

PENN NATIONAL GAMING INC
Form DEF 14A
April 30, 2007
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 x

Filed by a Party other than the Registrant o

Check the appropriate box:

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

Penn National Gaming, Inc.

(Name of Registrant as Specified In Its Charter)

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 - (3) Filing Party:
 - (4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held on June 6, 2007

NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Shareholders of Penn National Gaming, Inc. (the Company), a Pennsylvania corporation, will be held on Wednesday, June 6, 2007, at 10:00 a.m., local time, at Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103 for the following purposes:

1. To elect two Class II directors for a 3-year term and until their successors are duly elected and qualified.
2. To consider and approve the 2007 Employees Long Term Incentive Compensation Plan of the Company.
3. To consider and approve the 2007 Long Term Incentive Compensation Plan for Non-Employee Directors of the Company.
4. To consider and approve the Annual Incentive Plan and the performance goals thereunder.
5. 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 with their judgment on those matters.

Only shareholders of record at the close of business on April 9, 2007 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 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, 2007

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 FORM PROMPTLY IN THE ENCLOSED ENVELOPE PROVIDED FOR THAT PURPOSE (NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES).

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

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
JUNE 6, 2007

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, 2007, in connection with the solicitation of proxies for use at the Company's 2007 Annual Meeting of Shareholders (Annual Meeting) to be held on Wednesday, June 6, 2007 at 10:00 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, 51st Floor, Philadelphia, PA 19103. This solicitation is being made on behalf of the Board of Directors of the Company.

INFORMATION CONCERNING SOLICITATION AND VOTING

Record Date and Shares Outstanding

The Board of Directors set the close of business on April 9, 2007 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, 85,464,858 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. 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 vote of a majority of the votes cast is required for each of (i) the approval of the Company's 2007 Employees Long Term Incentive Compensation Plan, (ii) the approval of the Company's 2007 Long Term Incentive Compensation Plan for Non-Employee Directors and (iii) the approval of the Annual Incentive Plan and the performance goals thereunder. The Board knows of no other matters that are likely to be brought before the meeting other than the matter 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 with their judgment on those matters. For purposes of determining the number of votes cast, only those cast for or against are counted. Abstentions 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. 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 the purpose of corporate governance is to ensure that shareholder value is maximized in a manner consistent with legal requirements and the highest standards of integrity. The Board adheres to corporate governance practices which the Board and senior management believe promote this objective and are sound. The Company regularly reviews these governance practices, Pennsylvania law (the state in which the Company is incorporated), the Marketplace Rules of the National Association of Securities Dealers, Inc. (the Marketplace Rules), and the U.S. Securities and Exchange Commission (the SEC) regulations, as well as best practices suggested by recognized governance authorities.

Board of Directors

The Company's Board of Directors currently consists of six members: Peter M. Carlino, Harold Cramer, David A. Handler, John M. Jacquemin, Robert P. Levy and Barbara Z. Shattuck. The Board has determined that all of the directors, other than Mr. Carlino, are independent under the current Marketplace Rules.

The Board of Directors held 15 meetings during the fiscal year ended December 31, 2006. Each of the Company's directors attended at least 75% of the aggregate of all meetings of the Board during the fiscal year ended December 31, 2006. In addition, each of the 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, 2006.

The Company has four standing committees: the Audit Committee, the Compensation Committee, the Compliance Committee and the Nominating Committee.

Audit Committee. John M. Jacquemin (Chairman), Harold Cramer and Barbara Z. Shattuck are the members of the Audit Committee. The Board has determined that Messrs. Jacquemin and Cramer and Ms. Shattuck are independent under the current Marketplace Rules and SEC regulations. During 2006, Mr. Robert P. Levy served on the Audit Committee until June 12, 2006. On June 12, 2006, following the Audit Committee's selection of Ernst & Young LLP as the Company's independent registered public accounting firm, Mr. Levy stepped down from the Audit Committee and was replaced by Ms. Shattuck. The Audit Committee operates under a written charter adopted by the Board of Directors that complies with the current Marketplace Rules, which is available at <http://www.pngaming.com/main/corporategovernance.shtml> and met 13 times in 2006.

