjury or larceny?	☐ Yes ☑ No ☐ N/A
8.4 a debarment from any government contracting process?	☐ Yes ☑ No ☐ N/A
For each "Yes" answer provide an explanation of the issue(s), the individual involved, the government entity involved, the relationship to the submitting Business Entity, relevant dates, any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	

NEW YORK STATE
VENDOR RESPONSIBILITY QUESTIONNAIRE
FOR-PROFIT BUSINESS ENTITY

IX. FINANCIAL AND ORGANIZATIONAL CAPACITY	
9.0 Within the past five (5) years, has the Business Entity or any Affiliates received a formal unsatisfactory performance assessment(s) from any government entity on any contract?	☐ Yes ☑ No
If "Yes" provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, relevant dates, the government entity involved, and any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	
9.1 Within the past five (5) years, has the Business Entity or any Affiliates had any liquidated damages assessed over $25,000?	☐ Yes ☑ No
If "Yes" provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, relevant dates, contracting party involved, the amount assessed and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	
9.2 Within the past five (5) years, has the Business Entity or any Affiliates had any liens, claims or judgments (not including UCC filings) over $25,000 filed against the Business Entity which remain undischarged or were unsatisfied for more than 90 days?	☐ Yes ☑ No
If "Yes" provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, the lien holder or claimant's name, the amount of the lien(s) and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	
9.3 In the last seven (7) years, has the Business Entity or any Affiliates initiated or been the subject of any bankruptcy proceedings, whether or not closed, regardless of the date of filing, or is any bankruptcy proceeding pending?	☑ Yes ☐ No
If "Yes" provide the Business Entity involved, the relationship to the submitting Business Entity, the Bankruptcy chapter number, the Court name, and the docket number. Indicate the current status of the proceedings as "Initiated," "Pending" or "Closed." Provide answer below or attach additional sheets with numbered responses.	
9.4 During the past three (3) years, has the Business Entity and any Affiliates failed to file or pay any tax returns required by federal, state or local tax laws?	☐ Yes ☑ No
If "Yes" provide the Business Entity involved, the relationship to the submitting Business Entity, the taxing jurisdiction (federal, state or other), the type of tax, the liability years, the tax liability amount the Business Entity failed to file/pay and the current status of the tax liability. Provide answer below or attach additional sheets with numbered responses.	
9.5 During the past three (3) years, has the Business Entity and any Affiliates failed to file or pay any New York State unemployment insurance returns?	☐ Yes ☑ No
If "Yes" provide the Business Entity involved, the relationship to the submitting Business Entity, the years the Business Entity failed to file/pay the insurance, explain the situation and any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	
9.6 During the past three (3) years, has the Business Entity or any Affiliates had any government audits? If "yes" did any audit reveal material weaknesses in the Business Entity's system of internal controls? If "Yes", did any audit reveal non-compliance with contractual agreements or any material disallowance (if not previously disclosed in 9.6)? Please see attached.	☑ Yes ☐ No ☐ Yes ☑ No ☐ Yes ☑ No
For each "Yes" answer provide an explanation of the issue(s), the Business Entity involved, the relationship to the submitting Business Entity, relevant dates, the government entity involved, and any remedial or corrective action(s) taken and the current status of the issue(s). Provide answer below or attach additional sheets with numbered responses.	

NEW YORK STATE
VENDOR RESPONSIBILITY QUESTIONNAIRE
FOR-PROFIT BUSINESS ENTITY

X. FREEDOM OF INFORMATION LAW (FOIL)	
10.0 Indicate whether any information supplied herein is believed to be exempt from disclosure under the Freedom of Information Law (FOIL). Note: A determination of whether such information is exempt from FOIL will be made at the time of any request for disclosure under FOIL.	☑ Yes ☐ No
Indicate the question number(s) and explain the basis for the claim. Please see attached.	

NEW YORK STATE
VENDOR RESPONSIBILITY QUESTIONNAIRE
FOR-PROFIT BUSINESS ENTITY

Certification

The undersigned: recognizes that this questionnaire is submitted for the express purpose of assisting the State of New York or its agencies or political subdivisions in making a determination regarding an award of contract or approval of a subcontract; acknowledges that the State or its agencies or political subdivisions may in its discretion, by means which it may choose, verify the truth and accuracy of all statements made herein; and acknowledges that intentional submission of false or misleading information may constitute a felony under Penal Law Section 210.40 or a misdemeanor under Penal Law Section 210.35 or Section 210.45, and may also be punishable by a fine and/or imprisonment of up to five years under 18 USC Section 1001 and may result in contract termination.

The undersigned certifies that he/she:

- is knowledgeable about the submitting Business Entity's business and operations;
- has read and understands all of the questions contained in the questionnaire;
- has not altered the content of the question set in any manner;
- has reviewed and/or supplied full and complete responses to each question;
- to the best of their knowledge, information and belief, confirms that the Business Entity's responses are true, accurate and complete, including all attachments; if applicable;
- understands that New York State will rely on information disclosed in this questionnaire when entering into a contract with the Business Entity; and
- is under obligation to update the information provided herein to include any material changes to the Business Entity's responses at the time of bid/proposal submission through the contract award notification, and may be required to update the information at the request of the state's contracting entity or the Office of the State Comptroller prior to the award and/or approval of a contract, or during the term of the contract.

Signature of Owner/Officer	JVF
Printed Name of Signatory	John V. Finamore
Title	President
Name of Business	New York Gaming Ventures, LLC
Address	825 Berkshire Boulevard
City, State, Zip	Wyomissing, PA 19610

Sworn to before me this 28th day of June, 2010;

Sherry L. Shuman Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
SHERRY L. SHUMAN, Notary Public
Wyomissing Boro., Berks County
My Commission Expires January 19, 2014

ATTACHMENT TO NYS VENDOR RESPONSIBILITY QUESTIONNAIRE

NEW YORK GAMING VENTURES LLC

II-2.0 Does Business Entity have any Affiliates?

New York Gaming Ventures LLC is 100% owned by Delvest Corp which in turn is 100% owned by Penn National Gaming, Inc. Penn National Gaming, Inc. is publically traded (Nasdaq-PENN). New York Gaming Ventures LLC does not have any subsidiaries however it does have many affiliates through its intermediate and ultimate parent companies. These subsidiaries are primarily in the casino gaming, pari-mutuel racing and food & beverage businesses. Ownership percentages are all n/a because New York Gaming Ventures LLC does not own any other entities.

