

PENN NATIONAL GAMING INC  
Form DEF 14A  
April 30, 2009

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**PENN NATIONAL GAMING, INC.**

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(Name of Registrant as Specified In Its Charter)

N/A

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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    - (2) Form, Schedule or Registration Statement No.:
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    - (4) Date Filed:
-

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**Penn National Gaming, Inc.**  
**825 Berkshire Boulevard, Suite 200**  
**Wyomissing, Pennsylvania 19610**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**To be Held on June 3, 2009**

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**NOTICE IS HEREBY GIVEN** that the 2009 Annual Meeting of Shareholders of Penn National Gaming, Inc. (the "Company"), a Pennsylvania corporation, will be held on June 3, 2009, at 10 a.m., local time, at Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51<sup>st</sup> Floor, Philadelphia, PA 19103 for the following purposes:

1. To elect two Class I directors to serve until the 2012 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified.
2. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009.
3. To consider and transact such other business as may properly come before the Annual Meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice of Annual Meeting. Management currently knows of no other business to be presented at the meeting. If any other matters come before the meeting, the persons named in the enclosed proxy will vote in their judgment on those matters.

Only shareholders of record at the close of business on April 6, 2009 are entitled to notice of, and to vote at, the Annual Meeting and any postponement or adjournment thereof. All shareholders are cordially invited to attend the Annual Meeting in person. Any shareholder of record at the close of business on April 6, 2009 attending the Annual Meeting may vote in person even if such shareholder previously signed and returned a proxy.

**By order of the Board of  
Directors,**

Robert S. Ippolito  
*Secretary*

Wyomissing, Pennsylvania  
April 30, 2009

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**WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, YOU CAN ENSURE THAT YOUR SHARES ARE VOTED AT THE MEETING BY SUBMITTING YOUR INSTRUCTIONS BY PHONE, BY INTERNET OR BY COMPLETING, SIGNING, DATING AND MAILING THE ENCLOSED PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE PROVIDED FOR THAT PURPOSE (NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES).**

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**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2009  
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 3, 2009.**

Penn National Gaming, Inc.'s Proxy Statement for the 2009 Annual Meeting of Shareholders and the Annual Report for the year ended December 31, 2008, are available via the Internet at <http://materials.proxyvote.com/707569>.

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**Penn National Gaming, Inc.**  
**825 Berkshire Boulevard, Suite 200**  
**Wyomissing, Pennsylvania 19610**

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**PROXY STATEMENT**  
**ANNUAL MEETING OF SHAREHOLDERS**  
**June 3, 2009**

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This Proxy Statement and the enclosed Proxy are first being sent or given to shareholders of Penn National Gaming, Inc. (the "Company") on or about April 30, 2009, in connection with the solicitation of proxies for use at the Company's 2009 Annual Meeting of Shareholders (the "Annual Meeting") to be held on June 3, 2009 at 10 a.m., local time, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51<sup>st</sup> Floor, Philadelphia, PA 19103. This solicitation is being made on behalf of the Board of Directors of the Company (the "Board of Directors" or the "Board").

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**Record Date and Shares Outstanding**

The Board of Directors has set the close of business on April 6, 2009 as the record date ("Record Date") for the determination of shareholders of the Company entitled to notice of, and to vote at, the Annual Meeting. On the Record Date, 78,334,880 shares of the Company's common stock were issued and outstanding and entitled to vote at the Annual Meeting.

**Revocability of Proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

**Voting and Solicitation**

The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes, which all shareholders are entitled to cast, is necessary for a quorum to be present at the Annual Meeting. Each share of the Company's common stock outstanding is entitled to one vote on each matter which may be brought before the Annual Meeting.

The shares represented by all valid proxies received by phone, by internet or by mail, unless previously revoked, will be voted at the Annual Meeting in accordance with the instructions contained therein, and if no choice is specified, will be voted "FOR" each of the nominees for director set forth in this Proxy Statement and "FOR" the ratification of the selection of Ernst & Young LLP as the Company's independent

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registered public accounting firm for 2009. Assuming a quorum is present, (a) the two nominees for director receiving the highest number of votes cast by shareholders entitled to vote for directors will be elected to serve on the Company's Board of Directors and (b) the affirmative

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vote of a majority of the votes cast is required for the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009. The Board knows of no other matters that are likely to be brought before the meeting other than the matters specifically referred to in the notice of the meeting. If any other matters properly come before the meeting, the persons named in the enclosed proxy or their duly appointed substitutes acting at the meeting will be authorized to vote or otherwise act in their discretion on those matters. For purposes of determining the number of votes cast, only those cast "for" or "against" are counted. Abstentions, "withhold" votes and broker non-votes are not considered "cast" but are counted for purposes of determining whether a quorum is present at the Annual Meeting.

It is expected that the solicitation of proxies will be conducted primarily by mail. The cost of this solicitation will be borne by the Company. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies also may be solicited by certain directors, officers and employees of the Company, without additional compensation, personally or by telephone, telegram, teletype or via the internet. In addition, the Company has engaged the services of Innisfree M&A Incorporated, a third party proxy solicitation firm, to assist in its proxy solicitation efforts. The Company estimates that the fees to be paid to Innisfree M&A Incorporated for this service will be approximately \$15,000, plus reimbursement for out-of-pocket expenses.

## **GOVERNANCE OF THE COMPANY**

The Company's Board of Directors believes that one of its primary roles is to responsibly oversee management's operation of the Company to ensure that shareholder value is maximized. In furtherance of this objective, the Board seeks to foster a governance environment where (i) value creation is carefully considered in connection with each decision made by the Company, (ii) candid and comprehensive disclosure is routinely made available to the Company's shareholders and other investors, (iii) integrity and accountability are integrated into each aspect of the Company's operations and (iv) the Company continuously seeks to attract, develop and retain the best possible executive talent to manage the Company's operations.

### **Board of Directors**

The Company's Board of Directors currently consists of seven members: Peter M. Carlino, Harold Cramer, Wesley R. Edens, 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 of the National Association of Securities Dealers, Inc. (the "Marketplace Rules"). The Board believes that its current size permits each of its members to communicate frequently with management and allows for the calling of meetings on short notice to facilitate the Company's consideration of opportunities and challenges as they arise.

Each member of the Company's Board is expected to contribute a substantial amount of time and effort in connection with their service as Board members. The Board held fifteen (15) formal meetings during the fiscal year ended December 31, 2008. During that same period, the Audit Committee held ten (10) formal meetings, the Compliance Committee held six (6) formal meetings, the Compensation Committee held eight (8) formal meetings and the Nominating Committee held two (2) formal meetings. Further, consistent with the Company's long-standing custom of open and continuous communication between the Board and management, Board members are encouraged to engage in, and regularly do engage in, informal discussions with members of management.

Each of the Company's directors attended at least 75% of the aggregate of all meetings of the Board, except for Mr. Edens who did not join the Board until October 30, 2008. Mr. Edens attended two of the three meetings held following his appointment to the Board. In addition, each of the



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Company's directors attended at least 75% of the aggregate of all meetings of all committees of the Board of which he or she was a member held during the fiscal year ended December 31, 2008. All of the Company's directors attended the 2008 Annual Meeting of Shareholders held on November 12, 2008.

The Board maintains four standing committees the Audit Committee, the Compensation Committee, the Compliance Committee and the Nominating Committee to assist in achieving its objectives. In support of the work of these Committees, the Company maintains a 27 person internal audit staff overseen by the Company's Vice President, Internal Audit, who takes direction from and provides reports to the Audit Committee, and an 18 person compliance staff overseen by the Company's Vice President, Compliance, who takes direction from and provides reports to the Compliance Committee. Additionally, since 2003 the Company has retained Steve DuCharme, a former Chairman of the Nevada State Gaming Control Board with over 30 years of experience in law enforcement and gaming regulation, to serve as the Chairman of the Company's Compliance Committee. The specific duties and operation of each committee are described in more detail below.

The Board and management work closely to ensure that integrity and accountability are integrated into each aspect of the Company's operations. The Board's efforts in this area are supported through the work of the Audit Committee and our internal audit staff, the work of the Compliance Committee and our compliance staff and the work of the Company's independent registered public accounting firm, Ernst & Young LLP. The Board has also adopted a Code of Business Conduct (the "Code of Conduct"), which is applicable to all employees of the Company, including the directors, 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 filings with the U.S. Securities and Exchange Commission (the "SEC"), and compliance with applicable laws. The Code of Conduct mandates a 24 hour hotline that any employee, customer or third party can use to report, anonymously if they so chose, any suspected fraud, financial impropriety or other alleged wrongdoing. All calls are handled by the Vice President, Compliance and the Vice President, Internal Audit, as appropriate, who regularly report to the Audit Committee on calls received. A copy of the current Code of Conduct is available on the Company's website at <http://www.pngaming.com/main/corporategovernance.shtml>.

The Board regularly reviews the Company's corporate governance practices to evaluate their effectiveness and to ensure that they comply with the requirements of Pennsylvania law (the state in which the Company is incorporated), the Marketplace Rules and the SEC regulations.

**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 the SEC regulations. 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 the Marketplace Rules. 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>.

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 42 of this Proxy Statement), 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,

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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 as determined by a vote of all five trustees. The Board considered Mr. Cramer's beneficial ownership as a result of being a trustee of the Carlino Family Trust. In light of the identity of 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 internal auditors; and

maintain free and open communication with and among the independent registered public accounting firm, financial and senior management, and the Board of Directors.

**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>.

The Chairman of the Compensation Committee is responsible for leadership of the Compensation Committee and sets meeting agendas. The Compensation Committee may form subcommittees and delegate authority to them, as it deems appropriate. The Chief Executive Officer ("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 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 incentive 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 2003 Long Term Incentive Compensation Plan, the Annual Incentive Plan and the 2008 Long Term Incentive 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.

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The Compensation Committee has authority to evaluate the annual performance of the CEO and other executive officers and set their annual compensation, which includes:

setting salary, bonus, stock options and other benefits; and

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reviewing and approving, consistent with the compensation philosophy adopted by the Compensation 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 CEO provides the Compensation Committee 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 an independent compensation consultant, as discussed below, 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 and routinely holds executive sessions without management to facilitate candid discussion regarding executive compensation.

Pursuant to the Compensation Committee's charter, the Compensation Committee is authorized to retain the services of an independent compensation consultant or advisor, as it may deem appropriate in its sole discretion, to provide advice and assistance as the Compensation Committee deems appropriate. The Compensation Committee is also free to terminate the services of such independent compensation consultants and advisors and to approve their related fees and retention terms. The Compensation Committee engaged Strategic Apex Group LLC ("Strategic Apex"), a third party executive compensation consulting firm, as its independent compensation consultant for 2008 and 2009 to provide advice and assistance to the Compensation Committee in executing its duties and responsibilities with respect to the Company's executive compensation programs and non-employee director compensation. Prior to engaging Strategic Apex, and periodically during the engagement, the Compensation Committee evaluates the independence of such compensation consultant. Such review includes receiving information regarding other services provided by the compensation consultant to the Company, the Board of Directors or other committees of the Board of Directors, and periodically reviewing the fees incurred as a result of such other activities.

As part of its ongoing services to the Compensation Committee, the compensation consultant attends the majority of the Compensation Committee meetings and supports the Compensation Committee in executing its duties and responsibilities with respect to the Company's executive compensation programs by accumulating and summarizing market data at the request of the Compensation Committee regarding compensation of the Company's executives in comparison to its peer group and others, as appropriate. The compensation consultant also gathers data and provides advice regarding the Company's performance relative to its peer group, the structure of annual and long-term incentive compensation, the appropriateness of financial and other performance measures and the design of equity incentive plans. The compensation 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 compensation consultant's work for the Compensation Committee.

***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 former Chairman of the Nevada State Gaming Control Board with over 30 years of experience in law enforcement and gaming regulation, is the Chairman of the Compliance Committee. The Compliance Committee operates under a written charter adopted by the Board of Directors.

The Compliance Committee was established to ensure, through self-regulatory policies and 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.

***Nominating Committee.*** Harold Cramer (Chairman), David A. Handler and Barbara Z. Shattuck are the members of the Nominating Committee. The Nominating Committee operates under a written

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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>.

The Nominating Committee is responsible for identifying and recommending, for the Board's selection, nominees for election to the Board, identifying qualified individuals to become Board members and advising the Board with respect to Board structure, composition and size of the Board and its committees. The Nominating Committee is also responsible for making recommendations on the range of skills and expertise which should be represented on the Board, and the eligibility criteria for individual Board and committee membership. The Board has determined that Messrs. Cramer and Handler and Ms. Shattuck are independent under the Marketplace Rules.

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 and terminate a search firm to assist in the identification of director candidates, including the authority to approve the search firm, fees and other retention terms. The Nominating Committee also has authority to obtain advice and assistance from internal and external legal, accounting or other advisers. 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 beneficially owned 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 for a date that is not within 60 days before or after the anniversary date, which is the case for the 2009 annual meeting, 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 is mailed or public disclosure of the date of the annual meeting is made, whichever first occurs.



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To be in proper written form, a shareholder's notice 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 Company 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.