The Board has determined that Mr. Jacquemin, the Chairman of the Audit Committee, satisfies the SEC criteria of a financial expert and is financially sophisticated for the purposes of Marketplace Rules. Because of his position as one of five trustees for the Carlino Family Trust, an irrevocable trust (see

Security Ownership of Principal Shareholders and Management beginning on page 22 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, restricted to limited matters and is shared with the other trustees. Peter M. Carlino has the sole power to vote the shares held by the Carlino Family Trust, except in the case of a sale of all or substantially all of the Company's assets, a merger where the Company will not be the surviving entity or a liquidation where the manner in which the trust's shares are voted is determined by a vote of all five trustees. As a result of Mr. Cramer's limited voting and investment power, the Board has determined that Mr. Cramer is independent for the purpose of the SEC regulations and the Marketplace Rules.

The principal functions of the Audit Committee are to serve as an independent and objective party to monitor the integrity of the Company's financial reporting process and internal control system; appoint, compensate and, where appropriate, discharge and replace the Company's independent registered public accounting firm; oversee, review and appraise the audit efforts of the Company's independent registered public accounting firm; and maintain free and open communication with and among the independent registered public accounting firm, financial and senior management, and the Board of Directors. In addition, the Audit Committee is responsible for reviewing and appraising the audit efforts of the Company's internal auditors.

Compensation Committee. Harold Cramer (Chairman), David A. Handler and Barbara Z. Shattuck are members of the Compensation Committee. The Board has determined that Messrs. Cramer and Handler and Ms. Shattuck are independent for the purposes of the Marketplace Rules. The Compensation Committee operates under a written charter adopted by the Board of Directors, which is available at <http://www.pngaming.com/main/corporategovernance.shtml> and met 5 times in 2006.

The principal functions of the Compensation Committee are to:

- evaluate the annual performance of the Chief Executive Officer (CEO) and other executive officers and set their annual compensation;
- coordinate the Board's role in establishing performance criteria for the CEO and other executive officers, including review of the goals and objectives relating to the compensation of the CEO and other executive officers in light of the compensation philosophy adopted by the Committee, which is set forth on page 25 of this proxy statement;
- review the Company's executive compensation programs, including reviewing executive compensation plans annually to determine whether they are properly coordinated and achieving their intended purposes as well as reviewing the programs periodically to ensure they comport with the compensation philosophy adopted by the Committee;
- assess the Company's management succession planning;
- recommend the structure and amount of compensation for non-employee directors;
- determine the number of option awards that the CEO may grant to employees other than executive officers; and
- administer and interpret the Company's Amended and Restated 1994 Stock Option Plan, as amended (the 1994 Stock Option Plan) and 2003 Long Term Incentive Compensation Plan (the 2003 Equity Compensation Plan), as well as the 2007 Employees Long Term Incentive Compensation Plan and the 2007 Long Term Incentive Compensation Plan for Non-Employee Directors, if approved by the Company's shareholders.

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The Compensation Committee has the authority to engage independent compensation consultants or advisors, as it may deem appropriate in its sole discretion, and to approve related fees and retention terms of such consultants or advisors. The Committee routinely holds executive sessions without management.

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The Chairman of the Compensation Committee is responsible for leadership of the Committee and sets meeting agendas. The Committee may form subcommittees and delegate authority to them, as it deems appropriate.

The CEO gives performance assessments and compensation recommendations for each executive officer of the Company (other than himself). The Compensation Committee considers the CEO's recommendations with the assistance of a compensation consultant and sets the compensation of the executive officers (other than the CEO) based on such deliberations. The Compensation Committee sets the CEO's compensation in executive session without any member of management present. The CEO and the Senior Vice President, Human Resources, generally attend Compensation Committee meetings, but neither are present for executive sessions or any discussion of their own compensation.

The Compensation Committee has engaged Strategic Apex Group LLC, an independent executive compensation consulting firm, to provide advice and assistance to them and to management in the area of executive and non-employee director compensation for the Company. The consultant reports directly to the Compensation Committee and has been authorized by them to work with certain executive officers of the Company as well as other employees in the Company's human resources, legal, and finance departments in connection with the consultant's work for the Committee. The consultant conducts reviews of the total compensation of the Company's executive officers, based on the process described in the Compensation Discussion and Analysis contained on page 25 in this proxy statement and prepares reports for review by management and subsequently by the Compensation Committee to be used in determining appropriate levels of compensation for each executive officer.