REDACTED

REDACTED

REDACTED

II-2.0 Are there any Business Entity Officials or Principal Owners that the business Entity has in Common with this Affiliate

The following individuals are Officers of New York Gaming Ventures, LLC

- John V. Finamore - President
- William Clifford – Vice President
- Robert Ippolito – Secretary & Treasurer

All of these individual are also Executive Officers of Penn National Gaming, Inc. the ultimate parent of New York Gaming Ventures, LLC and all of its affiliates. These individuals may also be officers or directors of the individual affiliates listed above.

IV-4.5 Initiated a request to withdraw a bid submitted to a government entity or made any claim of an error on a bid submitted to a government entity.

In September 2008, Kansas Penn Gaming, LLC, a subsidiary of Penn National Gaming, Inc. withdrew its proposal to manage a casino for the Kansas Lottery in the State of Kansas for the southeast gaming zone (Cherokee County, Kansas).

V-5.1 Been subject to an administrative proceeding or civil action seeking specific performance or restitution in connection with any government contract

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary of Penn created to pursue a development project in Cherokee County, Kansas) and the Company in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. The defendants have filed motions to dissolve and reduce the attachment. Those motions were denied and the defendants appealed those decisions to the appellate court. The Kansas appellate court declined to hear the appeal on jurisdictional grounds and then the Kansas Supreme Court declined to hear the appeal so the parties are moving forward on the case.

VII-7.6 other than the previously disclosed:

(i) Been subject to the imposition of a fine or penalty in excess of $1,000 imposed by any government entity as a result of the issuance of citation, summons or notice of violation, or pursuant to any administrative, regulatory, or judicial determination; or

(ii) Been charged or convicted of a criminal offense pursuant to any administrative and/or regulatory action taken by any government entity?

Many of the affiliates of New York Gaming Ventures LLC are in the highly regulated casino and racing businesses and are thus the subject to investigation into any allegations of regulatory infractions by the business or its employees. Sometimes these investigations result in the imposition of fines or other sanction. See attached list of any such fines or sanctions over the last five years.

IX-9.1 Within the past five (5) years, has the Business Entity or any Affiliates had any liquidated damages assessed over $25,000?

No. However as a large gaming and racing company with operations in 15 jurisdictions, affiliates of the Business Entity have been and are the subject of various lawsuits. Information on material lawsuits can be found by reviewing the public SEC filings of Penn National Gaming, Inc which can be found at pngaming.com (Click on SEC filings)

IX-9.3 In the last seven (7) years, has the Business Entity or any Affiliates initiated or been the subject of any bankruptcy proceedings, whether or not closed, regardless of the date of filing, or is any bankruptcy proceeding pending.

Hollywood Casino Shreveport ("HCS") was an indirect subsidiary of Penn National Gaming, Inc. ("PNGI") from March, 2003 through July, 2005.

PNGI acquired HCS as part of its acquisition of Hollywood Casino Corporation ("HCC") in March, 2003. Prior to PNGI's acquisition, HCS had issued $189 million of non-recourse debt (the "HCS Notes") which meant that such debt was secured solely by the assets of the Hollywood Casino Shreveport complex. HCS's parent company never had any financial liability for the HCS Notes.

At the time of the acquisition, PNGI knew that HCS was a distressed property which did not have sufficient cash to meet its obligations under the HCS Notes. Upon PNGI's acquisition of HCC, the HCS Notes required HCS to offer to repurchase the HCS Notes at 101% of their value. However, because HCS did not have sufficient cash, HCS defaulted on its repurchase obligation. From May, 2003, through December, 2003, HCS, PNGI and certain representatives of the holders of approximately $150 million of the HCS Notes (the "Bondholders"), attempted to negotiate a workout of the debt obligation. When no agreement could be reached, the parties agreed in early 2004 to put HCS up for sale.

Between April and July of 2004, various bidders submitted offers to purchase HCS. In August of 2004, HCS accepted Eldorado Resorts, LLC's ("Eldorado's") bid to purchase HCS. The purchase involved a restructuring of the HCS Notes under Chapter 11 of the U.S. Bankruptcy Code.

In September, 2004, before the parties were able to initiate a consensual bankruptcy proceeding, a disgruntled bidder filed an involuntary bankruptcy petition against HCS. HCS and the other consenting creditors litigated with the disgruntled bidder through June of 2005, when a final settlement was reached, and a restructuring plan was approved by the Bankruptcy Court, allowing Eldorado to assume ownership of HCS.

On July 22, 2005, the restructuring of the HCS Notes was effectuated. Eldorado assumed ownership of HCS, and PNGI relinquished all ownership of HCS.

IX-9.6 During the past three (3) years, has the Business Entity or any Affiliates had any government audits?

Many of the affiliates of New York Gaming Ventures LLC are in the highly regulated casino and racing businesses and are thus the subject of routine audits by their regulatory agencies.

X-10.0 Indicate whether any information supplied herein is believed to be exempt from disclosure under the Freedom of Information Law (FOIL). Note: A determination of whether such information is exempt from FOIL will be made at the time of any request for disclosure under FOIL.
Indicate the question number(s) and explain the basis for the claim.

Business Entity believes that its response to question II-2.0 is exempt from disclosure as it describes the Business Entity's organization of its various subsidiaries. We believe this organization is a business secret and provides the Business Entity with certain marketplace advantages. Disclosure of this would allow competitors to emulate this organization to the competitive detriment of the Business Entity.

DISCIPLINARY ACTION SUMMARY

The only licensing restriction that had been placed upon the Company was the Company's agreement with the Illinois Gaming Board to sell the Empress Joliet property by mid-2008. However, at its public meeting of February 19, 2008, the Illinois Gaming Board removed the request that Penn National Gaming, Inc. divest of its interest in the property. The following is a summary of administrative actions that resulted in the imposition of fines against the Company or its subsidiaries:

Penn National Gaming, Inc.

The Company has not had a disciplinary action taken against it. However, on August 27, 2003, the Casino Gaming Division of the Louisiana State Police issued a Significant Action/Violation Report regarding the company's account wagering operations within Louisiana. The matter was concluded with the Division issuing a warning letter to the company.

Argosy Alton

In July of 2006, Argosy Alton paid a $75,000 fine for its employees' failure to change out surveillance tapes on two occasions occurring in May and June of 2006.

In April 2007, Argosy Alton paid a $50,000 fine for an incident wherein twelve bill validator boxes were taped shut rather than being locked.

In November 2008, the Coast Guard fined Argosy Alton $500 for the discharge of diesel into a navigable water way on May 14, 2008.

Argosy Empress

In July of 2006, Empress Casino Joliet paid a $150,000 fine for violation of its due diligence procedures in early 2005.

Hollywood Casino Lawrenceburg

The property entered into a Settlement Agreement with the Indiana Gaming Commission whereby it paid $65,000 for failing to properly instruct its executives regarding the disclosure of confidential information. This incident and the settlement thereof occurred prior to the Company's acquisition of Argosy.