**Compensation of Directors**

The Company pays director fees to each director who is not an employee of the Company. As previously reported, due to the proposed merger (the "Merger") contemplated by the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 15, 2007, by and among the Company, certain affiliates of Fortress Investment Group LLC ("Fortress") and certain affiliates of Centerbridge Partners, L.P. ("Centerbridge"), in 2007 the Company's Board of Directors determined that the compensation to be paid in 2008 to 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 to receive \$150,000, 50% of which was paid on January 25, 2008, and the balance of which was being paid in equal monthly installments throughout 2008 (with the total balance payable at the time of the closing of the Merger). At June 30, 2008, each non-employee director had received \$112,500. The Board of Directors also indicated that it would consider whether additional equity grants were appropriate if the Merger was not consummated. On August 8, 2008, the Company's Board of Directors approved changes to the 2008 compensation for the non-employee directors to discontinue any further cash payments for 2008 and to grant to each non-employee director options to purchase 20,000 shares of common stock of the Company at an exercise price of \$29.34 per share (the closing price of the Company's common stock on the trading day immediately preceding the date of grant). The options vest over four years, 25% on the first anniversary of the date of grant and 25% on each succeeding anniversary, but accelerate immediately upon a change in control.

On December 29, 2008, the Company's Board of Directors amended the 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 five times the annual cash retainer (exclusive of separate committee retainers) for non-employee directors in the applicable year. Current non-employee directors have until December 31, 2011 to achieve this ownership level. New non-employee directors have a period of three years from the date of initial election to achieve this ownership guideline.

Table of Contents**2008 Director Compensation Table**

The following table sets forth information with respect to all compensation awarded to 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	112,500	453,444	565,944
Wesley R. Edens(2)			
David A. Handler	112,500	600,144	712,644
John M. Jacquemin	112,500	453,444	565,944
Robert P. Levy	112,500	438,294	550,794
Barbara Z. Shattuck	112,500	438,294	550,794

- (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 2008 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 included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008. In fiscal 2008, each non-employee director received options to purchase 20,000 shares of the Company's common stock, which for financial statement reporting purposes was deemed to have had a grant date fair value of \$209,794. In addition, as more fully described in "Compensation Discussion and Analysis" commencing on page 13 of this Proxy Statement, effective on December 31, 2008, the Company extended the term of all of its outstanding stock options from seven years to ten years and the incremental expense for financial statement reporting purposes relating thereto, which varied among the directors based on the number of options held at such time, is included in the table above. At December 31, 2008, the aggregate number of outstanding stock options held by each non-employee director was: Mr. Cramer 200,000; Mr. Handler 245,000; Mr. Jacquemin 215,000; Mr. Levy 102,500; and Ms. Shattuck 140,000.
- (2) Mr. Edens was appointed to the Company's Board of Directors on October 30, 2008 but did not receive compensation for serving in 2008.

**Shareholder Access Policy**

Shareholders who wish to communicate with directors should do so by writing to Penn National Gaming, Inc., 825 Berkshire Boulevard, Suite 200, Wyomissing, PA 19610, Attention: Secretary. The Secretary of the Company reviews all such correspondence and forwards to the Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the Secretary, deals with the functions of the Board or Board committees or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters will be brought to the attention of the Company's Audit Committee.



Table of Contents**PROPOSAL NO. 1****ELECTION OF CLASS I DIRECTORS****Information about Nominees and Other Directors**

The Company's Board of Directors currently consists of seven members: Peter M. Carlino, Harold Cramer, Wesley R. Edens, 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. Two Class I directors will be elected at the Annual Meeting to hold office, subject to the provisions of the Company's bylaws, until the annual meeting of shareholders of the Company to be held in the year 2012 and until their respective successors are duly elected and qualified.

The following table sets forth the name, age, principal occupation and respective service dates of each person who has been nominated to be a director of the Company. Each nominee has consented to be named as a nominee and, to the knowledge of the Company, is willing to serve as a director, if elected. Should either of the nominees not remain a nominee at the end of the meeting (a situation which is not anticipated), solicited proxies will be voted in favor of the one who remains as a nominee and may be voted for a substitute nominee.

<b>Name of Nominee</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>	<b>Term Expires</b>
David A. Handler	44	Partner, Centerview Partners	1994	2009
John M. Jacquemin	62	President, Mooring Financial Corporation	1995	2009

Messrs. Handler and Jacquemin are standing for re-election based upon the judgment, financial acumen, skill and dedication they have previously demonstrated as Board members.

*David A. Handler.* Mr. Handler has been a director since 1994. In August 2008, Mr. Handler joined Centerview Partners as a Partner. Centerview Partners is a boutique financial advisory and private equity firm. From April 2006 to August 2008, he was 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.

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The following table sets forth the name, age, principal occupation and respective service dates of each person who will continue as a director after the Annual Meeting.

Name	Age	Principal Occupation	Director Since	Term Expires
<i>Class II Directors:</i>				
Wesley R. Edens	47	Founding Principal, Chief Executive Officer and Chairman of the Board of Directors of Fortress Investment Group LLC	2008	2010
Robert P. Levy	78	Chairman of the Board, DRT Industries, Inc.	1995	2010
Barbara Z. Shattuck	58	Managing Director, Shattuck Hammond Partners, LLC	2004	2010
<i>Class III Directors:</i>				
Peter M. Carlino	62	Chairman of the Board and Chief Executive Officer of the Company	1994	2011
Harold Cramer	81	Retired Partner, Schnader Harrison Segal & Lewis LLP; Retired Chairman and Chief Executive Officer of the Graduate Health System	1994	2011

*Wesley R. Edens.* Mr. Edens has been a director since October 30, 2008. He founded Fortress Investment Group LLC in 1998 and is its Chief Executive Officer and Chairman of the Board of Directors. Mr. Edens is currently on the Board of Directors of Fortress Investment Group LLC, Brookdale Senior Living Inc., Aircastle Limited, GateHouse Media Inc., Newcastle Investment Corp., Fortress Investment Trust II, Fortress Registered Investment Trust, Fortress Brookdale Investment Fund LLC and RIC Coinvestment Fund LP. Mr. Edens currently serves as Chairman, Chief Executive Officer and Trustee of Fortress Registered Investment Trust and Fortress Investment Trust II, Chairman and Chief Executive Officer of Fortress Brookdale Investment Fund LLC and Fortress Pinnacle Investment Fund LLC and Chief Executive Officer, President and Chairman of RIC Coinvestment Fund LP. Prior to forming Fortress Investment Group LLC, Mr. Edens was a partner and managing director of BlackRock Financial Management Inc., where he was the head of BlackRock Asset Investors, a private equity fund. Mr. Edens was also a partner and managing director of Lehman Brothers.

In connection with the termination of the Merger Agreement, the Company entered into an Investor Rights Agreement with an affiliate of Fortress, an affiliate of Centerbridge, Deutsche Bank Investment Partners, Inc. and Wachovia Investment Holdings, LLC (collectively, the "Investors") providing for, among other things, the appointment of one designee identified by the Investors to serve as a Class II director on the Board of Directors (the "Investor Designee") until the next election of Class II directors at the 2010 annual meeting of shareholders. Wesley R. Edens was designated as the initial Class II director on the Board of Directors. The Investors will retain the right to appoint an Investor Designee for so long as one or more affiliates of Fortress hold at least two-thirds of the shares of the Company's Series B Redeemable Preferred Stock issued to them. The Company is required to use commercially reasonable efforts to cause the election of the Investor Designee at the 2010 annual meeting of shareholders and at each meeting thereafter at which an Investor Designee is up for election.

*Robert P. Levy.* Mr. Levy has been a director since 1995. He is a 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 and is currently on the Board of Directors of Betfair Limited. Mr. Levy owns the Robert P. Levy Stable, a

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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 Managing Director of Shattuck Hammond Partners, an investment banking firm, which is a subsidiary of Morgan Keegan, a Regions Company. Prior to co-founding Shattuck Hammond in 1993, Ms. Shattuck spent 11 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.

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

**The Board of Directors unanimously recommends that the shareholders vote "FOR" each of the nominees.**

Table of Contents**PROPOSAL NO. 2****RATIFICATION OF SELECTION OF ERNST & YOUNG LLP  
AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009**

The Audit Committee has selected Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009 and the shareholders are asked to ratify this selection. Ernst & Young has served as the Company's independent registered public accounting firm since 2006. All audit and non-audit services provided by Ernst & Young LLP are approved by the Audit Committee. Ernst & Young LLP has advised the Company that it has no direct or material indirect interest in the Company or its affiliates. Representatives of Ernst & Young LLP are expected to attend the meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. The favorable vote of a majority of the votes cast at the meeting is required to approve the ratification of the selection of the Company's independent registered public accounting firm.

A description of aggregate fees for professional services performed by Ernst & Young LLP in relation to 2008 and 2007 is as follows:

	<b>Fiscal 2008</b>	<b>Fiscal 2007</b>
Audit Fees(1)	\$2,235,438	\$1,838,722
Audit-Related Fees(2)	88,393	110,799
<b>Total Fees</b>	<b>\$2,323,831</b>	<b>\$1,949,521</b>

- 
- (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, consents 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 include fees for accounting consultations in connection with mergers and acquisitions and the audit of the Company's 401(k) plans.

*Tax Fees and All Other Fees*

Ernst & Young LLP did not perform any professional services, including services related to tax matters, during the fiscal years ended December 31, 2008 and December 31, 2007.

*Audit Committee Pre-Approval Policy*

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 registered public accounting firm. Under the policy, the Audit Committee may pre-approve specific services, including fee levels, by the independent registered public accounting firm 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 2008, all audit services provided by Ernst & Young LLP were pre-approved by the Audit Committee.

**The Board recommends that shareholders vote "FOR" the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009.**

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**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 on page 30 of this Proxy Statement, but excludes Leonard M. DeAngelo, the Company's former Executive Vice President, Operations, in light of his departure from the Company on August 1, 2008, and includes Timothy J. Wilmott, the Company's President and Chief Operating Officer, for all periods after he commenced employment with the Company on February 5, 2008.

**Executive Summary**

Fiscal year 2008 was among the most challenging years ever faced by the Company. The global economic slowdown and the severe disruption in the capital markets affected the Company in a number of ways including impeding the closing of the merger transaction with Fortress and Centerbridge and adversely affecting the Company's operating results for the year ended December 31, 2008. However, due to management's efforts across a number of areas in the Company's operations, we believe that the Company has been successful in mitigating the impact of these challenges. As more fully discussed below under "Company Performance," the Company continued to outperform its peers across a broad range of categories, including total shareholder return. In addition, we believe management was able to negotiate a creative arrangement upon the termination of the Merger Agreement that has enhanced shareholder value, especially in light of the downturn in the economy. Accordingly, with the substantial amount of cash obtained in connection with the termination of the Merger Agreement and continued strong free cash flow from its operating units, the Company is well-positioned to capitalize on having one of the strongest balance sheets in the gaming industry.

Still, the Company's properties did not perform as well as compared to the prior fiscal year or to expectations at the beginning of 2008. Accordingly, consistent with the pay-for-performance philosophy underlying the executive compensation program, the Company's executive management team earned less total compensation in 2008 as compared to 2007. As reflected in the Summary Compensation Table and despite the substantial shareholder value realized in connection with management's negotiation of the cash termination fee and issuance of preferred stock in connection with the termination of the Merger, none of the Company's executives received any bonus payments relative to the internal, or EBITDA-based, performance measure of the Company's annual incentive plan for 2008. In addition, although not reflected in the Summary Compensation Table, the value of the equity compensation previously awarded to our executives declined substantially and many of the stock options granted to our executives became "underwater" (which means that the exercise price of the option is greater than the market value of the underlying shares). For example, in order for the stock options granted to the Chief Executive Officer to have the value ascribed to such options in the Summary Compensation Table, the Company's stock price would have to be \$45.67. As both management and we feel strongly that stock options should not be re-priced or exchanged to account for market driven diminution in value, no such adjustments were made to any outstanding equity awards. We did, however, extend the term of most of our outstanding options in order to give our executives a reasonable period to create value in their options and to preserve the retention element of the options.

In 2008, especially in light of the adverse market conditions faced by the Company, we continued to focus on developing and retaining the Company's existing talent as well as recruiting additional talent to ensure that the Company has what we believe is a "best in class" management team to run its key functions and an effective succession strategy to capably and promptly fill any departures. Significantly, a key accomplishment was the Company's ability to retain its key executives during the pendency of the Merger; this was in large part due to the change in control provisions in place with respect to each executive. In addition, in February 2008, the Company recruited and hired Tim Wilmott to serve as its President and Chief Operating Officer. Mr. Wilmott has over 20 years of experience in

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the gaming industry across a wide variety of positions and, most recently, served as the Chief Operating Officer of one of the Company's competitors where he oversaw the operation of 48 different gaming and racing properties in a variety of regulated jurisdictions, including Arizona, California, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, Missouri, Nevada, New Jersey and North Carolina, as well as internationally.

**Company Performance**

In 2008, the Company continued to be one of the top performers in its peer group. Even though the economic conditions in the gaming industry were some of the most challenging in recent history, the Company continued to outperform its peer group in terms of total shareholder return. As demonstrated in the chart below, an investment of \$100 in the Company made on January 1, 2000 would have been worth \$950 on January 1, 2009 versus an average of \$149 for the same investment in our peer group companies described below:

**Total Shareholder Return vs. Peer Group  
1/1/2000 to 1/1/2009**

The Company also experienced a smaller percentage decline in its share price (as of December 31, 2008) than all of the other members of its peer group since 2007, a time that many view as the beginning of the "credit crunch" and associated global economic downturn. We believe that this is particularly notable considering that during that period the Company's share price may have reflected a premium generated by the then pending Merger.