Compliance Committee. The Compliance Committee has three members. David A. Handler and Robert P. Levy are the current Board members of the Compliance Committee. Steve Ducharme, a consultant to the Company who served as a member of the Nevada State Gaming Control Board from January 1991 to January 2001, including two years as Chairman, is the Chairman of the Compliance Committee. During 2006, John M. Jacquemin served on the Compliance Committee until June 1, 2006, when he stepped down and was replaced by Mr. Levy. The Compliance Committee was established to ensure, through self-regulatory procedures, compliance with applicable laws relating to the Company's gaming and racing businesses and to prevent, to the fullest extent possible, any involvement by the Company in any activities that would pose a threat to the reputation and integrity of the Company's gaming and racing operations. The Compliance Committee operates under a written charter adopted by the Board of Directors and met 9 times in 2006.

Nominating Committee. Harold Cramer (Chairman), David A. Handler and Barbara Z. Shattuck are the members of the Nominating Committee. The Board has determined that Messrs. Cramer and Handler and Ms. Shattuck are independent under the Marketplace Rules. The Nominating Committee is responsible for identifying and recommending, for the Board's selection, nominees for election to the Board and advising the Board with respect to Board structure, composition and size of the Board and its committees. The Nominating Committee operates under a written charter adopted by the Board of Directors that complies with the current Marketplace Rules, which is available at <http://www.pngaming.com/main/corporategovernance.shtml> and met one time in 2006.

The Nominating Committee considers candidates for Board membership suggested by, among others, its members, other Board members and management. The Nominating Committee has authority to retain a search firm to assist in the identification of director candidates. In selecting nominees for director, the Nominating Committee considers a number of factors, including, but not limited to:

- whether a candidate has demonstrated business and industry experience that is relevant to the Company, including recent experience at the senior management level (preferably as chief executive officer or a similar position) of a company as large or larger than the Company;
- a candidate's ability to meet the suitability requirements of all relevant regulatory agencies;
- a candidate's ability to represent the interests of the shareholders;

- a candidate's independence from management and freedom from potential conflicts of interest with the Company;
- a candidate's financial literacy, including whether the candidate will meet the audit committee membership standards set forth in the Marketplace Rules;
- whether a candidate is widely recognized for his or her reputation, integrity, judgment, skill, leadership ability, honesty and moral values;
- a candidate's ability to work constructively with the Company's management and other directors; and
- a candidate's availability, including the number of other boards on which the candidate serves, and his or her ability to dedicate sufficient time and energy to his or her board duties.

During the process of considering a potential nominee, the Nominating Committee may request additional information about, or an interview with, the potential nominee.

The Nominating Committee will also consider recommendations of nominees for directors to be elected at the Company's 2008 annual meeting of shareholders by shareholders who have owned beneficially at least 1% of the Company's common stock for a continuous period of not less than 12 months before making such recommendation, provided that such recommendation is in proper written form (containing the information specified in the bylaws about the shareholder and the person recommended) and received by the Secretary of the Company between January 8 and February 7, 2008 at the Company's principal executive office. 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's fees to each director who is not an employee of the Company. During the year ended December 31, 2006, each outside director received an annual retainer fee of \$50,000 and reimbursement for out-of-pocket expenses in connection with their attendance at meetings. In addition, members of the Audit Committee and Compensation Committee each received an annual retainer fee of \$10,000 and \$5,000, respectively. Non-employee directors did not receive a separate retainer fee for membership on the Nominating Committee or the Compliance Committee. In addition, in 2006, the Compensation Committee approved a grant to each non-employee director of options to purchase 30,000 shares of common stock of the Company. The exercise price of the options granted to non-employee directors is equal to the fair market value of the Company's common stock on the date of the grant. The options vest over four years, 25% on the first anniversary of date of grant and 25% on each succeeding anniversary. Pursuant to the terms of the Company's 2003 Equity Compensation Plan, under which the options were granted, fair market value is equal to the closing price of the Company's common stock on the business day immediately preceding the date of grant.