The property entered into a Settlement Agreement in November, 2005, with the Indiana Gaming Commission regarding a self-excluded patron receiving five credit card advances during the two days preceding being identified by Cage personnel. The property paid a fine of $20,000.

The property entered into a Settlement Agreement in March, 2006, with the Indiana Gaming Commission whereby it paid $22,500 for allowing 15 employees to work at the facility with expired licenses.

The property paid $20,000 to settle two incidents that occurred in April of 2006. The first incident occurred during the IGC's slot program audit wherein 10 revoked EPROMs were found inside slot machines on the casino floor. The second incident involved a direct mail piece being sent to a self-excluded person.

In September 2007, the property entered into a settlement agreement with the Indiana Gaming Commission whereby it paid $7500 for permitting a patron to cash checks in excess of an approved check cashing limit.

In November 2007, the property entered into a Settlement Agreement with the Indiana Gaming Commission in the amount of $12,500. There were two incidents that were the subject of the settlement. The first incident occurred on June 20, 2007 when a Gaming Agent observed a Dealer on a roulette table calling "no more bets" while his back was to the table and a patron made an illegal bet. The second incident occurred when the Director of Table Games Supervisor failed to inspect all six decks of cards on June 25, 2007 when opening the game and on July 6, 2007 when a Security Supervisor informed a Gaming Agent that a box of playing cards had not been completely destroyed.

In March 2008, the property entered into a settlement agreement with the Indiana Gaming Commission in the amount of $5,000 for have a six of spades missing from a blackjack game.

In May, 2008, the Indiana Gaming Commission proposed a disciplinary complaint in the amount of $44,500 for, among other things, permitting two minors to enter the gaming facility, the untimely submission of employee termination forms to the Gaming Commission, and deficient surveillance camera coverage. This matter was settled in May, 2008.

In August, 2008, the property paid the sum of $33,500 to settle a complaint with the Indiana Gaming Commission for violating several regulatory provisions: indirectly permitting the presence of an underage person on a riverboat, only having one slot attendant present during a slot toke drop, leaving a roulette wheel cover unsecured, leaving an unsecured door on an electronic gaming device, and failing to timely notify gaming agents of a terminated employee.

In November 2008, the property paid the sum of $33,500 to settle a complaint with the Indiana Gaming Commission for violating several regulatory provisions; permitting two dealers to work with expired badges, untimely notice of employee termination to the regulators, the failure of a roulette dealer to waive off "no more bets", failure of security to seal off a drop area, failure of surveillance to observe table fill; and permitting a person under 21 to be on the riverboat.

In March 2009, the property settled a five count regulatory matter with the Indiana Gaming Commission for $27,500. Three of the counts related to "sensitive keys", one count to solicitation of tips, and the final count to an employee working with an expired license.

In May 2009, the property received a three count regulatory complaint involving a minor on the boat, faulty tip boxes, and a failure to reconcile meters. The matter was settled for $26,500 in June, 2009.

In September, 2009, the property settled a six count complaint with the Indiana Gaming Commission for $57,500. The matter involved surveillance deficiencies, a faulty deck of cards, late filing of termination paperwork, failure of a person to wear a badge, a missing die, and an underage person on the riverboat.

In November, 2009, the property settled a five count complaint with the Indiana Gaming Commission for $17,500. The matter related to an unsecured gaming table, late filing of paperwork with the regulators, a missing card, an underage person on the riverboat, and permitting a self-excluded person in the casino.

In March 2010, the Indiana Gaming Commission settled a six count regulatory complaint against the property for $36,500. The matter related to: late paperwork filing; underage person on casino floor; failure to secure sensitive keys; failure to secure non-value chips at Roulette table; slot machine door issue; and missing cards from Blackjack deck.

In May, 2010, the Indiana Gaming Commission filed a five count regulatory complaint against the property. They seek a $74,000 penalty. The alleged violations relate to filing of late paperwork, presence of underage persons on the riverboat, missing cards, an unlocked poker storage room, and deficiencies in a promotional drawing. The matter is pending.

Argosy Riverside

The property received a $5,000 fine relating to the facility's failure to replace a revoked EPROM in one of the slot machines.

In September 2007, the Missouri Gaming Commission issued a preliminary order for Disciplinary action and sought a $10,000 monetary penalty for permitting certain patrons to improperly access the casino gaming floor. This matter was settled for $5,000 in February 2008.

The property had been issued a Preliminary Order for Disciplinary Action by the Missouri Gaming Commission and was seeking a $5,000 penalty fee for not removing casino funds from eight electronic gaming devices that had been converted from coin operation to a ticket-in/ticket-out operation in March, 2007. The matter was settled for $4500 with the Missouri Gaming Commission in January, 2008.
In March 2008, the property was issued a preliminary order for disciplinary action by the Missouri Gaming Commission and was seeking a $5,000 penalty for failing to timely update its list of terminated employees. This matter was settled for the sum of $4,500 in August, 2008.

In June, 2008, the property was issued a preliminary order for disciplinary action by the Missouri Gaming Commission. The Commission originally sought a $10,000 civil penalty against the property for failing to remove revoked software from 43 electronic gaming devices. This matter was settled for the sum of $9,000 in August, 2008.

In January, 2009, the property was issued a preliminary order for disciplinary action by the Missouri Gaming Commission. The Commission originally sought a penalty of $20,000 for failing to control an intoxicated person. In June, 2009, the matter was settled for $18,000.

In October, 2009, the property settled a regulatory complaint with the Missouri Gaming Commission for $9,000 for permitting a jackpot to be paid to a self-excluded person.

In February, 2010, two regulatory complaints were settled with the Missouri Gaming Commission. One complaint related to failing to inspect poker cards. The second complaint related to two slot machines having revoked software in them. A penalty of $9,000 for each complaint was imposed.

In March, 2010, the Missouri Gaming Commission settled a regulatory complaint with the property for serving alcohol beverages to an intoxicated patron. A penalty of $18,000 was imposed.

In March, 2010, the Missouri Gaming Commission settled a regulatory complaint with the property for serving an intoxicated person. A penalty of $45,000 was imposed.

Argosy Sioux City

The property paid a $500 fine for the improper licensing of two employees. This incident and the settlement thereof occurred prior to the Company's acquisition of Argosy.

The property paid a $1,000 fine for serving alcohol prior to 8:00 a.m. on two occasions in August and September of 2005 (total fine of $2,000).

In August, 2006, the property paid a fine of $10,000 for allowing a minor to access the casino.

On November 13, 2008, the Iowa Racing and Gaming Commission imposed a $3,000 fine on the property for failing to timely update self exclusion data bases.

Boomtown Biloxi

Although the property has received Notices of Violations issued by the Mississippi Gaming Commission, it has not been the subject of a disciplinary action by the MGC.