The Company also continued to be a top performer in terms of results of operations and financial position. As described below under "Overview of Compensation Program," the Company utilizes free cash flow per share as a performance criterion for awarding annual incentive compensation. In general, free cash flow is the metric used by the Company to measure its ability to generate cash that can be used to fund acquisitions or new projects or to pay down debt. It is also one of the metrics that we believe principally drives shareholder return. Compared to its peer group for the two year period ended December 31, 2007 (the last period for which comparable data is currently available), the Company's free cash flow per share results placed the Company in the 73<sup>rd</sup> percentile relative to its peers. Building on this strong operational starting point, the Company further strengthened its balance sheet in 2008

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when it received 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) in connection with the termination of the Merger Agreement with Fortress and Centerbridge. As a result, as of December 31, 2008, the Company's total current assets, including cash and cash equivalents, *increased* by \$603.6 million and the Company's total debt *decreased* by \$544.7 million, in each case as compared to the year ended December 31, 2007.

For a more complete discussion of the Company's performance in 2008, reference should be made to Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 35 to 65 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, a copy of which is included in the Annual Report to Shareholders delivered in connection with this Proxy Statement.

As a general matter, we have determined that the appropriate peer group for the Company consists of the largest companies in the commercial gaming industry. We believe that this peer group is appropriate for determining relative industry performance as well as for recruiting and retention purposes. The companies that make up the Company's peer group are its business competitors as well as its primary source of, and primary competition for, executive talent. Many of the Company's executives have been recruited from other gaming operations, including most recently our President and Chief Operating Officer. In addition, since gaming and racing are highly regulated industries, it takes a high degree of experience and prior knowledge to provide effective oversight to multiple gaming and racing properties in a variety of jurisdictions. Also, the Company's executive officers are required to submit to extensive investigations conducted by the State Police or an equivalent investigatory agency of their personal financial records, their character and their competency in order to be found "suitable" to serve in their respective capacities in each of the jurisdictions in which the Company operates. Accordingly, the pool for executives capable and willing to serve in an executive capacity in a publicly traded, multi-jurisdictional gaming and racing company tends to consist mostly of individuals who are already working within the gaming industry and among our peer group.

We review the peer group at the beginning of each fiscal year to determine whether any changes are warranted from the prior year's peer group. For 2008, we determined that the peer group to be used for benchmarking purposes would consist of Ameristar Casinos, Inc., Boyd Gaming Corporation, Isle of Capri Casinos, Inc., Las Vegas Sands Corp., MGM Mirage, Pinnacle Entertainment, Inc., Trump Entertainment Resorts, Inc. and Wynn Resorts, Ltd. In addition, we take into consideration any available compensation data from Harrah's Entertainment, Inc. and Station Casinos, Inc., each of which were taken private but continue to file periodic reports under the Exchange Act. We have approved the use of the same peer group for 2009.

While we believe that the principal metrics that drive shareholder return are EBITDA and free cash flow, we also compare other measures of Company performance against the peer group to ensure

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that we have a comprehensive understanding of how the Company performed relative to its peer group. As the table below indicates, in 2008 the Company continued to be a top performer in the industry:

**PNG FY 2008 Performance as a Percentile of Peer Group**

**Overview of Compensation Program**

*Objectives of Compensation Program*

The overall objective of the Company's executive compensation program is to compensate management in a manner that most effectively incentivizes them to maximize shareholder value without taking undue financial risks. At the same time, the executive compensation program is intended to enable the Company to attract and retain the executive talent needed to grow and further its strategic interests. Specifically, the Company's compensation objectives are as follows:

Attract and retain the best possible management team for the Company to increase shareholder value and preserve the Company's credibility in the capital markets.

Create a pay for performance compensation program that will incentivize management to perform across a range of business and economic circumstances.

*Compensation Philosophy*

To support the Company's compensation program objectives, we have adopted and annually review and confirm a compensation philosophy that serves as the guide for all executive compensation decisions. Our compensation philosophy is as follows:

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.



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*Elements of Compensation*

We have designed a compensation program that is heavily weighted towards performance based compensation but utilizes several different performance metrics to ensure that management is appropriately incentivized across a number of different business and economic environments and appropriately considers each of the principal objectives of the Company's business strategy. In 2008, the total cash opportunity (exclusive of equity compensation) of the Company's Chief Executive Officer consisted of approximately 24% of guaranteed compensation (in the form of base salary) and 76% of potential performance-based compensation. The total cash opportunity of the Company's other named executive officers ranged from 27% to 38% of guaranteed compensation and 73% to 62% of performance based compensation.

The principal elements of the compensation program are described below. Please see "Analysis of Compensation" starting on page 21 for a discussion of the specific actions taken with respect to executive compensation in fiscal year 2008 and thus far in 2009. For a detailed description of the Compensation Committee's role and responsibilities, as well as the retention and use of our independent compensation consultant (Strategic Apex), please see "Compensation Committee" beginning on page 4.

*Base Salary.* The base salary of each named executive officer is targeted to approximate the 50<sup>th</sup> percentile (median) of base salaries of comparable executives within the Company's peer group. We target the 50<sup>th</sup> percentile in order to set salaries that are competitive in the gaming industry and that will attract and retain qualified executives. Salaries may then be adjusted for certain qualitative factors, including specific position duties and responsibilities, tenure with the Company, individual contribution and position value to the Company and the overall reasonableness of an executive's pay package.

*Annual Incentive.* The Company's annual incentive plan was designed to incentivize the executive officers and other members of management to achieve the objectives that we believe are most likely to increase shareholder value without undermining the Company's credibility in the capital markets, which is critical to fund capital intensive future growth opportunities at the lowest possible cost of capital. We believe that the principal measures that drive enterprise value are EBITDA and free cash flow. In addition, we also believe that these metrics are important to the credit analysis undertaken by potential lenders. Accordingly, in 2008, as we have done in prior years, we elected to utilize each of these measures to determine the annual incentive opportunity for our executives. To ensure that such executives are appropriately incentivized across a variety of business and economic conditions, we set one measure referenced by an internal goal and another measure referenced by the Company's performance against its peer group.

For 2008, the internal measure portion of the annual incentive plan provided for the payment of incentive compensation based upon the Company's achievement of its "EBITDA" goal for the year. Conceptually, the term EBITDA refers to "earnings" before interest, taxes, depreciation and amortization. In order to provide a clear reconciliation to generally accepted accounting principles, or GAAP, we base our EBITDA calculation on the Company's income from operations excluding charges for stock compensation, depreciation and amortization, gain or loss on disposal of assets and other similar non-recurring events, and inclusive of gain or loss from the Company's joint venture. Each quarter, the Company publicly discloses its EBITDA in connection with its quarterly announcement of earnings, and provides a reconciliation of EBITDA to net income (GAAP) and income from operations (GAAP) to EBITDA in connection with each such announcement.

We set the ranges of bonuses payable pursuant to the internal measure for each executive as a percentage of annual base salary, consistent with the incentive programs and practices used by the

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Company's peer group. The following table shows the range of awards payable pursuant to the internal measure for each executive as a percentage of annual base salary for the 2008 and 2009 fiscal years:

<b>Executive</b>	<b>Threshold Bonus</b>	<b>Target Bonus</b>	<b>Maximum Bonus</b>
Chairman and Chief Executive Officer	50%	100%	150%
President and Chief Operating Officer	42.5%	85%	127.5%
Senior Vice President and Chief Financial Officer	37.5%	75%	112.5%
Senior Vice President and General Counsel	25%	50%	75%
Vice President, Secretary and Treasurer	25%	50%	75%

The target bonus is payable when the Company meets or exceeds its EBITDA goal for a given year, subject to any required adjustments under the 2008 Long-Term Incentive Compensation Plan (the "2008 Plan") for certain extraordinary and unforeseen circumstances outside of management's control. For any portion of executives' annual incentive bonuses to be paid with respect to the internal measure, the Company must achieve a threshold amount of EBITDA. This threshold is generally set at 2% less than the EBITDA goal. In order for the maximum amount of compensation to be paid, the Company must meet or exceed the maximum amount of EBITDA. This threshold is generally set at 2% more than the EBITDA goal. We have discretion to pay this award in cash, equity or any combination of cash and equity.

The external measure portion of the Company's annual incentive plan is based on the Company's free cash flow per share as compared against its peer group. As noted above, free cash flow generally measures the amount of cash that the Company generates from its operations that is available for acquisitions, investment in expansion of existing properties, to develop new projects or to pay down debt. Conceptually, free cash flow can be thought of as the Company's EBITDA, together with other extraordinary sources of cash (such as the cash termination fee received in connection with the termination of the Merger Agreement with Fortress and Centerbridge), less amounts that the Company has to pay on account of interest, taxes and general facility maintenance. Free cash flow requires management to factor in the costs of capital, assets and acquisitions, as well as operating results and legislative risk.

For the 2008 fiscal year, the payment of annual incentive bonuses in respect of the external measure portion of the Company's annual incentive plan is based upon the Company's achievement of pre-established goals regarding the growth of the its free cash flow per share over a two year period compared against the peer group performance during the same period. In making this determination, we factor in all required adjustments under the 2008 Plan to ensure that non-recurring events, such as timing issues relating to receipt of insurance proceeds or the impact of board approved capital decisions, do not inappropriately impact the Company's or its peer group's data. Further, since the Company's competitors do not publicly disclose the breakdown between project and maintenance capital expenditures (a key component of free cash flow), we assume that maintenance capital expenditures are 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 annual incentive plan:

Threshold:	50 <sup>th</sup> percentile (median) performance
Target:	75 <sup>th</sup> percentile performance
Maximum:	Highest of peers

Since the Company has historically been a top performer, we approved a threshold external measure that provides that, before any award would be paid, the Company must have a result that, when ranked against the Company's peer group, placed the Company in the top one-half of companies in the peer group. The target is set at a ranking equal to at least the middle of the top half of

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competitor results. For maximum payout, the Company must outperform all of the companies in the peer group. We have discretion to pay this award in cash, equity or any combination of cash and equity.

Like the internal measure, we set the ranges of bonuses payable pursuant to the external measure for each executive as a percentage of annual salary, consistent with the standard competitive practice of the Company's peer group for annual incentive programs. The following table shows the range of awards payable pursuant to the external measure for each executive as a percentage of annual base salary:

<b>Executive</b>	<b>Threshold Bonus</b>	<b>Target Bonus</b>	<b>Maximum Bonus</b>
Chairman and Chief Executive Officer	50%	100%	175%
President and Chief Operating Officer	42.5%	85%	148.75%
Senior Vice President and Chief Financial Officer	37.5%	75%	131.25%
Senior Vice President, and General Counsel	25%	50%	87.5%
Vice President, Secretary and Treasurer	25%	50%	87.5%

*Equity Compensation.* We believe that the award of stock options is a critical component of the Company's executive compensation program because stock options most directly tie executive compensation to the Company's ability to increase shareholder value, with respect to which, as illustrated by the total shareholder return table on page 14 of this Proxy Statement, the Company has historically outperformed its peer group. Our experience shows us that equity compensation fosters an atmosphere where employees "think like owners" and are motivated to increase the long-term value of the Company by aligning their interests with those of the Company's shareholders. Accordingly, we believe that equity compensation is an excellent tool to reflect the Company's principles of "pay for performance" so that a portion of each executive's compensation package, particularly stock options, will grow in value as shareholder value is increased even for executives who already hold a sizable number of shares of the Company, such as Mr. Carlino. We also believe that this culture of employee ownership has been a significant contributing factor to the Company's success and will continue to play a vital role in future success. The Company also believes that equity compensation has been a critical tool in attracting and retaining executives with the type of entrepreneurial spirit that we believe is integral to the Company's success.

Consistent with the Board's desire to maximize shareholder value, we have taken steps to protect shareholder interests and promote shareholder value in both the design and the administration of the equity compensation program. Under the terms of the 2008 Plan approved by shareholders at the 2008 Annual Meeting of Shareholders, awards to employees are administered by the Compensation Committee. The vesting schedules for awards are designed to encourage employees to focus on the long-term success of the Company by requiring employees to remain with the Company for a number of years (typically four years) before all or a portion of their awards may be settled. The 2008 Plan neither permits the exercise price of outstanding stock options or stock appreciation rights to be reduced nor permits the grant of discounted stock options or stock appreciation rights. In addition, the 2008 Plan does not provide for cash dividends or the equivalent, except with respect to restricted stock awards. Finally, the 2008 Plan includes a fungible share concept that requires the Company to count each share awarded as restricted stock, phantom stock units or any other "full value" stock award as an award of 2.16 shares for purposes of counting the shares available for issuance under the 2008 Plan.

To counter the dilutive effects of equity compensation, on July 3, 2008, the Company announced the Board's authorization to repurchase up to \$200 million of the Company's common stock through July 2010 through open market or privately negotiated transactions, subject to applicable securities laws and appropriate market conditions. The Company expects that this repurchase program will offset, in large part, the dilutive impact of options and other equity awards payable in common stock under the 2008 Plan. As of March 31, 2009, the Company had repurchased 8,934,984 shares of common stock in

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open market transactions for approximately \$152.6 million at an average price of \$17.05. By way of contrast, the 2008 Plan only authorizes equity awards for a maximum of 6.9 million shares of common stock, and the exercise price of the first annual grant of stock options issued under the 2008 Plan was \$21.38 per share.