On April 25, 2007, the Company's Board of Directors established stock ownership guidelines for non-employee directors of the Company. Each non-employee director is expected to own and hold shares of common stock equal in value to at least three times the annual cash retainer for non-employee directors. Current non-employee directors have a period of three years from April 25, 2007 to achieve this ownership level. New non-employee directors will have a period of three years from the date of initial election to achieve this ownership guideline.

Director Compensation Table

The following table sets forth information with respect to all compensation awarded the Company's non-employee directors during the last completed fiscal year:

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)	Total (\$)
Harold Cramer	65,000	424,535	\$ 489,535
David A. Handler	55,000	424,535	\$ 479,535
John M. Jacquemin	60,000	424,535	\$ 484,535
Robert P. Levy	54,165	424,535	\$ 478,700
Barbara Z. Shattuck	60,835	376,378	\$ 437,213

(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 123R), for financial statement reporting purposes during 2006 for all existing stock option awards. Assumptions used in the calculation of these amounts are included in footnote 3 to the Company's audited financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006. In fiscal 2006, each non-employee director received options to purchase 30,000 shares of the Company's common stock, which had a grant date fair value of \$439,515. At December 31, 2006, the aggregate number of outstanding stock options held by each non-employee director was: Mr. Cramer 150,000; Mr. Handler 240,000; Mr. Jacquemin 165,000; Mr. Levy 121,000; and Ms. Shattuck 120,000.

Shareholder Access Policy

Shareholders who wish to communicate with directors should do so by writing to Penn National Gaming, Inc., Wyomissing Professional Center, 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.

Director Attendance at Annual Meetings

The Company encourages all of its directors to attend the Company's annual meeting of shareholders. Last year, all of the individuals then serving as directors of the Company attended the Company's 2006 annual meeting of shareholders.

Employee Code of Conduct

The Company has a Code of Business Conduct (the Code of Conduct), which is applicable to all employees of the Company, including the Company's principal executive officer, the principal financial officer and the principal accounting officer. The Code of Conduct is designed, among other things, to deter wrongdoing and promote ethical conduct, full and accurate reporting in the Company's SEC filings, and compliance with applicable laws. A copy of the current Code of Conduct has been included as Exhibit 14.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and is available on the Company's website at <http://www.pngaming.com/main/corporategovernance.shtml>. Compliance personnel at the Company's properties report to the Chief Compliance Officer and the property executive or general manager.

PROPOSAL 1: ELECTION OF CLASS I DIRECTORS**Information about Nominees and Other Directors**

The Company's Board of Directors consists of six members: Peter M. Carlino, Harold Cramer, David A. Handler, John M. Jacquemin, Robert P. Levy and Barbara Z. Shattuck. The Board has determined that all of the directors, other than Mr. Carlino, are independent under the current Marketplace Rules. Two Class II 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 2010 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.

Name of Nominee	Age	Principal Occupation	Director Since	Term Expires
Robert P. Levy	76	Chairman of the Board, DRT Industries, Inc.	1995	2007
Barbara Z. Shattuck	56	Principal, Shattuck Hammond Partners, LLC	2004	2007

Mr. Levy and Ms. Shattuck are standing for re-election based upon the judgment, skill and dedication they have previously demonstrated as Board members.

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 I Directors:</i>				
David A. Handler	42	Managing Director, UBS Investment Bank	1994	2009
John M. Jacquemin	60	President, Mooring Financial Corporation	1995	2009
<i>Class III Directors:</i>				
Peter M. Carlino	60	Chairman of the Board and Chief Executive Officer of the Company	1994	2008
Harold Cramer	79	Retired Partner, Schnader Harrison Segal & Lewis LLP; Retired Chairman and Chief Executive Officer of the Graduate Health System	1994	2008

Robert P. Levy. Mr. Levy has been a director since 1995. He is the past Chairman of the Board of the Atlantic City Racing Association and served a two-year term from 1989 through 1990 as President of the Thoroughbred Racing Association. Mr. Levy has served as the Chairman of the Board of DRT Industries, Inc., a diversified business based in the Philadelphia metropolitan area, since 1960. Mr. Levy owns the Robert P. Levy Stable, a thoroughbred racing and breeding operation. Mr. Levy is a director of Fasig-Tipton Company, an equine auction company.