Bullwhackers

A CoDOG audit revealed that the property had 14 games containing revoked software. The property paid a $7,000 fine to resolve the matter in 2006.

In December 2007, the property received two written warnings from the Colorado Division of Gaming. No penalties were assessed. One was for permitting an employee to work under an

expired license; the other involved one slot machine operating with revoked bill validator software.

Casino Rama

The property paid a fine of $60,000 (Canadian) in August of 2001 for permitting a person under the age of 19 to gamble.

Casino Rouge (now known as Hollywood at Baton Rouge)

The property paid a $20,000 fine in April 2002 for key control violations that occurred prior to Penn ownership of the property.

On two separate incidents in April and May of 2002, a minor gained access to the casino floor. The property paid a $10,000 fine.

In June of 2002, the property paid a $10,000 fine for permitting an employee to continue working while his license was expired.

The property paid a $5,000 fine in October of 2002 for conducting business with an entity whose license application had been denied by the Division.

The property paid a $50,000 fine for various violations relating to cage, land vault and credit procedures during the timeframe of May 2001 to December 2001.

The property was cited for paying a non-permitted vendor in excess of $100,000 during the 2003 calendar year. The property paid a $2,000 fine.

The property reached an agreement with the Louisiana Attorney General's Office and the Louisiana Division of Gaming regarding settlement of the Notice of Administrative Hearing alleging that the casino failed to properly post the gambling hotline number on its billboards. The property paid a fine of $6,000.

The property was cited for paying five jackpots to a self-excluded patron in April of 2003. The property paid a fine of $50,000 with an additional $9,000 paid to a compulsive gambling fund.

The property received a *Notice of Violation* assessing a fine of $608,500 relating to an employee slot scam that took place in 2003. This matter was settled in June 2007 for $224,500.

Charles Town Races and Slots

During 2003, Charles Town Races & Slots was fined by the liquor control agency on three occasions for serving underage patrons.

Hollywood Aurora

In September of 2002, the property paid a $25,000 fine for failing to follow established procedures in issuing chips relative to a marker.

In July of 2006, the property paid a $200,000 for violations of its self-exclusion procedures in late 2004 and early 2005.
On May 19, 2008, the Illinois Gaming Board voted to issue a disciplinary complaint against the property in the amount of $800,000 and also sought individual license suspensions against two marketing individuals and the general manager of the property. The matter was settled in June, 2008. The property paid a civil penalty in the amount of $800,000. Two marketing individuals received license suspensions of 14 days and 10 days, respectively. The general manager received a three day suspension. This matter involved mailing promotional materials to self-excluded persons.

In July, 2008, pursuant to a consent order with the Illinois Attorney General, the property paid a fine of $5,000 for permitting a sealant spill into a local river while a parking deck was being cleaned.

Hollywood Casino Bay St. Louis

In 2003, the property paid a $10,000 fine for submitting an altered junketeer contract

Hollywood Slots Hotel and Raceway (Maine)

In March 2009, the property entered into a Consent Agreement with the State of Maine, Department of Environmental Protection and agreed to pay the sum of $1500 to settle the matter. The matter arose from the fact that the property installed a diesel powered generator in May 2008 without an Air Emissions license.

Hollywood Tunica

Although the property has received Notices of Violations issued by the Mississippi Gaming Commission, it has not been the subject of a disciplinary action by the MGC.

Hollywood Casino at Penn National Race Course

The property received a *Citation and Notification of Penalty* from OSHA regarding an incident involving the death of an assistant starter. The property was cited for (1) not providing a place of employment free from recognized hazards by allowing employees to ride on the starting gate while it was moving and (2) not using safety signs where there was a need for general instructions and suggestions relating to the employees' safety. The total assessed fine was $12,600 and was paid in 2005/2006.

The property paid a fine of $50,000 for Pennsylvania political contributions made by outside directors after the July 2004 enactment of the gambling law. Outside Director, Harold Cramer, paid the sum of $2,500 while outside Director, Robert Levy, paid the sum of $3,306 to Pennsylvania. In May 2009, the Pennsylvania Supreme Court found the political contribution prohibition in Pennsylvania to be unconstitutional.

The Johnstown OTW received a Warning from the Pennsylvania Bureau of Liquor Control regarding noise emanating from the facility.

The Johnstown OTW received a Warning from the Pennsylvania Bureau of Liquor Control indicating that the facility violated regulations by hosting a Super Bowl event that was co-sponsored by a local radio station.

In September, 2008, the property entered into a Consent Agreement with the Pennsylvania Gaming Control Board and paid the sum of $5,000 for permitting a person under the age of 21 to gamble at a slot machine.

In October, 2009, the property entered into a Consent Agreement with the Pennsylvania Gaming Control Board for permitting persons under the age of 21 to gamble at a slot machine. The Consent Agreement contemplates the payment of $24,000. The Board approved the settlement in November, 2009.

In December, 2009, the Pennsylvania Liquor Control Board issued a citation against the licensee for permitting a 20 year old female to be served alcohol in October, 2009. This matter is pending.

Sanford Orlando Kennel Club

In December, 2008, two consent orders were entered by the State of Florida, Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering against the property for failing to timely file a Uniform Annual Report. Each order imposed a fine of $100.

In March, 2010, three consent orders were entered into between the racetrack and the Florida Division of Pari-Mutuel Wagering for certain late paperwork filings and failing to timely distribute charity proceeds. The aggregate amount of the fines was $500.

Zia Park – New Mexico

In October, 2009, the New Mexico Gaming Control Board filed a regulatory complaint against the property for failing to secure sensitive keys. This matter is pending. The licensee has requested a hearing with respect to the complaint.

In December, 2009, the New Mexico Gaming Control Board filed a two count regulatory complaint against the property because a slot supervisor was not wearing her work permit and the property failed to advise the Board of the violation. This matter is pending.

In April, 2010, the New Mexico Gaming Control Board filed a complaint against the property alleging that a slot technician disconnected four slot machines from the central monitoring system but leaving the machines in a playable mode. This matter is pending.

Appendix 12

Northern Ireland Stipulation

NORTHERN IRELAND STIPULATION

In compliance with section 165.5 of the State Finance Law, every bidder or proposer is required to stipulate regarding activities in Northern Ireland by responding to the following questions with regard to the bidder or proposer or any legal entity in which the bidder or proposer holds a 10% or greater ownership interest or any individual or legal entity that holds a 10 % interest in the bidder or proposer.

1. Does such person have business operations in Northern Ireland?

YES ☐ NO ☑

2. If the answer to question 1 is YES, will the person take lawful steps in good faith to conduct any business operations in Northern Ireland in accordance with the MacBride Fair Employment Principals relating to nondiscrimination in employment and freedom of workplace opportunity regarding such operations in Northern Ireland and permit independent monitoring of compliance with such principals?