In determining the amount of shares subject to options granted under the 2008 Plan, we seek to grant a fixed number of stock options to employees, including the named executive officers, unless individual performance or Company performance merits an adjustment from such amount. We believe that this fixed approach to equity compensation has helped account for the stability that the Company has experienced in its executive management team. By providing a reasonable and predictable amount of equity compensation each year, we have generally been able to retain and strengthen the Company's executive management team through both up years and down years and through, most notably, the extraordinarily long period during which the Merger was pending. In addition, we believe that the fixed grant approach is better for shareholders than an approach that seeks to obtain a particular dollar target based on the presumed value of an option on the date of grant. Under the latter approach, while the amount of stock options needed to meet such target decreases as stock price rises, the reverse is true in declining markets as stock price declines, the amount of stock options needed to meet such targets increases, exacerbating the dilutive impact of the options. In our view, dollar-based stock option grants are not desirable especially in light of the fact that stock options by their very nature are designed to provide compensation to executives only to the extent that the stock price rises above the exercise price. As shown by the current market, such compensation is by no means guaranteed. Further, we do not consider the SFAS 123(R) value of the stock options because we do not believe that the value assigned for this purpose provides as meaningful an indication of value to an executive (particularly in the context of attracting and retaining executives) as reflected for accounting purposes.

*Deferred Compensation.* The Company does not maintain any defined benefit pension programs for its executives. Instead, consistent with the competitive practices of the Company's peer group, the Company maintains an elective non-qualified deferred compensation plan for executives. Pursuant to the plan, the Company provides a match of up to 5% of the base salary and annual bonus that an executive defers under the plan. All amounts deferred by the executive are notionally invested, as directed by the executive, in commonly available mutual funds, and the Company does not guarantee any minimum returns. The plan is unfunded and benefits are paid from the Company's general assets. The Company generally sets aside separately the amounts deferred by the executives and the matching contributions thereon and, to protect against excess liabilities, invests such amounts in the mutual funds notionally selected by each executive. This program is described in more detail beginning on page 35 of this Proxy Statement.

*Benefits and Perquisites.* We believe that executives should be offered customary benefits and perquisites that are reasonable relative to the benefits provided to all employees, are consistent with competitive practices among the Company's peer group and, in certain circumstances, may address a particular reasonable issue or concern of an executive. The standard benefits offered to all of the Company's employees include medical, dental and vision insurance, group life insurance, short and long-term disability and a 401(k) with certain contributions matched by the Company. The Company also provides certain executive officers with the following supplemental benefits and perquisites: life insurance coverage, country club membership, reimbursement for automobile usage, and reasonable personal use of Company aircraft. All such supplemental benefits and perquisites are subject to applicable federal, state and local taxation and the specific detail on the payment of supplemental benefits and perquisites in 2008 can be found on page 31 of this Proxy Statement.

### **Analysis of Compensation**

*Base Salary.* For 2008, we determined that the base salary of each executive officer was competitive, fair and reasonable after reviewing the base salaries of the Company's peer group and

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consideration of the other factors noted above. The base salary of the Chief Executive Officer was at the 56<sup>th</sup> percentile, and the base salaries of the other named executive officers ranged from the 49<sup>th</sup> percentile to the 53<sup>rd</sup> percentile. As a result, we deemed it appropriate to increase each executive officer's base salary by 4%, which is the same general base salary increase that management recommended for all of the Company's other corporate employees. The Company's decision generally to increase the base salaries of all corporate employees by 4% was based on its projection of the labor market movement and its view that such an increase was necessary for the Company to remain competitive in the marketplace.

For 2009, we confirmed that the base salary of each executive officer continued to remain competitive, fair and reasonable after reviewing the base salaries of the Company's peer group and considering the other factors noted above. The base salary of the Chief Executive Officer was at the 57<sup>th</sup> percentile, and the base salaries of the other named executive officers ranged from the 14<sup>th</sup> percentile to the 58<sup>th</sup> percentile. The larger range in base salaries resulted from not including Mr. DeAngelo's base salary in the analysis. Based on this review, we deemed it appropriate to increase each executive officer's base salary by 3%, which is the same general base salary increase that management recommended for all of the Company's other corporate employees. The Company arrived at its decision to increase the base salaries of all corporate employees by 3% based on its view that it was important to convey that, despite the general economic conditions, the impact of the economy on the Company's results of operations, and the fact that generally performance bonuses were not paid with respect to 2008, the Company remained healthy, financially secure and committed to paying competitive compensation to its current employees and to future candidates for employment with the Company.

Set forth below are the 2009 base salaries for each of the named executive officers listed in the Summary Compensation Table:

<b>Executive</b>	<b>2009 Salary</b>	<b>Percentage Increase over 2008 Base Salary</b>
Chairman and Chief Executive Officer	\$ 1,606,800	3%
President and Chief Operating Officer	\$ 1,287,500	3%
Senior Vice President and Chief Financial Officer	\$ 749,840	3%
Senior Vice President and General Counsel	\$ 433,836	3%
Vice President, Secretary and Treasurer	\$ 289,224	3%

*Annual Incentive Internal Measure.* For 2008, as noted above, the Company's operations did not perform well financially relative to the prior fiscal year or relative to expectations at the beginning of 2008. As a result, no payments were made for 2008 under the internal measure portion of the annual incentive plan.

For 2009, the target amount for the internal measure portion of the Company's annual incentive plan was established at \$625.0 million, which is the amount the Company announced as its EBITDA guidance in connection with its fourth quarter 2008 earnings call held on February 5, 2009. For a complete discussion of the assumptions underlying the Company's 2009 estimate of EBITDA and the other risk factors to be considered in connection therewith, please refer to the Company's press release included as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on February 11, 2009. Absent an adjustment as required under the 2008 Plan for certain extraordinary circumstances outside of management's control, such as the recognition of income in respect of insurance proceeds payable for losses resulting from the fire at the Company's Joliet, Illinois facility in March 2009, the threshold EBITDA required to be generated before any compensation becomes payable under the internal measure would be \$612.5 million, and the EBITDA required to be

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generated in order to earn the maximum amount of incentive compensation under the internal measure portion of the annual incentive plan would be \$637.5 million.

*Annual Incentive External Measure.* In July 2008, the Company paid to its named executive officers the amounts set forth in the table below in respect of the external measure component of the annual incentive plan based on the growth of the Company's free cash flow per share over the two year period ended December 31, 2007 as compared against the peer group performance over the same period. The Company's free cash flow results compared to its peers for such period placed the Company in the 73<sup>rd</sup> percentile relative to its peers. Accordingly, executives received an amount for 2007 slightly below the target bonus under the external measure portion of the Company's annual incentive plan. The award for meeting external measure goals was paid in cash.

The payments for the period ended December 31, 2007 under the free cash flow component of the annual incentive plan were as follows:

<b>Executive</b>	<b>2007 Free Cash Flow Incentive Payments</b>
Chairman and Chief Executive Officer	\$ 1,440,000
Chief Financial Officer	\$ 504,000
Senior Vice President and General Counsel	\$ 194,400
Vice President, Secretary and Treasurer	\$ 129,600

Our President and Chief Operating Officer did not receive an award for the period ended December 31, 2007 because his employment with the Company did not commence until February 2008.

For 2008, the peer group's free cash flow results for the period ended December 31, 2008 are not expected to be confirmed until after the date of this Proxy Statement, and, as a result, the external measure portion, if any, of the annual incentive plan has not yet been determined.

For 2009, the free cash flow goals and the ranges of awards payable pursuant to the external measure portion of the annual incentive plan for the Company's executives are the same as they were for 2008 for the reasons described above under "Elements of Compensation Annual Incentive" beginning on page 17.

*Stock Options.* While the Company generally endeavors to make its annual stock option grants on the first business day of the year, in 2008, in light of the then pending Merger with Fortress and Centerbridge, the Company elected to defer the annual grant of stock options. On July 8, 2008, following the termination of the Merger, options to purchase shares of common stock were granted to our named executive officers as follows: Peter M. Carlino, options to purchase 300,000 shares; Timothy J. Wilmott, options to purchase 200,000 shares; William J. Clifford, options to purchase 150,000 shares; Jordan B. Savitch, options to purchase 70,000 shares; and Robert S. Ippolito, options to purchase 40,000 shares. The exercise price of each option was set at \$29.87 per share the closing price of a share of common stock on the trading day prior to grant in accordance with our 2003 Long Term Incentive Compensation Plan. The options granted in 2008 vest at the rate of 25% per year, generally subject to the executive's continued employment.

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Consistent with our philosophy regarding stock option grants, we granted the same fixed number of shares in 2008 to Mr. Carlino as were granted in 2007. In granting a fixed number of stock options to the Chief Executive Officer for 2008, we considered the extent to which the grant would reward the Chief Executive Officer for increasing shareholder value and the Chief Executive's central role in overseeing the Company's success. We also considered the size of the grant in relation to the total shares outstanding, which represented approximately 0.38% of the total shares outstanding. Further, we considered the Company's performance against its peers which, as more fully described in the Proxy Statement for the 2008 Annual Meeting of Shareholders, placed the Company among the top performers in the industry across a broad range of categories. Based on these factors, we determined, as we have 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.

With respect to the other named executive officers, we utilized a methodology based on the number of options granted to the Chief Executive and then adjusted downward so that the size of the grants were approximately proportionate to the difference in the total cash opportunity available to each of the named executive officers. We then further adjusted the amounts based on input from the Chief Executive Officer regarding such qualitative factors as specific position duties and responsibilities, tenure with the Company, individual contribution and position value to the Company. Based on these factors, we determined that Mr. Wilmott should receive an initial grant of 200,000 shares and that Mr. Ippolito should receive the same number of shares in 2008 as were granted in 2007. Mr. Clifford's option grant was increased from 100,000 shares in 2007 to 150,000 shares in 2008 to reflect both increased operational responsibilities as well as increased responsibility in light of the greater complexity, frequency and magnitude of the Company's merger and acquisition activities. Similarly, Mr. Savitch's option grant was increased from 50,000 shares in 2007 to 70,000 shares in 2008 to reflect increased responsibility in light of the greater complexity, frequency and magnitude of the Company's merger and acquisition activities.

Effective December 31, 2008, the Board also extended the term of the Company's outstanding options from seven years to ten years. At such time, most of the Company's outstanding stock options were underwater due to the drop in the overall stock market in 2008, and we did not believe the economy would recover quickly enough to a level that would restore the retention value of the stock options. At the same time, we also determined that it would be contrary to the Company's pay-for-performance philosophy to re-price the options or offer some type of share exchange, or to grant additional awards to make up for the decline in share prices. Accordingly, after considering the various alternatives and factors, we decided that a balanced approach to addressing this issue would be to extend the expiration period of outstanding options from seven years to ten years. We did not, however, extend the term of any options held by the Chief Executive Officer, as such options were initially issued with ten year terms. In addition, with respect to options that were "in-the-money", we determined that such options could only be extended if the executive agreed to limit his or her ability to exercise to a specified year.

On January 2, 2009, we made annual stock option grants to the Company's officers and key employees for 2009. Consistent with our philosophy regarding option grants, we granted the same fixed number of shares in 2009 to the Chief Executive Officer and the other named executive officers as were granted in 2008. Options to purchase shares of common stock were granted to the named executive officers as follows: Peter M. Carlino, options to purchase 300,000 shares; Timothy J. Wilmott, options to purchase 200,000 shares; William J. Clifford, options to purchase 150,000 shares; Jordan B. Savitch, options to purchase 70,000 shares; and Robert S. Ippolito, options to purchase 40,000 shares. The exercise price of such options was set at \$21.38 per share the closing price of the common stock on December 31, 2008, the trading day prior to the date of grant in accordance with the 2008 Plan. The 2009 options vest at the rate of 25% per year, generally subject to continued employment.

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**Employment Agreements**

The purpose of this section is to provide an overview of the strategic rationale for the use of employment agreements, as well as an analysis of certain key terms utilized in the employment agreements for the named executive officers. For a detailed discussion of the terms contained in each named executive officer's employment agreement, please refer to pages 39 to 41 of this Proxy Statement.

*Strategic Considerations*

There are a number of strategic objectives that we hope to achieve by entering into employment agreements with certain key employees:

Attract and retain talented executives;

Limit potential liability emanating from the termination of executives, including the total severance that may be paid to an executive in the event that the Company elects to terminate him or her without cause;

Provide an effective retention mechanism, particularly during the extraordinarily long period that it takes to consummate a transaction in the gaming industry; and

Provide the Company with effective and comprehensive protection of its strategic plans, intellectual property and human capital.

The Company generally seeks to enter into employment agreements with corporate executives having the title of vice president and above and with the general manager of each of its gaming and racing properties. In arriving at this determination, the Company sought to minimize the number of individuals with whom it had employment agreements while at the same time achieving the objectives above. Relevant to this approach, the Company considers the standard competitive practices in the gaming and racing industry. For key employees with whom the Company does not seek to have employment agreements, the Company has designed other policies and programs for attracting and retaining talented individuals.

In 2008, the Company entered into amended and restated employment agreements with each of its named executive officers, primarily to address changes required by Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, the Company amended the terms of Mr. Wilmott's agreement, which had been negotiated while the Merger had been pending and in contemplation of additional arrangements between Mr. Wilmott and Fortress and Centerbridge, to be consistent with the terms applicable to the Company's other named executive officers.