Barbara Z. Shattuck. Ms. Shattuck has been a director since 2004. She is a Principal of Shattuck Hammond Partners, LLC, an investment banking firm. Prior to co-founding Shattuck Hammond in 1993, Ms. Shattuck spent eleven years at Cain Brothers, Shattuck & Company, Inc., an investment banking firm she co-founded. From 1976 to 1982 she was a Vice President of Goldman, Sachs & Co. Ms. Shattuck began

her career as a municipal bond analyst at Standard & Poor's Corporation. Ms. Shattuck is a member of the board of directors of Sun Life Insurance & Annuity Company of New York.

David A. Handler. Mr. Handler has been a director since 1994. Since April 2006, he has been a Managing Director at UBS Investment Bank. From April 2000 until April 2006, he was a Senior Managing Director at Bear Stearns & Co., Inc. From July 1995 to April 2000, Mr. Handler was employed by Jefferies & Company, Inc. where he became a Managing Director in March 1998.

John M. Jacquemin. Mr. Jacquemin has been a director since 1995 and is President of Mooring Financial Corporation. Mooring Financial Corporation is a group of financial services companies founded by Mr. Jacquemin in 1982 that specialize in the purchase and administration of commercial loan portfolios.

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 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 the 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.

**PROPOSAL 2: APPROVAL OF THE PENN NATIONAL GAMING, INC.
2007 EMPLOYEES LONG TERM INCENTIVE COMPENSATION PLAN**

On April 25, 2007, the Board of Directors approved, subject to stockholder approval, the Penn National Gaming, Inc. 2007 Employees Long Term Incentive Compensation Plan (the "2007 LTIP" or the "Plan"), under which 6,000,000 shares of the Company's common stock (approximately 7.02% of the outstanding shares as of April 9, 2007) will be reserved for issuance. The 2007 LTIP will not become effective until it is approved by the Company's stockholders and will expire on the tenth anniversary of the effective date. The Board is asking the Company's stockholders to approve the 2007 LTIP so that the Company may issue key employees awards that are linked to the value of the Company's common stock. The 2007 LTIP will not replace the 2003 Equity Compensation Plan, which will remain in place until it terminates in 2013 or all of the stock authorized thereunder is issued.

Description of the 2007 LTIP

The following is a description of the purpose and a summary of the provisions of the 2007 LTIP. The 2007 LTIP is attached hereto as Appendix A of this proxy statement.

General. The 2007 LTIP permits the Company to issue stock options, stock appreciation rights, restricted stock, phantom stock units, restricted stock units, and other equity-based awards and allows the Company to permit employees to purchase shares (including officers who are directors). The 2007 LTIP does not permit the reduction of the exercise price of outstanding stock options or the granting of discounted stock options.

Purpose. The purpose of the Plan is threefold:

- To advance the interests of the Company and its shareholders by providing a means by which the Company and its participating subsidiaries and affiliates shall be able to motivate selected key employees (including officers and directors who are employees) to direct their efforts to those activities that will contribute materially to the Company's success;
- To link remunerative benefits paid to employees who have substantial responsibility for the successful operation, administration and management of the Company and/or its subsidiaries and affiliates with the enhancement of shareholder value; and
- To enable the Company to attract and retain in its service highly qualified persons for the successful conduct of its business.

Administration of the Plan. The Plan is administered by the Compensation Committee, which is comprised solely of non-employee, independent directors of the Board. The Compensation Committee has the authority and the discretion under the Plan to grant awards to employees who are officers subject to the reporting requirements under Section 16 of the Securities Exchange Act of 1934. The Compensation Committee also has the authority and the discretion to determine the form or forms of awards for employees who are not subject to Section 16 of the Securities Exchange Act of 1934, and to determine the number of awards that the CEO may grant to such persons. The CEO has the authority and the discretion under the Plan to issue awards to employees who are not subject to the Section 16 reporting requirements, subject to the parameters set by the Compensation Committee to administer those awards. The term "Grantor" as used in this summary refers to the Compensation Committee, with respect to awards to Section 16 reporting persons, and to the CEO, with respect to awards to employees who are not subject to the Section 16 reporting requirements. Except as expressly limited by the Plan, the authority of the Grantor includes the authority to determine the timing of awards and to select the recipients of awards.

Eligible Employees. Officers (including directors who are employees) and other employees of the Company and its subsidiaries are eligible to receive awards under the Plan. At March 31, 2007, the Company had approximately 15,000 employees.