YES ☐ NO ☑

Appendix 13

Sales & Use Tax – Contractor Certification To Tax Department (ST-220-TD)

The ST-220-TD has been sent to the New York State Tax Department. A copy of the completed form is attached for your reference.

New York State Department of Taxation and Finance

Contractor Certification

(Pursuant to Section 5-a of the Tax Law, as amended, effective April 26, 2006)

ST-220-TD
(5/07)

For information, consult Publication 223, *Questions and Answers Concerning Tax Law Section 5-a (see Need help? below).*

Contractor name New York Gaming Ventures, LLC			
Contractor's principal place of business The Corporation Trust Center 1209 Orange St	City Wilmington	State DE	ZIP code 19801
Contractor's mailing address *(if different than above)* 825 Berkshire Blvd. Wyomissing, PA 19610			
Contractor's federal employer identification number (EIN) Redacted	Contractor's sales tax ID number (if different from contractor's EIN) n/a	Contractor's telephone number (610) 373-2400	
Covered agency or state agency New York Lottery	Contract number or description Operation of VLT facility at Aqueduct Racetrack	Estimated contract value over the full term of contract (but not including renewals) $300,000,000	
Covered agency address One Broadway Center Schenectady, NY 12305		Covered agency telephone number 518 388-3329	

General information

Section 5-a of the Tax Law, as amended, effective April 26, 2006, requires certain contractors awarded certain state contracts valued at more than $100,000 to certify to the Tax Department that they are registered to collect New York State and local sales and compensating use taxes, if they made sales delivered by any means to locations within New York State of tangible personal property or taxable services having a cumulative value in excess of $300,000, measured over a specified period. In addition, contractors must certify to the Tax Department that each affiliate and subcontractor exceeding such sales threshold during a specified period is registered to collect New York State and local sales and compensating use taxes. Contractors must also file a Form ST-220-CA, certifying to the procuring state entity that they filed Form ST-220-TD with the Tax Department and that the information contained on Form ST-220-TD is correct and complete as of the date they file Form ST-220-CA.

All sections must be completed including all fields on the top of this page, all sections on page 2, Schedule A on page 3, if applicable, and Individual, Corporation, Partnership, or LLC Acknowledgement on page 4. If you do not complete these areas, the form will be returned to you for completion.

For more detailed information regarding this form and section 5-a of the Tax Law, see Publication 223, *Questions and Answers Concerning Tax Law Section 5-a, (as amended, effective April 26, 2006),* available at *www.nystax.gov.* Information is also available by calling the Tax Department's Contractor Information Center at 1 800 698-2931.

Note: Form ST-220-TD must be signed by a person authorized to make the certification on behalf of the contractor, and the acknowledgement on page 4 of this form must be completed before a notary public.

Mail completed form to:

NYS TAX DEPARTMENT
DATA ENTRY SECTION
W A HARRIMAN CAMPUS
ALBANY NY 12227

Privacy notification

The Commissioner of Taxation and Finance may collect and maintain personal information pursuant to the New York State Tax Law, including but not limited to, sections 5-a, 171, 171-a, 287, 308, 429, 475, 505, 697, 1096, 1142, and 1415 of that Law; and may require disclosure of social security numbers pursuant to 42 USC 405(c)(2)(C)(i).

This information will be used to determine and administer tax liabilities and, when authorized by law, for certain tax offset and exchange of tax information programs as well as for any other lawful purpose.

Information concerning quarterly wages paid to employees is provided to certain state agencies for purposes of fraud prevention, support enforcement, evaluation of the effectiveness of certain employment and training programs and other purposes authorized by law.

Failure to provide the required information may subject you to civil or criminal penalties, or both, under the Tax Law.

This information is maintained by the Director of Records Management and Data Entry, NYS Tax Department, W A Harriman Campus, Albany NY 12227.

Need help?

Internet access: *www.nystax.gov*
(for information, forms, and publications)

Fax-on-demand forms: 1 800 748-3676

Telephone assistance is available from 8:00 A.M. to 5:00 P.M. (eastern time), Monday through Friday.

To order forms and publications:	1 800 462-8100
Sales Tax Information Center:	1 800 698-2909
From areas outside the U.S. and outside Canada:	(518) 485-6800
Hearing and speech impaired (telecommunications device for the deaf (TDD) callers only):	1 800 634-2110

Persons with disabilities: In compliance with the Americans with Disabilities Act, we will ensure that our lobbies, offices, meeting rooms, and other facilities are accessible to persons with disabilities. If you have questions about special accommodations for persons with disabilities, please call 1 800 972-1233.

I, William J. Clifford (name), hereby affirm, under penalty of perjury, that I am VP (title) of the above-named contractor, and that I am authorized to make this certification on behalf of such contractor.

Complete Sections 1, 2, and 3 below. Make **only one** entry in each section.

Section 1 — Contractor registration status

☐ The contractor has made sales delivered by any means to locations within New York State of tangible personal property or taxable services having a cumulative value in excess of $300,000 during the four sales tax quarters which immediately precede the sales tax quarter in which this certification is made. The contractor is registered to collect New York State and local sales and compensating use taxes with the Commissioner of Taxation and Finance pursuant to sections 1134 and 1253 of the Tax Law, and is listed on Schedule A of this certification.

☒ The contractor has not made sales delivered by any means to locations within New York State of tangible personal property or taxable services having a cumulative value in excess of $300,000 during the four sales tax quarters which immediately precede the sales tax quarter in which this certification is made.

Section 2 — Affiliate registration status

☐ The contractor does not have any affiliates.

☐ To the best of the contractor's knowledge, the contractor has one or more affiliates having made sales delivered by any means to locations within New York State of tangible personal property or taxable services having a cumulative value in excess of $300,000 during the four sales tax quarters which immediately precede the sales tax quarter in which this certification is made, and each affiliate exceeding the $300,000 cumulative sales threshold during such quarters is registered to collect New York State and local sales and compensating use taxes with the Commissioner of Taxation and Finance pursuant to sections 1134 and 1253 of the Tax Law. The contractor has listed each affiliate exceeding the $300,000 cumulative sales threshold during such quarters on Schedule A of this certification.

☒ To the best of the contractor's knowledge, the contractor has one or more affiliates, and each affiliate has not made sales delivered by any means to locations within New York State of tangible personal property or taxable services having a cumulative value in excess of $300,000 during the four sales tax quarters which immediately precede the sales tax quarter in which this certification is made.

Section 3 — Subcontractor registration status

☒ The contractor does not have any subcontractors.