*Key Terms*

*Term.* The term of the employment agreement for each of the Chairman and Chief Executive Officer and the President and Chief Operating Officer is five years. Each other named executive officer's employment agreement has a three year term. The Company believes that the length of each employment term represents a reasonable period for which the Company and the executive will mutually commit to maintain the employment relationship. For the Company, this provides stability and predictability among its leadership ranks. For the executive, this provides a reasonable but limited assurance of job security designed to foster an environment of entrepreneurial risk taking where the executive can focus on building long-term shareholder value.

With respect to Mr. Wilmott, the five-year term was intended to provide a reasonable period of time for the Company and Mr. Wilmott to mutually determine whether Mr. Wilmott would have the opportunity to serve as the Company's Chief Executive Officer. Accordingly, Mr. Wilmott's employment agreement does not require the Company to appoint him Chief Executive Officer but it does provide



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Mr. Wilmott with the option after three years to resign for good reason (and be entitled to the termination payments described below under "Termination") if he is not appointed Chief Executive Officer.

With respect to Mr. Carlino, the five-year term was deemed reasonable given the leadership and accomplishment Mr. Carlino has demonstrated over the 15 years he has served the Company. Among other things, the Board credits Mr. Carlino with putting together the acquisition strategy and recruiting the management team that has fueled the Company's growth since 1994.

*Termination and Restrictive Covenants.* The Company offers certain additional payments to its named executive officers if the Company elects to terminate the executive's employment without "cause" or as a result of death or total disability. Such termination payments are not available to the executive if the executive resigns (regardless of whether or not such executive has good reason except as noted above with respect to Mr. Wilmott) or if the executive is terminated for "cause." All termination payments are expressly conditioned on the executive providing a written release of all liabilities to the Company and the executive's agreement to comply with the restrictive covenants described below for the time period for which such payments are made. All payments are subject to forfeiture and/or clawback in the event that the executive breaches any term of the restrictive covenants.

Each employment agreement contains a comprehensive set of restrictive covenants designed to provide the Company with a reasonable degree of protection of its strategic plans, intellectual property and human capital. Generally, each employment agreement contains prohibitions on (i) competition with the Company anywhere in North America, (ii) solicitation of any employees of the Company or any of its subsidiaries, and (iii) disclosure and use of any of the Company's confidential information.

The minimum number of months that each executive is bound by the restrictive covenants are as follows: 36 months for the Chairman and Chief Executive Officer, 24 months for the President and Chief Operating Officer and the Senior Vice President and Chief Financial Officer and 18 months for all other named executive officers. The Board selected these time periods based on its determination about the extent to which each individual's tenure with, and knowledge of, the Company might be used to adversely impact the Company's strategic plans, intellectual property or human capital. If an executive violates any of these provisions, in addition to any other legal or equitable remedies available to the Company, the executive must repay to the Company all amounts paid upon termination, forfeit any amounts then still payable in connection with such termination and, as set forth in the applicable compensation plans, forfeit all outstanding equity awards (regardless of whether such awards had vested before or after termination). In limited circumstances, an executive may opt out of the non-competition provision provided such executive repays any amounts paid and forfeits amounts payable by the Company in respect of the period for which such executive has elected to opt out.

The additional payments consist of a cash payment equal to the executive's base salary and annual cash bonus (based on the highest salary and annual cash bonus paid during the previous two years calculated on a monthly basis) multiplied by the greater of (i) the minimum number of months that such executive is bound by the restrictive covenants and (ii) the number of months remaining in the employment term. In addition, the executive is permitted continued vesting of stock options during the period for which the executive remains bound by restrictive covenants. The Board selected these amounts based on the rationale that it was willing to continue to pay each executive an amount reflecting the foregone compensation over the period that the Company desired the executive to remain subject to the restrictive covenants in the event the Company elects to terminate the executive's employment without cause.

*Change in Control.* In the event of a change in control, each named executive officer is entitled to receive a cash payment equal to three times the sum of their base salary and annual cash bonus (based on the highest amount paid in the two preceding calendar years). Such payment would be made in two

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lump sums with 75% paid on the closing date of the change in control and 25% paid on the 75<sup>th</sup> day following the change in control, subject to the executive's continued employment with the Company during such period (unless earlier terminated by the Company). In addition, upon a change in control, any unvested equity compensation held by any employee of the Company, including any named executive officer, will become vested. To the extent that an executive receives a cash change-in-control payment, such executive will not be eligible to receive any additional cash severance in the event of a termination of employment during the employment term.

In providing executives with a "single trigger" change in control payment, we believe that we have carefully considered the costs and benefits of such a provision as compared to a "double trigger" change in control provision. Conceptually, the former type of provision triggers a payment upon the occurrence of a single event, typically the closing of a change in control transaction, whereas the latter type of provision typically requires both a change in control and a subsequent termination of employment. Given the long period of time it takes to consummate change in control transactions involving a publicly-traded, multi-jurisdictional gaming and racing company, it has been our experience that a "single trigger" change in control payment provides the Company with an effective and durable retention mechanism that incentivizes each named executive officer to remain with the Company during the long period between entering into an agreement that will result in a change in control and the consummation of that change in control. As demonstrated by the Company's own experiences in its acquisitions of Hollywood Casino Corporation and Argosy Gaming Company as well as the recent transactions involving Harrah's Entertainment Inc. and Stations Casinos, Inc., change in control transactions in the gaming and racing industry can take between eleven and fifteen months to complete because of the regulatory, investigatory and administrative requirements across a variety of jurisdictions. As a result of the Company's change in control arrangements, during the pendency of the closing of a transaction, the Company's executives are strongly incentivized to remain employed and to continue to work towards the consummation of a transaction favorable to shareholders.

We believe that the value of our single trigger change in control provisions was amply demonstrated in the events surrounding the potential Merger with Fortress and Centerbridge. The Company entered into the Merger Agreement on June 15, 2007. The terms of the Merger Agreement provided that, subject to certain conditions, the parties had approximately 16 months to complete the transaction. Upon announcement, the Company's stock price immediately jumped 31% over the closing price of the common stock on June 14, 2007 to \$62.12 per share and continued to trade above \$56 per share through December 31, 2007. Absent the "single trigger" change in control provisions, we believe that each of the Company's executive officers would have had a compelling reason to resign his or her position to realize the benefit of the premium in the Company's stock price. However, we believe that the design of the Company's change in control provisions resulted in the Company successfully retaining its entire management team, which we view as a critical benefit to the Company and its shareholders since the Merger transaction was ultimately terminated.

In determining the cash portion of the any potential change in control payment, we also considered the impact such provisions (including the potential impact of the excise tax gross up described below) might have on the value of the Company and concluded that such amounts are reasonable given the benefits received by the Company. For example, in the Merger, the total amount of payments that could have been made to named executive officers on account of change in control provisions (including gross up payments where applicable) in their employment agreements accounted for approximately 0.34% of the total consideration that would have been paid upon consummation of the transaction.

*Excise Tax Gross-Up.* Each executive's employment agreement provides him with protection if a change in control or termination payment results in an excise tax under Section 280G of the Code. In such event, the executive officer is entitled to a gross-up payment to the extent necessary so that the net amount paid to the executive is equal to the amount that would have otherwise been due to the

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executive under the applicable terms of the employment agreement absent the impact of Section 280G of the Code. We believe that such gross up payments are appropriate to ensure that an executive does not lose the benefits of the payments to which such tax may be applied. If the excise tax were to reduce the net after-tax amount received by the executive, the benefits to the Company of the employment agreements—namely, retention during change in control transactions and compliance with restrictive covenants following involuntary terminations of employment—would be proportionately diminished.

In addition, the excise tax creates disproportionate and adverse impacts on different classes of executives. Since it is generally calculated based on the amount of change-in-control payments relative to an executive's average taxable income from the Company over the five year period preceding the change in control, an executive with a lower average income will more likely be subject to the excise tax than a similarly situated executive with a higher income history. For example, contrary to the notion of long term value creation, the excise tax is more likely to be imposed on an executive who chooses not to exercise (and therefore not to generate income on) his stock options prior to a change in control since the executive will have a lower average compensation history than an executive who exercised and previously recognized income on his options. Further, by setting reasonable levels of payments in respect of change in control transactions and post-termination restrictive covenants, the Company does not believe that the payment of any gross up amounts in respect of the excise tax is likely to adversely impact the value of the Company. Finally, especially in light of the long period necessary for the Company to close a change in control transaction, the Company believes that it can mitigate or eliminate the need to gross up any payments.

### **Other Compensation Policies**

*Statutory and Regulatory Considerations.* In designing the Company's compensatory programs, we consider the various tax, accounting and disclosure rules associated with various forms of compensation. We also review and consider the deductibility of executive compensation under Section 162(m) of the Code, which generally provides that the Company may not deduct certain compensation of more than \$1 million that is paid to certain individuals. The Company generally will be entitled to take tax deductions related to performance-based compensation or to compensation not payable until the executive leaves the Company, which may include cash incentives, stock options, restricted stock or other performance-based award. We seek to preserve the Company's tax deductions for executive compensation to the extent consistent with the Company's executive compensation objectives. However, we may also from time to time consider compensation that may not be fully tax deductible if we believe such compensation is warranted to achieve the Company's objectives.

*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, we 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, we 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 we approve such grants after the completion of the Company's budget for such year but in advance of the beginning of such year. In addition, with respect to executive officers subject to the reporting requirements of Section 16 of the Exchange Act, grants made by us 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. The stock option procedure is designed to make the timing of option grants predictable and prevent grant timing abuses. Options granted in 2009 to executives were granted in accordance with this procedure. With respect to 2008, however, the Company elected to defer the annual grant of stock options during the pendency of the Merger. Options were granted on the first business day following the termination of the Merger, which date we

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determined was consistent with the stock option grant procedure given the extraordinary circumstances. All grants are priced in accordance with the terms of the applicable equity compensation plans, which requires, among other things, that the exercise price of all stock options be established by reference to the closing price on the trading day immediately prior to the date of grant.

**Report of the Compensation Committee**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth on pages 13 through 28 of this Proxy Statement (the "Compensation Discussion and Analysis") with the management of the Company.

Based on the review and discussions described above, the Compensation Committee recommended to the Company's Board of Directors that the Company's Compensation Discussion and Analysis be included in this Proxy Statement and, by reference, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**Compensation Committee of  
the Board of Directors**

Harold Cramer, Chairman  
David A. Handler  
Barbara Z. Shattuck

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The following table summarizes certain information with respect to the Company's compensation plans and individual compensation arrangements under which the Company's equity securities have been authorized for issuance as of the fiscal year ended December 31, 2008:

<b>Plan Category</b>	<b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>(b) Weighted-average price of outstanding options, warrants and rights (\$)</b>	<b>(c)* Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by shareholders	8,780,828	\$ 28.3252	6,900,000
Equity compensation plans not approved by shareholders	23,750	7.95	
<b>Total</b>	<b>8,804,578</b>	<b>\$ 28.2702</b>	<b>6,900,000</b>

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The 2008 Long Term Incentive Compensation Plan provides that while awards of stock options and stock appreciation rights are counted as one share of common stock granted under such plan, awards of restricted stock, phantom stock units and other full value stock awards are counted as issuing 2.16 shares of common stock per share awarded for purposes of determining the number of shares available for issuance under such plan.

*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 which 23,750 shares are vested and unexercised, 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 Long Term Incentive 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.

Table of Contents**Summary Compensation Table**

The following table sets forth information concerning the compensation earned during the fiscal years ended December 31, 2008, 2007 and 2006 by the Company's Chief Executive Officer, Chief Financial Officer, the three other most highly compensated individuals serving as executive officers on December 31, 2008, and Leonard DeAngelo, who would have been included in the former group if he had been an executive officer on December 31, 2008 (collectively, the "Named Executive Officers"):

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus (1)</b>	<b>Stock Awards (\$)(2)</b>	<b>Option Awards (\$)(3)</b>	<b>Non-Equity Incentive Plan Compensation (\$)(4)</b>	<b>All Other Compensation (\$)(5)</b>	<b>Total (\$)</b>
Peter M. Carlino	2008	1,560,000		879,883	4,525,088		279,277	7,244,248
Chairman and Chief	2007	1,500,000		877,479	4,557,912	3,690,000	462,166	11,087,557
Executive Officer	2006	1,400,000	1,400,000	864,424	3,556,757		450,797	7,671,978
Timothy J. Wilmott(6)	2008	1,105,769			257,295		76,797	1,439,861
President and Chief	2007							
Operating Officer	2006							
William J. Clifford	2008	728,000		265,460	1,874,550		(3,303,638)	(435,628)
Senior Vice President	2007	700,000		264,735	1,820,343	1,291,500	3,606,593	7,683,171
and Chief Financial Officer	2006	585,000	585,000	256,031	1,486,624		141,346	3,054,001
Leonard M. DeAngelo(7)	2008	3,695,077		467,819	3,487,001		(3,623,445)	4,026,452
Executive Vice President	2007	750,000		264,735	1,987,806	1,383,750	3,770,592	8,156,883
of Operations	2006	650,000	625,000	256,031	1,606,786		63,450	3,201,267
Jordan B. Savitch	2008	421,200		132,730	1,022,987		(1,255,474)	321,443
Senior Vice President	2007	405,000		132,367	905,877	498,150	1,334,092	3,275,486
and General Counsel	2006	390,000	260,000	128,016	808,306		23,876	1,610,198
Robert S. Ippolito	2008	280,800		132,730	906,359		23,519	1,343,408
Vice President, Secretary	2007	270,000		132,367	832,811	332,100	42,204	1,609,482
and Treasurer	2006	260,000	182,000	128,016	711,351		34,100	1,315,467

- (1) The 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 each of the years presented 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 statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- (3) The amounts reflect the dollar value recognized, in accordance with SFAS 123(R), for financial statement reporting purposes during each of the years presented 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 included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- (4) These amounts reflect awards (if any) in 2007 and 2008 pursuant to the (i) internal measure portion of the Company's annual incentive plan, which provided for the payment of incentive compensation upon the Company's achievement of pre-established EBITDA goals and (ii) external measure portion of the Company's annual incentive plan, which provided for the payment of incentive compensation upon the Company's achievement of pre-established free cash flow performance goals relative to that of the Company's peers. Based on the Company's EBITDA and free cash flow performance for 2007, the executives received the maximum payout for the internal measure and an amount slightly below the target payout for the external measure of the Company's annual incentive plan for 2007. Based on the Company's EBITDA performance for 2008, the executives did not receive a payout for the internal measure and because the external free cash flow measure is calculated using publicly-available information regarding the peer group, the payout has not yet been determined. See discussion in "Compensation Discussion and Analysis" beginning on page 21.
- (5) See All Other Compensation Table below for more information.
- (6) Mr. Wilmott joined the Company on February 5, 2008.
- (7) Mr. DeAngelo ceased being an executive officer of the Company effective as of August 1, 2008. The amount reflects \$507,577 in salary earned through August 1, 2008 and \$3,187,500 in severance.