☐ To the best of the contractor's knowledge, the contractor has one or more subcontractors having made sales delivered by any means to locations within New York State of tangible personal property or taxable services having a cumulative value in excess of $300,000 during the four sales tax quarters which immediately precede the sales tax quarter in which this certification is made, and each subcontractor exceeding the $300,000 cumulative sales threshold during such quarters is registered to collect New York State and local sales and compensating use taxes with the Commissioner of Taxation and Finance pursuant to sections 1134 and 1253 of the Tax Law. The contractor has listed each subcontractor exceeding the $300,000 cumulative sales threshold during such quarters on Schedule A of this certification.

☐ To the best of the contractor's knowledge, the contractor has one or more subcontractors, and each subcontractor has not made sales delivered by any means to locations within New York State of tangible personal property or taxable services having a cumulative value in excess of $300,000 during the four sales tax quarters which immediately precede the sales tax quarter in which this certification is made.

Sworn to this 25 day of June, 20 10

William J. Clifford (sign before a notary public)

Vice-President (title)

Schedule A — Listing of each entity (contractor, affiliate, or subcontractor) exceeding $300,000 cumulative sales threshold

List the contractor, or affiliate, or subcontractor in Schedule A only if such entity exceeded the $300,000 cumulative sales threshold during the specified sales tax quarters. See directions below. For more information, see Publication 223.

A Relationship to Contractor	B Name	C Address	D Federal ID Number	E Sales Tax ID Number	F Registration in progress

Column A – Enter ***C*** in column A if the contractor; ***A*** if an affiliate of the contractor; or ***S*** if a subcontractor.

Column B – Name - If the entity is a corporation or limited liability company, enter the exact legal name as registered with the NY Department of State, if applicable. If the entity is a partnership or sole proprietor, enter the name of the partnership and each partner's given name, or the given name(s) of the owner(s), as applicable. If the entity has a different DBA (doing business as) name, enter that name as well.

Column C – Address - Enter the street address of the entity's principal place of business. Do not enter a PO box.

Column D – ID number - Enter the federal employer identification number (EIN) assigned to the entity. If the entity is an individual, enter the social security number of that person.

Column E – Sales tax ID number - Enter only if different from federal EIN in column D.

Column F – If applicable, enter an X if the entity has submitted Form DTF-17 to the Tax Department but has not received its certificate of authority as of the date of this certification.

Individual, Corporation, Partnership, or LLC Acknowledgment

STATE OF }
: SS.:
COUNTY OF }

On the 25 day of June in the year 2010, before me personally appeared William J. Clifford,
known to me to be the person who executed the foregoing instrument, who, being duly sworn by me did depose and say that
_he resides at Redacted,
Town of Redacted,
County of Redacted,
State of Redacted; and further that:

[Mark an *X* in the appropriate box and complete the accompanying statement.]

☐ (If an individual): _he executed the foregoing instrument in his/her name and on his/her own behalf.

☐ (If a corporation): _he is the _____
of _____, the corporation described in said instrument; that, by authority of the Board of Directors of said corporation, _he is authorized to execute the foregoing instrument on behalf of the corporation for purposes set forth therein; and that, pursuant to that authority, _he executed the foregoing instrument in the name of and on behalf of said corporation as the act and deed of said corporation.

☐ (If a partnership): _he is a _____
of _____, the partnership described in said instrument; that, by the terms of said partnership, _he is authorized to execute the foregoing instrument on behalf of the partnership for purposes set forth therein; and that, pursuant to that authority, _he executed the foregoing instrument in the name of and on behalf of said partnership as the act and deed of said partnership.

☒ (If a limited liability company): _he is a duly authorized member of New York Gaming Ventures, LLC LLC, the limited liability company described in said instrument; that _he is authorized to execute the foregoing instrument on behalf of the limited liability company for purposes set forth therein; and that, pursuant to that authority, _he executed the foregoing instrument in the name of and on behalf of said limited liability company as the act and deed of said limited liability company.

Sherry L. Shuman
Notary Public

Registration No. _____

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
SHERRY L. SHUMAN, Notary Public
Wyomissing Boro., Berks County
My Commission Expires January 19, 2014

Appendix 14

Sales & Use Tax – Contractor Certification To Covered Agency (ST-220-CA)

See attached.

New York State Department of Taxation and Finance

Contractor Certification to Covered Agency

(Pursuant to Section 5-a of the Tax Law, as amended, effective April 26, 2006)

ST-220-CA (6/06)

For information, consult Publication 223, *Questions and Answers Concerning Tax Law Section 5-a* (see *Need Help? on back).*

Contractor name New York Gaming Ventures LLC				*For covered agency use only* *Contract number or description*
Contractor's principal place of business 1209 Orange St.	City Wilmington	State DE	ZIP code 19801	
Contractor's mailing address *(if different than above)* 825 Berkshire Blvd. Wyomissing, PA 19610				*Estimated contract value over the full term of contract (but not including renewals)* $
Contractor's federal employer identification number (EIN) Redacted	Contractor's sales tax ID number (if different from contractor's EIN) n/a			
Contractor's telephone number 610 373-2400	Covered agency name New York Lottery			
Covered agency address One Broadway Center Schenectady, NY 12305				*Covered agency telephone number* 518 388-3329

I, William J. Clifford *(name)*, hereby affirm, under penalty of perjury, that I am VP *(title)* of the above-named contractor, that I am authorized to make this certification on behalf of such contractor, and I further certify that:

*(Mark an **X** in only one box)*

☒ The contractor has filed Form ST-220-TD with the Department of Taxation and Finance in connection with this contract and, to the best of contractor's knowledge, the information provided on the Form ST-220-TD, is correct and complete.

☐ The contractor has previously filed Form ST-220-TD with the Tax Department in connection with _____ *(insert contract number or description)*

and, to the best of the contractor's knowledge, the information provided on that previously filed Form ST-220-TD, is correct and complete as of the current date, and thus the contractor is not required to file a new Form ST-220-TD at this time.

Sworn to this 25 day of June, 20 10

William J. Clifford *(sign before a notary public)*

Vice President *(title)*

Instructions

General information

Tax Law section 5-a was amended, effective April 26, 2006. On or after that date, in all cases where a contract is subject to Tax Law section 5-a, a contractor must file (1) Form ST-220-CA, *Contractor Certification to Covered Agency*, with a covered agency, and (2) Form ST-220-TD with the Tax Department before a contract may take effect. The circumstances when a contract is subject to section 5-a are listed in Publication 223, Q&A 3. This publication is available on our Web site, by fax, or by mail. (See *Need help?* for more information on how to obtain this publication.) In addition, a contractor must file a new Form ST-220-CA with a covered agency before an existing contract with such agency may be renewed.