Table of Contents**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 Deferred Compensation Plan \$(1)	Company Contributions to 401(k) \$(2)	Company- Paid Insurance Premiums \$(3)	Club Memberships \$(4)	Perquisites		Other \$(6)	Total \$(7)
						Personal Use of Company Vehicle \$(4)	Personal Use of Company Airplane \$(5)		
Peter M. Carlino	2008	78,109	4,600		2,785		193,783		279,277
	2007	264,459	4,500		2,606		190,601		462,166
	2006	119,615	4,400	124,406	3,724	2,459	196,193		450,797
Timothy J. Wilmott	2008	52,937		23,860					76,797
	2007								
	2006								
William J. Clifford	2008	36,430	5,037				64,770	(3,409,875)	(3,303,638)
	2007	104,885	4,500				87,333	3,409,875	3,606,593
	2006	54,168	4,400				82,778		141,346
Leonard M. DeAngelo	2008	25,307	4,686					(3,653,438)	(3,623,445)
	2007	111,104	4,500	1,550				3,653,438	3,770,592
	2006	57,500	4,400	1,550					63,450
Jordan B. Savitch	2008	21,064	4,600					(1,281,138)	(1,255,474)
	2007	48,454	4,500					1,281,138	1,334,092
	2006	19,476	4,400						23,876
Robert S. Ippolito	2008	14,087	4,600	2,769		2,063			23,519
	2007	32,872	4,500	2,769		2,063			42,204
	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 life insurance policy premiums and other insurance premiums paid by the Company on behalf of the executives.
- (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 for 2007 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, subject to repayment in certain situations. 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. Amounts for 2008 represent the exact amount included as wages in the prior year. As of December 31, 2008, 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.



Table of Contents**2008 Grants of Plan-Based Awards**

The following table sets forth certain information regarding grants of plan-based awards in 2008:

Name	Grant Date	Grant Board Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			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)
			Threshold (\$)	Target (\$)	Maximum (\$)			
Peter M. Carlino Options	7/8/2008	7/2/2008				300,000	29.87	3,203,760
Peter M. Carlino EBITDA(4)			780,000	1,560,000	2,340,000			
Peter M. Carlino Free Cash Flow(5)			780,000	1,560,000	2,730,000			
Timothy J. Wilmott Options	7/8/2008	7/2/2008				200,000	29.87	2,300,545
Timothy J. Wilmott EBITDA(4)			531,250	1,062,500	1,593,750			
Timothy J. Wilmott Free Cash Flow(5)			531,250	1,062,500	1,859,375			
William J. Clifford Options	7/8/2008	7/2/2008				150,000	29.87	1,725,409
William J. Clifford EBITDA(4)			273,000	546,000	819,000			
William J. Clifford Free Cash Flow(5)			273,000	546,000	955,500			
Leonard M. DeAngelo Options								
Leonard M. DeAngelo EBITDA(4)								
Leonard M. DeAngelo Free Cash Flow(5)								
Jordan B. Savitch Options	7/8/2008	7/2/2008				70,000	29.87	805,191
Jordan B. Savitch EBITDA(4)			105,300	210,600	315,900			
Jordan B. Savitch Free Cash Flow(5)			105,300	210,600	368,550			
Robert S. Ippolito Options	7/8/2008	7/2/2008				40,000	29.87	460,109
Robert S. Ippolito EBITDA(4)			70,200	140,400	210,600			
Robert S. Ippolito Free Cash Flow(5)			70,200	140,400	245,700			

- (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 included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- (4) These amounts reflect awards for 2008 pursuant to the internal measure portion of the Company's annual incentive plan, which provides for the payment of incentive compensation upon the Company's achievement of pre-established EBITDA goals. Based on the Company's EBITDA performance for 2008, the executives did not receive any payments in connection with the internal measure portion of the Company's Annual Incentive Plan. See discussion in "Compensation Discussion and Analysis" beginning on page 21.
- (5) These amounts reflect awards for 2008 pursuant to the external measure portion of the Company's annual incentive plan, which provides 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, this bonus amount has not yet been determined. See discussion in "Compensation Discussion and Analysis" beginning on page 22.



Table of Contents**Outstanding 2008 Equity Awards at Fiscal Year-End**

The following table sets forth information concerning equity awards outstanding as of December 31, 2008:

Name	Option Grant Date(1)	Option Awards Number of securities underlying unexercised options			Option Exercise Price (\$)	Option Expiration Date	Stock Awards		
		Exercisable (#)	Unexercisable (#)(1)	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	3,420,800
	01/29/04	150,000			12.15	01/29/14	01/12/06	60,000	1,282,800
	01/06/05	411,300	150,000		29.22	01/06/15			
	01/12/06	150,000	150,000		33.12	01/12/16			
	01/02/07	75,000	225,000		41.62	01/02/17			
	07/08/08		300,000		29.87	07/08/18			
Timothy J. Wilmott	07/08/08		200,000		29.87	07/08/18			
William J. Clifford	02/06/03	87,422			7.95	02/06/10	01/12/06	40,000	855,200
	01/29/04	100,000			12.15	01/29/11			
	01/06/05	225,000	75,000		29.22	01/06/15			
	01/12/06	50,000	50,000		33.12	01/12/16			
	01/02/07	25,000	75,000		41.62	01/02/17			
	07/08/08		150,000		29.87	07/08/18			
Leonard M. DeAngelo(4)	07/21/03	95,619			10.06	07/21/10	01/12/06	20,000	427,600
	01/29/04	61,770			12.15	01/29/11			
	01/06/05	120,000	40,000		29.22	01/06/12			
	01/12/06	50,000	50,000		33.12	01/12/13			
	07/31/06	125,000	125,000		33.43	07/31/13			
Jordan B. Savitch	09/03/02	41,760			8.73	09/03/12	01/12/06	20,000	427,600
	01/29/04	20,920			12.15	01/29/11			
	01/29/04	37,080			12.15	12/31/13			
	01/06/05	105,000	35,000		29.22	01/06/15			
	01/12/06	25,000	25,000		33.12	01/12/16			
	01/02/07	12,500	37,500		41.62	01/02/17			
	07/08/08		70,000		29.87	07/08/18			
Robert S. Ippolito	02/06/03	6,000			7.95	12/31/10	01/12/06	20,000	427,600
	01/29/04	8,230			12.15	01/29/11			
	01/29/04	51,770			12.15	12/31/12			
	01/06/05	90,000	30,000		29.22	01/06/15			
	01/12/06	30,000	30,000		33.12	01/12/16			
	01/02/07	10,000	30,000		41.62	01/02/17			
	07/08/08		40,000		29.87	07/08/18			

(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)

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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, 2008 (\$21.38), which was the last trading day of 2008.
- (4) In connection with his departure from the Company, Mr. DeAngelo forfeited 20,000 shares of restricted stock and those shares are not included in this table.

Table of Contents**2008 Option Exercises and Stock Vested**

The following table sets forth information concerning options exercised during fiscal 2008 (no restricted stock awards held by the Named Executive Officers vested during 2008):

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
Peter M. Carlino		
Timothy J. Wilmott		
William J. Clifford	19,776	271,242
Leonard M. DeAngelo	8,230	68,226
Jordan B. Savitch	2,500	29,413
Robert S. Ippolito	7,946	199,855

**2008 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	156,218	78,109	(1,141,981)	(2,898)	1,834,523
Timothy J. Wilmott	211,749	52,937	(58,144)	(126)	206,416
William J. Clifford	72,859	36,430	(198,826)	(1,133)	1,365,910
Leonard M. DeAngelo	50,615	25,307	(394,274)	(1,569)	658,116
Jordan B. Savitch	42,127	21,064	(85,220)	(535)	199,094
Robert S. Ippolito	28,173	14,087	(310,596)	(359)	556,393

- (1) For each Named Executive Officer, the Executive's contribution is included in the Named Executive Officer's salary and/or bonus for 2008, as reported in the Summary Compensation Table.
- (2) For each Named Executive Officer, the Company contribution is included in the Named Executive Officer's other compensation for 2008, as reported in the Summary Compensation Table.
- (3) Amounts reflect the diminution in account value during 2008. No amounts are reported in Summary Compensation Table because earnings were 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	2,745,075
Timothy J. Wilmott	
William J. Clifford	1,456,580
Leonard M. DeAngelo	978,037
Jordan B. Savitch	221,658

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Robert S. Ippolito

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825,088

\*

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 2007.

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*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 of Directors.

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 deferred prior to December 31, 2004 at any time subject to a 10% withdrawal penalty. Certain specified employees have a six-month delay imposed upon distributions pursuant to a severance from service, as required by the final Code section 409A regulations. Upon a change in control, all benefits will be distributed in a single lump sum payment.

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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 2008 and their rate of return for the calendar year ended December 31, 2008.

Name of Fund	Rate of Return 2008
GWL - Fidelity VIP Money Mkt SC2	2.77%
GWL - Maxim Money Mkt	1.90%
Vanguard Federal Mkt (VMFXX)	2.53%
GWL - PIMCO VIT Short-Term: AC	0.31%
GWL - Vanguard VIF Ttl Bond Idx	5.23%
GWL - PIMCO VIT Tot Return: AC	4.80%
GWL - Maxim LS Corp Bd	21.76%
GWL - PIMCO VIT Real Ret: AC	7.05%
GWL - T.Rowe PerStrat Bal	29.88%
GWL - DWS VS II Dreman HiRet Eq A	45.98%
GWL - Vanguard VIF Int'l	36.14%
DWS Dreman HiRet Eq R (KDHRX)	45.67%
GWL - Dreyfus Stock Idx	37.14%
GWL - Fidelity VIP Contrafund SC 2	42.69%
GWL - Vanguard VIF Total Stk Mkt Index	37.28%
GWL - Neuberger AMT Partners	52.39%

Participants may change their investment elections at any time.

**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. Except with respect to Leonard DeAngelo, where actual amounts paid pursuant to his separation on August 1, 2008 are provided on page 30 in the Summary Compensation Table, the amounts shown assume that such termination or change in control was effective as of December 31, 2008, and thus include amounts earned through such time and are based (where applicable) on the closing price of the Company's common stock on such date (which was \$21.38 per share) 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. For a description of the severance and change of control provisions giving rise to the payments set forth below, see pages 25 through 27 of this Proxy Statement.



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**Post-Employment Payments Peter M. Carlino**

<b>Executive Payments</b>	<b>Voluntary Termination by Executive (\$)</b>	<b>Termination without Cause by Company (\$)</b>	<b>Termination for Cause by Company (\$)</b>	<b>Termination Upon Death (\$)</b>	<b>Termination upon Disability (\$)</b>	<b>Change in Control (\$)(1)</b>	<b>Change in Control Termination without Cause (\$)</b>
Cash Severance Benefit(2)		11,430,000		11,430,000	11,430,000	11,430,000	11,430,000
Benefit Continuation(3)		34,690		34,690	34,690		34,690
Restricted Shares(4)				4,703,600	4,703,600	4,703,600	4,703,600
Unvested Stock Options(5)						(6)	
Vested Stock Options(5)	2,391,750	2,391,750	2,391,750	2,391,750	2,391,750	2,391,750	2,391,750
Vested Deferred Compensation Balance(7)	1,834,523	1,834,523	1,834,523	1,834,523	1,834,523	1,834,523	1,834,523
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a		
<b>Total</b>	<b>\$ 4,226,273</b>	<b>\$ 15,690,963</b>	<b>\$ 4,226,273</b>	<b>\$ 20,359,873</b>	<b>\$ 20,394,563</b>	<b>\$ 20,359,873</b>	<b>\$ 20,394,563</b>

**Post-Employment Payments Timothy J. Wilmott**

<b>Executive Payments</b>	<b>Voluntary Termination by Executive (\$)</b>	<b>Termination without Cause by Company (\$)</b>	<b>Termination for Cause by Company (\$)</b>	<b>Termination Upon Death (\$)</b>	<b>Termination upon Disability (\$)</b>	<b>Change in Control (\$)(1)</b>	<b>Change in Control Termination without Cause (\$)</b>
Cash Severance Benefit(2)		5,625,000		5,625,000	5,625,000	3,750,000	3,750,000
Benefit Continuation(3)		64,805		64,805	64,805		43,203
Restricted Shares(4)							
Unvested Stock Options(5)							
Vested Stock Options(5)							
Vested Deferred Compensation Balance(7)	173,370	173,370	173,370	173,370	173,370	173,370	173,370
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a		
<b>Total</b>	<b>\$ 173,370</b>	<b>\$ 5,863,175</b>	<b>\$ 173,370</b>	<b>\$ 5,863,175</b>	<b>\$ 5,863,175</b>	<b>\$ 3,923,370</b>	<b>\$ 3,966,573</b>

**Post-Employment Payments William J. Clifford**

<b>Executive Payments</b>	<b>Voluntary Termination by Executive (\$)</b>	<b>Termination without Cause by Company (\$)</b>	<b>Termination for Cause by Company (\$)</b>	<b>Termination Upon Death (\$)</b>	<b>Termination upon Disability (\$)</b>	<b>Change in Control (\$)(1)</b>	<b>Change in Control Termination without Cause (\$)</b>
Cash Severance Benefit(2)		3,697,820		3,697,820	3,697,820	4,546,500	4,546,500
Benefit Continuation(3)		30,615		30,615	30,615		36,738
Restricted Shares(4)				855,200	855,200	855,200	855,200
Unvested Stock Options(5)					(6)	(6)	
Vested Stock Options(5)	2,097,077	2,097,077	2,097,077	2,097,077	2,097,077	2,097,077	2,097,077

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Vested Deferred Compensation Balance(7)	1,365,910	1,365,910	1,365,910	1,365,910	1,365,910	1,365,910	1,365,910
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a	n/a	
Total	\$ 3,462,987	\$ 7,191,422	\$ 3,462,987	\$ 8,046,622	\$ 8,046,622	\$ 8,864,687	\$ 8,901,425

Table of Contents**Post-Employment Payments Jordan B. Savitch**

<b>Executive Payments</b>	<b>Voluntary Termination by Executive (\$)</b>	<b>Termination without Cause by Company (\$)</b>	<b>Termination for Cause by Company (\$)</b>	<b>Termination Upon Death (\$)</b>	<b>Termination upon Disability (\$)</b>	<b>Change in Control (\$)(1)</b>	<b>Change in Control Termination without Cause (\$)</b>
Cash Severance Benefit(2)		1,768,878		1,768,878	1,768,878	2,174,850	2,174,850
Benefit Continuation(3)		36,003		36,003	36,003		43,203
Restricted Shares(4)				427,600	427,600	427,600	427,600
Unvested Stock Options(5)				(6)	(6)		
Vested Stock Options(5)	1,063,604	1,063,604	1,063,604	1,063,604	1,063,604	1,063,604	1,063,604
Vested Deferred Compensation Balance(7)	199,094	199,094	199,094	199,094	199,094	199,094	199,094
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a		
<b>Total</b>	<b>\$ 1,262,698</b>	<b>\$ 3,067,579</b>	<b>\$ 1,262,698</b>	<b>\$ 3,495,179</b>	<b>\$ 3,495,179</b>	<b>\$ 3,865,148</b>	<b>\$ 3,908,351</b>

**Post-Employment Payments Robert S. Ippolito**

<b>Executive Payments</b>	<b>Voluntary Termination by Executive (\$)</b>	<b>Termination without Cause by Company (\$)</b>	<b>Termination for Cause by Company (\$)</b>	<b>Termination Upon Death (\$)</b>	<b>Termination upon Disability (\$)</b>	<b>Change in Control (\$)(1)</b>	<b>Change in Control Termination without Cause (\$)</b>
Cash Severance Benefit(2)		1,179,252		1,179,252	1,179,252	1,449,900	1,449,900
Benefit Continuation(3)		36,003		36,003	36,003		43,203
Restricted Shares(4)				427,600	427,600	427,600	427,600
Unvested Stock Options(5)				(6)	(6)		
Vested Stock Options(5)	634,380	634,380	634,380	634,380	634,380	634,380	634,380
Vested Deferred Compensation Balance(7)	556,393	556,393	556,393	556,393	556,393	556,393	556,393
Life Insurance Payment	n/a	n/a	n/a	200,000(9)	n/a	n/a	n/a
Excise Tax Gross-Up(8)	n/a	n/a	n/a	n/a	n/a		
<b>Total</b>	<b>\$ 1,190,773</b>	<b>\$ 2,406,028</b>	<b>\$ 1,190,773</b>	<b>\$ 3,033,628</b>	<b>\$ 2,833,628</b>	<b>\$ 3,068,273</b>	<b>\$ 3,111,476</b>

- (1) Upon the occurrence of a change in control, the change in control payment is payable, and the stock options and restricted stock accelerate; no termination of employment is required.
- (2) Basis for cash severance benefit upon a change in control is 2008 salary plus highest bonus earned over years 2008 and 2007.
- (3) Represents employer cost of medical and dental coverage.
- (4)

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Restricted stock award values were computed based on the closing stock price of the Company's common stock on December 31, 2008 (\$21.38).

- (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, 2008 (\$21.38).
- (6) Unvested options that would vest during the applicable severance period vest upon termination but may not be exercised until the time that such options would have vested had the executive continued to be employed through the applicable severance period. 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. Wilmott joined the Company in February 2008, at December 31, 2008, the Company's contributions to his deferred compensation account were only 20% vested.

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- (8) None of the executives would have been entitled to receive an excise tax gross-up as of December 31, 2008.
- (9) Assuming the benefit became payable on December 31, 2008, the beneficiaries of the insurance policy would be required to reimburse the Company for \$53,052 in premiums on the policy previously paid by the Company.

**Employment Agreements**

In addition to the key terms relating to severance, change of control, restrictive covenants and tax gross-up provisions described on pages 25 through 27 of this Proxy Statement, each employment agreement provides for additional compensation through participation in the Company's annual incentive plan, eligibility for awards under the Company's long term incentive compensation plans then in effect and certain other benefits, including health, vacation and deferred compensation. If the Company elects not to renew the executive's employment agreement at the end of the applicable term or such executive is terminated without "cause" (as defined in each agreement and described below) or as a result of death or total disability, the executive is entitled to certain continued health benefits and continued vesting of his options as a non-executive officer.

The specific terms of each of the individual agreements for the named executive officers are as follows:

*Peter M. Carlino.* On December 31, 2008, the Company entered into an employment agreement with Peter M. Carlino, its Chairman and Chief Executive Officer, which supersedes the agreement previously in effect dated May 26, 2004. The agreement has an initial term expiring on May 26, 2009, which corresponds to the termination of the initial term contained in the previous agreement. The agreement sets a minimum annual base salary of \$1,560,000, which shall be reviewed annually and established by the Compensation Committee as described on page 5. Further, 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. The severance period in Mr. Carlino's agreement for purposes of calculating severance benefits is the greater of the period remaining under the then current term of the employment agreement and three years.

*Timothy J. Wilmott.* On December 31, 2008, the Company entered into an employment agreement with Timothy J. Wilmott, its President and Chief Operating Officer, which supersedes the agreement previously in effect dated February 5, 2008. The agreement has an initial term expiring on July 3, 2013, which corresponds to the termination of the initial term contained in the previous agreement. Pursuant to the terms of his employment agreement, Mr. Wilmott will receive a minimum annual base salary of \$1,250,000, which shall be reviewed annually and established by the Compensation Committee as described on page 5. The Company is also obligated to maintain a term life insurance policy with a face value of three times his annual base salary on which Mr. Wilmott is entitled to name the beneficiaries. The severance period in Mr. Wilmott's agreement for purposes of calculating severance benefits is the greater of the period remaining under the then current term of the employment agreement and two years. With respect to termination of employment by the executive with "good reason," Mr. Wilmott's agreement includes the failure of the Board to appoint Mr. Wilmott as the Chief Executive Officer of the Company after three years. This would permit Mr. Wilmott to voluntarily terminate the agreement and still be entitled to the applicable severance payments.

*William J. Clifford.* On December 31, 2008, the Company entered into an employment agreement with William J. Clifford, Senior Vice President, Finance and Chief Financial Officer, which supersedes the agreement previously in effect dated June 10, 2005. The agreement has an initial term expiring on June 10, 2011, which corresponds to the termination of the term contained in the previous agreement. Mr. Clifford is entitled to receive a minimum annual base salary of \$728,000, which shall be reviewed annually and established by the Compensation Committee as described on page 5. The severance period in Mr. Clifford's agreement for purposes of calculating severance benefits is the greater of the period remaining under the then current term of the employment agreement and two years.

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*Jordan B. Savitch.* On December 31, 2008, the Company entered into an employment agreement with Jordan B. Savitch, Senior Vice President and General Counsel, which supersedes the agreement previously in effect dated June 10, 2005. The agreement has an initial term expiring on June 10, 2011, which corresponds to the termination of the term contained in the previous agreement. Mr. Savitch is entitled to receive a minimum annual base salary of \$421,000, which shall be reviewed annually and established by the Compensation Committee as described on page 5. The severance period in Mr. Savitch's agreement for purposes of calculating severance benefits is the greater of the period remaining under the then current term of the employment agreement and eighteen months.

*Robert S. Ippolito.* On December 31, 2008, the Company entered into an employment agreement with Robert S. Ippolito, Vice President, Secretary and Treasurer, which supersedes the agreement previously in effect dated June 10, 2005. The agreement has an initial term expiring on June 10, 2011, which corresponds to the termination of the term contained in the previous agreement. Mr. Ippolito is entitled to receive a minimum annual base salary of \$289,224, which shall be reviewed annually and established by the Compensation Committee as described on page 5. Mr. Ippolito's agreement also provides for the continued payment of certain life insurance premiums on Mr. Ippolito's behalf and provides Mr. Ippolito with a Company car. The severance period in Mr. Ippolito's agreement for purposes of calculating severance benefits is the greater of the period remaining under the then current term of the employment agreement and eighteen months.

*Leonard M. DeAngelo.* On August 4, 2008, the Company announced the departure of Leonard M. DeAngelo from the Company, effective August 1, 2008, in a Current Report on Form 8-K. Mr. DeAngelo's departure was mutual and amicable. Mr. DeAngelo received benefits and separation payments in accordance with the employment agreement between Mr. DeAngelo and the Company dated as of July 31, 2006 (the severance payments are set forth on page 30 in the Summary Compensation Table).

The employment agreements for each executive officer are attached, or incorporated by reference, to the Company's Annual Report on Form 10-K filed with the SEC on March 2, 2009.

For purposes of the potential termination and change of control payments described in this Proxy Statement, the terms set forth below have the meanings ascribed to them:

*Change of Control* a change in control is defined as the occurrence of one or more of the following events:

a person, entity or group becomes the beneficial owner of shares representing 50% or more of (a) the Company's outstanding shares or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote in the election of directors, except when such beneficial ownership is due to an acquisition directly from or by the Company or a Company employee benefit plan or pursuant to a consolidation, merger or share exchange reorganization between the Company and another entity described below; or

the shareholders of the Company approve any plan or proposal for the complete liquidation or dissolution of the Company; or

the Company consummates 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, unless, following such transaction, (a) all or substantially all of the beneficial owners immediately prior to such transaction still beneficially own more than 50% of the Company's outstanding shares; (b) no person beneficially owns 20% or more of the Company's outstanding shares who did not own such amount prior to the transaction; and (c) at least a majority of the directors are continuing directors; or

any time continuing directors do not constitute a majority of the Board.

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*Good Reason* an executive officer has "good reason" if (a) such officer is assigned to duties inconsistent with his position or authority, (b) such officer's compensation is reduced or there is a substantial reduction in benefits taken as a whole, (c) such officer's travel requirements are materially increased or (d) such officer's employment agreement is materially breached by the Company. In addition to the foregoing, with respect to Mr. Wilmott's employment agreement, the term "good reason" also includes the failure to appoint him as the Chief Executive Officer of the Company after three years.

*Cause* the Company has "cause" if the executive officer (a) is convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy, (b) 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, (c) materially breaches the employment agreement or any material Company policy or (d) misappropriates corporate funds as determined in good faith by the Board.

Table of Contents**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 March 20, 2009, 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 stated 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 March 20, 2009 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 March 20, 2009 (78,319,880 shares).

<b>Name and Address</b>	<b>Number of Shares Beneficially Owned</b>	<b>Percentage of Class</b>
Peter M. Carlino(2)	11,704,874	14.73%
Peter D. Carlino(1)(3)	9,206,319	11.76%
Richard J. Carlino(1)(4)	8,761,267	11.19%
David E. Carlino(1)(4)	8,738,670	11.16%
Carlino Family Trust(1)	8,449,418	10.79%
Harold Cramer(1)(5)	9,352,845	11.92%
Wesley R. Edens(11)	202,336	*
David A. Handler(6)(9)	149,500	*
John M. Jacquemin(6)(9)	171,900	*
Robert P. Levy(7)	78,600	*
Barbara Z. Shattuck(8)	149,115	*
Timothy Wilmott(10)		*
William J. Clifford(6)(9)	699,584	*
Jordan B. Savitch(6)(9)	255,420	*
Robert S. Ippolito(6)(9)	246,684	*
All executive officers and directors as a group (14 persons)(6)(9)	14,964,619	18.36%
Baron Capital Group, Inc.(12)	6,380,300	8.15%
Akre Capital Management, LLC(13)	6,144,634	7.86%
FMR LLC(14)	5,877,525	7.51%
Capital World Investors(15)	4,126,000	5.27%

\*

Less than 1%.