If you have questions, please call our information center at 1 800 698-2931.

Note: Form ST-220-CA must be signed by a person authorized to make the certification on behalf of the contractor, and the acknowledgement on page 2 of this form must be completed before a notary public.

When to complete this form

As set forth in Publication 223, a contract is subject to section 5-a, and you must make the required certification(s), if:

i. The procuring entity is a *covered agency* within the meaning of the statute (see Publication 223, Q&A 5);

ii. The contractor is a *contractor* within the meaning of the statute (see Publication 223, Q&A 6); and

iii. The contract is a *contract* within the meaning of the statute. This is the case when it (a) has a value in excess of $100,000 and (b) is a contract for *commodities* or *services*, as such terms are defined for purposes of the statute (see Publication 223, Q&A 8 and 9).

Furthermore, the procuring entity must have begun the solicitation to purchase on or after January 1, 2005, and the resulting contract must have been awarded, amended, extended, renewed, or assigned *on or after April 26, 2006* (the effective date of the section 5-a amendments).

Individual, Corporation, Partnership, or LLC Acknowledgment

STATE OF PA }
: SS.:
COUNTY OF Berks }

On the 25 day of June in the year 2010, before me personally appeared William J. Clifford,

known to me to be the person who executed the foregoing instrument, who, being duly sworn by me did depose and say that

_he resides at Redacted,

Town of Redacted,

County of Redacted,

State of Redacted; and further that:

[Mark an *X* in the appropriate box and complete the accompanying statement.]

☐ (If an individual): _he executed the foregoing instrument in his/her name and on his/her own behalf.

☐ (If a corporation): _he is the _____

of _____, the corporation described in said instrument; that, by authority of the Board of Directors of said corporation, _he is authorized to execute the foregoing instrument on behalf of the corporation for purposes set forth therein; and that, pursuant to that authority, _he executed the foregoing instrument in the name of and on behalf of said corporation as the act and deed of said corporation.

☐ (If a partnership): _he is a _____

of _____, the partnership described in said instrument; that, by the terms of said partnership, _he is authorized to execute the foregoing instrument on behalf of the partnership for purposes set forth therein; and that, pursuant to that authority, _he executed the foregoing instrument in the name of and on behalf of said partnership as the act and deed of said partnership.

☒ (If a limited liability company): _he is a duly authorized member of New York Gaming Ventures, LLC, LLC, the limited liability company described in said instrument; that _he is authorized to execute the foregoing instrument on behalf of the limited liability company for purposes set forth therein; and that, pursuant to that authority, _he executed the foregoing instrument in the name of and on behalf of said limited liability company as the act and deed of said limited liability company.

Sherry L. Shuman

Notary Public

Registration No.

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
SHERRY L. SHUMAN, Notary Public
Wyomissing Boro., Berks County
My Commission Expires January 19, 2014

Privacy notification

The Commissioner of Taxation and Finance may collect and maintain personal information pursuant to the New York State Tax Law, including but not limited to, sections 5-a, 171, 171-a, 287, 308, 429, 475, 505, 697, 1096, 1142, and 1415 of that Law; and may require disclosure of social security numbers pursuant to 42 USC 405(c)(2)(C)(i).

This information will be used to determine and administer tax liabilities and, when authorized by law, for certain tax offset and exchange of tax information programs as well as for any other lawful purpose.

Information concerning quarterly wages paid to employees is provided to certain state agencies for purposes of fraud prevention, support enforcement, evaluation of the effectiveness of certain employment and training programs and other purposes authorized by law.

Failure to provide the required information may subject you to civil or criminal penalties, or both, under the Tax Law.

This information is maintained by the Director of Records Management and Data Entry, NYS Tax Department, W A Harriman Campus, Albany NY 12227; telephone 1 800 225-5829. From areas outside the United States and outside Canada, call (518) 485-6800.

Need help?

Internet access: *www.nystax.gov* (for information, forms, and publications)

Fax-on-demand forms: 1 800 748-3676

Telephone assistance is available from 8:00 A.M. to 5:00 P.M. (eastern time), Monday through Friday. 1 800 698-2931

To order forms and publications: 1 800 462-8100

From areas outside the U.S. and outside Canada: (518) 485-6800

Hearing and speech impaired (telecommunications device for the deaf (TDD) callers only): 1 800 634-2110

Persons with disabilities: In compliance with the Americans with Disabilities Act, we will ensure that our lobbies, offices, meeting rooms, and other facilities are accessible to persons with disabilities. If you have questions about special accommodations for persons with disabilities, please call 1 800 972-1233.

Appendix 15

EEO Policy Statement and Staffing Plan

We cannot describe the portion(s) of the respondent's work force that will be devoted to performing the contract since New York Gaming Ventures, Inc is a newly formed entity and has no workforce in New York or any other state at the current time. Therefore, pursuant to Section 2.9-A-1 of the Aqueduct RFP, the attached staffing plan describes the consolidated work force for Penn National Gaming, Inc. and all of its operating subsidiaries. Note that many Penn subsidiaries currently operate in suburban and rural areas that offer a less diverse labor pool than in urban areas. The Respondent will ensure that the much more diverse labor pool of the New York Metropolitan Area will be fairly reflected in the Aqueduct workforce once recruitment for the facility is initiated.

For detailed information on the Respondent's Diversity Plan and EEO Policy see **RFP response Item 4.8** and **Exhibit 4.8-1**.

If Respondent is selected to be the developer and operator of the Aqueduct VLT facility, it will complete the required *Workforce Employment Utilization Quarterly Report* as required.

Appendix 16

Experience in Meeting or Exceeding MBE/WBE Goals

For detailed information on the Respondent's experience in meeting MBE/WBE Goals see **RFP response Item 4.8**. For detailed information on the Respondent's Diversity Plan which includes details on MBE/WBE contracting also see **Exhibit 4.8-1**.

Appendix 17

MBE/WBE Utilization Plan

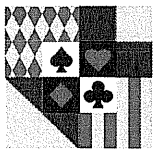
New York Gaming ventures, LLC is a newly created entity and is only in the early planning stages of the project. Therefore, the Respondent has not determined with certainty who all the contractors for the project will be and therefore has not listed any contractors on the attached *Vendor/Contractor's Minority and Women-Owned Business Utilization Plan Form.* This form will be completed as contractors are identified with certainty. Additionally, the Respondent will ensure that the *Contractor's Quarterly Subcontracting/Supplier Activity Report* will be completed as necessary once project sub-contractors are determined with certainty.

As indicated in the response to **RFP Item 4.8**, Respondent has set the following MBE/WBE goal for non-proprietary goods and services:

- Construction
  - At least 25% twenty-five percent (25%) minority/women-owned business enterprise contractor and/or subcontractor participation for the construction of the Video Lottery Facility.
  - An overall goal of twenty-five percent (25%) minority and female workforce participation for the construction of the Video Lottery Facility.

- Ongoing Operations
  - At least 25% twenty-five percent (25%) minority/women-owned business enterprise contractor and/or subcontractor participation for the ongoing operations of the Video Lottery Facility.

For detailed information on the Respondent's Diversity Plan which includes details on MBE/WBE contracting see **Exhibit 4.8-1**.



PENN NATIONAL
GAMING, INC.

June 29, 2010

TRANSMITTAL LETTER
VOLUME I-TECHNICAL PROPOSAL
VOLUME II-Financial Proposal

Gail P. Thorpe, Contracting Officer
New York State Division of the Lottery
Finance Office
One Broadway Center
Schenectady, New York 12305

RE: Development and Operation of Video Lottery Facility at Aqueduct Racetrack
Submission by New York Gaming Ventures, LLC ("Project")

Dear Ms. Thorpe:

Enclosed please find the following: an original and eight copies of the Technical Proposal as required by the RFP for New York Gaming Ventures, LLC ("Applicant"), which is a subsidiary of its publicly traded parent company, Penn National Gaming, Inc., as well as an electronic version of the Technical Proposal.

The following individuals may be contacted at Penn National Gaming, Inc., 825 Berkshire Boulevard, Wyomissing, Pennsylvania, 19610, or by telephone at 610-373-2400 relating to the following matters:

Proposal:	James Baldacci, Deputy Chief Compliance Officer
Background Investigations:	Thomas N. Auriemma, Vice President/Chief Compliance Officer;
Contractual Issues:	Carl Sottosanti, Vice President/Deputy General Counsel
Technical Issues:	Steven Snyder, Senior Vice President/Corporate Development
Site Visit:	James Baum, Senior Vice President/Project Development

The Applicant's submission is responsive to the specifications of the RFP, except as noted below. Please note that certain information has been designated in the submission as proprietary or confidential and is appropriately marked as such. The Entry Fee required by the RFP was paid prior to the mandatory bidders conference and representatives of New York Gaming Ventures, LLC attended the mandatory bidders conference.

In addition to the Technical Proposal, the applicant also encloses:

1. Disclosure of Litigation and Other Information as required by the RFP is submitted with this Proposal. Additionally, as required by the RFP, the Vendor states here and in the submission that none of its owners, officers, directors, or partners have ever been convicted of a felony or any other criminal offense involving gaming violations, fraud, larceny of any sort, theft, misappropriation or conversion of funds, or tax evasion.

2. Attachment 1 Acknowledging receipt of all RFP addenda is included with this Proposal.

3. An original set of video lottery license applications and appropriate electronic versions for New York Gaming Ventures, LLC, Delvest Corp, Penn National Gaming, Inc, and the following thirteen (13) individuals: Peter Carlino, Harold Cramer, David Handler, Wesley Edens, Barbara Shattuck, Robert Levy, John Jacquemin, Timothy Wilmott, William Clifford, Jordan Savitch, John Finamore, Robert Ippolito, and Thomas N. Auriemma. Please note that with respect to the first twelve (12) individuals, these are updated filings since each of these individuals made New York filings less than one year ago with the State Lottery. With respect to Mr. Auriemma's filing, that filing represents a corporate, first-time filing.

4. The submissions of certifications and representations as required by the RFP and acknowledged in Attachment 3, except as noted below.

5. As to Volume II, the Financial Proposal has been prepared and is submitted in the form specified in Attachment 2 of the RFP. An original and one copy of the Financial Proposal is submitted herewith, along with an appropriate electronic version.

The Applicant's submission of the executed documents (including the Memorandum of Understanding ("MOU")) are expressly conditioned on the acceptance of Applicant's revisions to the MOU. For clarity, Applicant's proposal shall not constitute a binding commitment and no liability can be incurred by Applicant until such time as the parties agree on the issues raised by Applicant in connection with the MOU. The Applicant understands that the State has mandated a minimum bid of $300 million. In order to satisfy that bid requirement, Applicant has modified the MOU to mitigate certain unreasonable and material risks (some of which are described below).In any event, we trust that you will understand that our MOU revisions are responsible, intended to address extraordinary risks and commercially reasonable. For instance:

1. Our revisions seek to ensure that we can be comfortable that we can develop, construct and operate this business before our license fee is released from escrow. Absent some prudent risk mitigation for risks such as entitlements or funding, if one of the enumerated risks comes to fruition, an operator could conceivably lose their entire investment. Obviously, this risk is untenable.

2. In light of Applicant's proposed commitment to the State, as evidenced by the large upfront investment, our revisions seek to ensure that any event that could trigger a termination of the operator must be material and that there are reasonable cure and appeal rights.

3. Similarly, given the very significant upfront investment, our revisions seek to provide for some basic (and in fact, conservative) remedial measures in the event the State permits some significant economic variable (such as tax rates or unfair competition) to be altered which has a substantial impact on our returns. The threat of proximate competition with a favorable tax rate cannot be understated – it is real, material and potentially imminent given the recent and highly publicized progress on the Shinnecock Tribe.

Finally, in addition to the issues addressed in our proposal, we believe, especially given the results of earlier bids on this Project, that it is important for the State to select a credible, experienced and capable operator. In addition, the operator must understand the pressures NYRA is facing in its efforts to operate efficiently and profitably in the horse racing industry. Quite simply -- we are that operator. We are quite confident that no other applicant can match all our key qualifications: extensive experience in regional gaming markets and markets with high tax rates, on time/on budget delivery of quality ground up regional gaming facilities, a strong balance sheet and a rich racing heritage. We are excited to partner with the State under the right circumstances and look forward to hearing from you.

Please let me know if you have any questions.

Very truly yours,

Thomas N. Auriemma
Vice President/Chief Compliance Officer
Penn National Gaming, Inc.

Attachment 2

Development and Operation of a Video Lottery Facility at Aqueduct Racetrack

Financial Proposal Form (Licensing Fee)

Licensing Fee: As and for consideration to State for being selected by State as the preferred bidder for development of the VLT Facility, Vendor shall pay to State the sum of $ 325,000,000 (Three Hundred Twenty Five Million Dollars) (minimum $300 million), (the "**Licensing Fee**"), which Vendor shall pay within ten (10) business days after the MOU is signed and delivered to the Vendor by the Governor, the Temporary President of the Senate, and the Speaker of the Assembly. Execution of the MOU shall be deemed to be a contractual commitment by the Vendor to pay the Licensing Fee.

This proposal shall be valid for a period of 180 days from June 29, 2010.

Bidder Name: _____
John V. Finamore - President

Company: New York Gaming Ventures, LLC