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**Notes to Security Ownership of Principal Shareholders and Management Table**

1. 8,449,418 shares of the Company's common stock are owned by an irrevocable trust, which the Company refers 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. 191,715 shares of the Company's common stock are also owned by the Trust for Gary Gilbert, an irrevocable trust, which was created by one of Peter D. Carlino's children, as settlor, 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 for both the Carlino Family Trust and the Trust for Gary Gilbert.
2. The number of shares in the table includes 8,449,418 shares owned by the Carlino Family Trust, 191,715 shares owned by the Trust for Gary Gilbert, 141,851 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, 21,659 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, 63,945 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, 509,303 shares owned by the 2008 Grantor Retained Annuity Trust of Peter M. Carlino dated June 26, 2008 of which Peter M. Carlino is the trustee and has sole voting and investment power, 270,165 shares owned by the 2008 Grantor Retained Annuity Trust #2 of Peter M. Carlino dated November 20, 2008 of which Peter M. Carlino is the trustee and has sole voting and investment power, 129,136 shares owned jointly with Mr. Carlino's wife, 315,002 shares owned by the 2008 Grantor Retained Annuity Trust of Marshia W. Carlino dated November 20, 2008 of which Peter M. Carlino is the trustee and has sole voting and investment power, 220,000 shares of restricted stock under which Mr. Carlino has voting rights but his disposition rights are currently restricted, and 1,161,300 shares that may be acquired upon the exercise of outstanding options.
3. The number of shares in the table includes 8,449,418 shares owned by the Carlino Family Trust, 191,715 shares owned by the Trust for Gary Gilbert and 496,212 shares owned 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 8,449,418 shares of common stock owned by the Carlino Family Trust and 191,715 shares owned by the Trust for Gary Gilbert.
5. The number of shares in the table includes 8,449,418 shares owned by the Carlino Family Trust, 191,715 shares owned by the Trust for Gary Gilbert, an aggregate of 496,212 shares owned 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, 12,000 shares of restricted stock under which Mr. Cramer has voting rights but his disposition rights are currently restricted, and 142,500 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, 612,422 shares; Jordan B. Savitch, 223,420 shares; Robert S. Ippolito, 193,230 shares; Steven T. Snyder, 387,500 shares; John V. Finamore, 95,000 shares; Thomas P. Burke, 39,232 shares; David A. Handler, 97,500 shares; and John M. Jacquemin, 157,500 shares; and all executive officers and directors as a group, 3,267,104 shares.
7. Includes 60,000 shares that may be acquired upon the exercise of outstanding options, 600 shares owned by Mr. Levy's spouse, as to which shares Mr. Levy disclaims beneficial ownership, and 12,000 shares of restricted stock under which Mr. Levy has voting rights but his disposition rights are currently restricted.
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, and 12,000 shares of restricted stock under which Ms. Shattuck has voting rights but her disposition rights are currently restricted.
9. Includes restricted shares issued as follows: William J. Clifford, 40,000 shares; Jordan B. Savitch, 20,000 shares; Steven T. Snyder, 20,000 shares; Robert S. Ippolito, 20,000 shares; David A. Handler, 12,000 shares; and John M. Jacquemin, 12,000 shares; and all executive officers and directors as a group, 380,000 shares, under which each of them has voting rights but his or her disposition rights are currently restricted.
10. On February 5, 2008, the Company entered into an employment agreement with Timothy J. Wilmott, its President and Chief Operating Officer. As of March 20, 2009, Mr. Wilmott did not beneficially own any shares of common stock or exercisable options.
- 11.

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Due to his indirect ownership interest in FIG PNG Holdings LLC through his ownership interest in Fortress Investment Group LLC, Mr. Edens may be deemed to beneficially own 202,336 shares of common stock beneficially owned by PNG Holdings LLC, for which FIG PNG Holdings LLC, an affiliate of Fortress Investment Group LLC, is the managing

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member. Mr. Edens disclaims beneficial ownership of all reported shares except to the extent of his pecuniary interest therein.

12. According to its 13G filed with the SEC on February 12, 2009, consists of shares beneficially owned as of December 31, 2008 by Baron Capital Group, Inc.. The address of Baron Capital Group, Inc. is 767 Fifth Avenue, New York, NY 10153.
13. According to their 13G/A filed with the SEC on February 12, 2009, consists of shares beneficially owned as of December 31, 2008 by Akre Capital Management, LLC, which the Company refers to as ACM, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, and Charles 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.
14. According to its 13G filed with the SEC on February 17, 2009, consists of shares beneficially owned as of December 31, 2008 by FMR LLC. The address of FMR LLC is 82 Devonshire Street, Boston, MA 02109.
15. According to its 13G filed with the SEC on February 12, 2009, consists of shares beneficially owned as of December 31, 2008 by Capital World Investors, a division of Capital Research and Management Company, which the Company refers to as CRMC, an investment advisor to various investment companies registered under Section 8 of the Investment Company Act of 1940. The address of Capital World Investors is 333 South Hope Street, Los Angeles, CA 90071.

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**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 Chief Executive Officer ("CEO") of the Company.

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.

Eric Schippers, the Senior 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 2008, Mr. Schippers received a salary of \$270,000 and options to purchase 40,000 shares of the Company's common stock.

*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 are not inconsistent with, the best interests of the Company and its shareholders based on a review of (i) the benefits to the

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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 2008, 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.

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**AUDIT COMMITTEE REPORT**

The Audit Committee of the Board of Directors consists of John M. Jacquemin (Chairman), Harold Cramer and Barbara Z. Shattuck, all of whom are independent directors under the current Marketplace Rules, and operates under a written charter adopted by the Board of Directors that complies with the current Marketplace Rules, which charter is available at <http://www.pngaming.com/main/corporategovernance.shtml>.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. The Audit Committee is responsible for appointing, compensating, overseeing and, where appropriate, discharging and replacing the Company's independent registered public accounting firm (the "independent accounting firm"). The Company's independent accounting firm is responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles. In addition, the Company's independent accounting firm will express its own opinion on the effectiveness of the Company's internal controls over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee members are not professional accountants, and their functions are not intended to duplicate or to certify the activities of management and the independent accounting firm, nor can the Audit Committee certify that the independent accounting firm is "independent" under applicable rules. The Audit Committee serves a board-level oversight role, in which it provides advice, counsel and direction to management and the independent accounting firm on the basis of the information it receives, discussions with management and the independent accounting firm and the experience of the Audit Committee's members in business, financial and accounting matters.

In this context, in 2008, the Audit Committee met and held discussions with management and the independent accounting firm. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent accounting firm. The Audit Committee discussed with the independent accounting firm matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended.

The Company's independent accounting firm also provided to the Audit Committee the written disclosures and the letter required by Rule 3526 of the Public Company Accounting Oversight Board, Communications with Audit Committees Concerning Independence, and the Audit Committee discussed with the independent accounting firm the firm's independence.

Based upon the Audit Committee's discussion with management and the independent accounting firm and the Audit Committee's review of the representation of management and the report of independent accounting firm on the Consolidated Financial Statements, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the U.S. Securities and Exchange Commission.

**Audit Committee of the  
Board of Directors**

John M. Jacquemin, Chairman  
Harold Cramer  
Barbara Z. Shattuck

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**OTHER MATTERS**

The Company is mailing a copy of its Annual Report for the year ended December 31, 2008 and a proxy card together with this proxy statement to all shareholders of record at the close of business on April 6, 2009. The Board of Directors does not know of any other business that will be presented for consideration at the Annual Meeting. Except as the Board of Directors may otherwise permit, only the business set forth and discussed in the Notice of Annual Meeting and Proxy Statement may be acted on at the Annual Meeting. If any other business does properly come before the Annual Meeting or any postponement or adjournment thereof, the proxy holders will vote in regard thereto according to their discretion.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act 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 2008. In 2008, Robert P. Levy was inadvertently late in filing a Form 4 reporting the sale of 4,000 shares of common stock. In addition, Mr. Edens filed an amended Form 3 to report indirect beneficial ownership of shares of Common Stock held by PNG Holdings LLC that were acquired in December 2007.

**Advanced Notice Provision**

Under the Company's bylaws, no business may be brought before an annual meeting unless it is specified in the notice of the meeting or is otherwise brought before the meeting by or at the direction of the Board or by a shareholder who has owned beneficially at least 1% of the Company's common stock for a continuous period of not less than 12 months prior to making the proposal and who has delivered proper written notice to the Company's Secretary (containing certain information specified in the bylaws about the shareholder and the proposed action) not less than 120 or more than 150 days prior to the first anniversary of the preceding year's annual meeting that is, with respect to the 2010 annual meeting, between January 4, 2010 and February 3, 2010. These requirements are separate from and in addition to the SEC's requirements that a shareholder must meet in order to have a shareholder proposal included in the Company's proxy statement.

**Shareholder Proposals**

Shareholders interested in submitting a proposal for inclusion in the proxy materials for the annual meeting of shareholders in 2010 may do so by following the procedures prescribed in SEC Rule 14a-8. To be eligible for inclusion, shareholder proposals must be received by the Company's Secretary no later than December 31, 2009. Proposals should be sent to the Company's principal executive office, 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610, directed to the attention of the Secretary.

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**Householding of Proxy Materials**

Certain shareholders who share the same address may receive only one copy of the Proxy Statement and the Company's Annual Report for the year ended December 31, 2008 in accordance with a notice delivered from such shareholders' bank, broker or other holder of record, unless the applicable bank, broker or other holder of record received contrary instructions. This practice, known as "householding," is designed to reduce printing and postage costs. Shareholders owning their shares through a bank, broker or other holder of record who wish to either discontinue or commence householding may request or discontinue householding, or may request a separate copy of the Proxy Statement or the Annual Report, either by contacting their bank, broker or other holder of record at the telephone number or address provided in the above referenced notice, or contacting the Company by telephone at (610) 373-2400 or in writing at 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610, Attention: Secretary. Shareholders who are requesting to commence or discontinue householding should provide their name, the name of their broker, bank or other record holder, and their account information.

By Order of the Board of Directors,

/s/ Robert S. Ippolito

\_\_\_\_\_  
Secretary

April 30, 2009



**PROXY**

PENN NATIONAL  
GAMING, INC.

®

*PENN NATIONAL GAMING, INC.*

*825 BERKSHIRE BLVD., SUITE 200*

*WYOMISSING, PA 19610*

**VOTE BY INTERNET [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS**

If you would like to reduce the costs incurred by Penn National Gaming, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

**VOTE BY PHONE 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope provided or return to Penn National Gaming, Inc. c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS  
FOLLOWS:

M14781-P76326

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**PENN NATIONAL GAMING, INC.**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DAVID A. HANDLER AND JOHN M. JACQUEMIN AND FOR ITEM NO. 2.**

<b>Vote On Directors</b>	For All	Withhold All	For All Except
1. For the election of <b>David A. Handler</b> and <b>John M. Jacquemin</b> to serve as Class I Directors until the Annual Meeting of Shareholders of the Company to be held in the year 2012 or until their respective successors are elected and qualified:	o	o	o
<b>Nominees:</b>			
01) David A. Handler			
02) John M. Jacquemin			

To withhold authority to vote for any individual nominee, mark For All Except and write the nominee's number on the line below.

<b>Vote on Proposals</b>	For	Against	Abstain
2. Ratification of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009.	o	o	o
3. In their discretion, such other business as may properly come before the annual meeting.			
For comments, please check this box and write them on the back where indicated	o		

Please sign exactly as name appears.  
For joint accounts, each joint owner must sign.

<b>Signature (PLEASE SIGN WITHIN BOX)</b>	<b>Date</b>	<b>Signature (Joint Owners)</b>	<b>Date</b>
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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting**

The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

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**PROXY**

**PENN NATIONAL GAMING, INC.**

**ANNUAL MEETING OF SHAREHOLDERS, JUNE 3, 2009**

The shareholder(s) whose signature(s) appear(s) on the reverse side of this Proxy Form hereby appoint(s) Peter M. Carlino and Harold Cramer, and each of them, as attorneys and proxies, with full power of substitution, to vote on behalf of the shareholder(s) all of the shares of Common Stock of Penn National Gaming, Inc. (the Company), which the shareholder(s) would be entitled to vote at the Annual Meeting of Shareholders thereof to be held on June 3, 2009 and at any and all postponements and adjournments thereof, upon the matters listed on the reverse side.

**WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED AS DIRECTED HEREIN. IF NO SPECIFICATION IS MADE, SUCH PROXY WILL BE VOTED FOR SUCH ITEM AND IN THE DISCRETION OF THE PROXIES ON ALL OTHER MATTERS PROPERLY BROUGHT BEFORE THE ANNUAL MEETING.**

Comments:

(If you noted any Comments above, please mark corresponding box on the reverse side.)

SEE  
REVERSE  
SIDE

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.  
PLEASE DATE AND SIGN ON THE OTHER SIDE AND RETURN THIS PROXY PROMPTLY.**

SEE  
REVERSE  
SIDE

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