Number of Shares Available for Issuance. The aggregate number of shares of common stock that may be issued under the Plan shall not exceed 6,000,000. Shares issued under the Plan that are subsequently forfeited back to the Company before becoming fully vested will be available for future grants under the Plan. In addition, if an award under the Plan pursuant to which shares of the Company's common stock are issuable is forfeited, expires or terminates, then the shares underlying such award will be available for future issuance under the Plan. The aggregate number of shares of common stock issuable under the 2007 LTIP pursuant to restricted stock awards, restricted stock units and other awards that are payable in shares of common stock, which vest sooner than pro rata over three years on the anniversary of the date of grant, or in one year in the case of such awards subject to performance conditions, may not exceed 300,000 (the "Vested Share Limit"). The number of stock options, stock appreciation rights, restricted stock, phantom stock units and restricted stock units granted to any individual in any calendar year may not, in each case, represent more than 1,000,000 shares. The Compensation Committee may adjust the aggregate 6,000,000 share limit; the 300,000 Vested Share Limit and the individual 1,000,000 share limit if it determines that a dividend, recapitalization, stock split, merger, consolidation or other similar corporate transaction or event equitably requires an adjustment.

Common Stock Repurchases. Within 120 days of the issuance of any stock options, any stock appreciation rights that may be settled in shares of common stock, any restricted stock, any restricted stock units and any other awards that may be settled in shares of common stock, the Company will purchase a number of shares of common stock equal to the number of shares of common stock represented by such award. However, if such purchase may not, or the Company reasonably determines should not, be made within 120 days of issuance because of legal restrictions or market conditions, the period will extend for additional 120 day periods until all such shares are purchased.

On April 25, 2007, the Company's Board of Directors authorized the repurchase of up to \$200 million of the Company's common stock conditioned on shareholder approval of the 2007 LTIP and the 2007 Long Term Incentive Compensation Plan for Non-Employee Directors. The repurchase program will authorize the Company to purchase in open market or privately negotiated transactions shares of the Company's common stock in amounts equivalent to options or other equity awards payable in common stock issued pursuant to the 2007 LTIP and the 2007 Long Term Incentive Compensation Plan for Non-Employee Directors within 120 days of such option or other award issuance, subject to applicable legal requirements and appropriate market conditions, as required by the 2007 LTIP and the 2007 Long Term Incentive Compensation Plan for Non-Employee Directors. Further, if the 2007 LTIP and the 2007 Long Term Incentive Compensation Plan for Non-Employee Directors are approved at the 2007 Annual Meeting, any future grants of options and other equity awards payable in common stock under the 2003 Equity Incentive Plan will also be subject to the repurchase program. The Company is able to repurchase up to \$200 million of its equity or debt securities under its \$2.725 billion senior secured credit facility. The Company may seek to amend its \$2.725 billion senior secured credit facility to modify applicable covenants to enable it to repurchase more than \$200 million of its equity or debt securities.

Types of Awards. The 2007 LTIP provides for the issuance of stock options, stock appreciation rights, restricted stock, phantom stock units, restricted stock units and other equity-based awards and allows the Company to permit employees to purchase shares of common stock of the Company. Rights to awards may be contingent on the continued employment and/or satisfaction of performance goals including specific levels of free cash flow, EBITDA, sales, revenue, net income, net earnings, earnings per share, return on total capital, return on equity, cash flow, operating profit and margin rate.

Stock Options. The plan provides for two types of stock options: incentive stock options and non-qualified stock options. The differences between incentive stock options and non-qualified stock options relate mainly to their tax treatment under the U.S. Internal Revenue Code (the Code) (see *U.S. Tax Consequences*, below). A stock option gives the holder the right to receive a designated number of shares of the Company's common stock during the period that the option is vested upon payment of the exercise price for the stock options, subject to the terms and conditions that the Grantor, in its sole discretion and subject to the terms of the Plan, shall determine at the time the award is made. Exercisability of a stock option may be contingent on continued employment for a specified period and/or attainment of one or more performance goals. The exercise price of an option may not be less than the fair market value of the Company's stock on the date of grant of the option, except for incentive stock options granted to 10% shareholders, in which case the exercise price must be at least 110% of the fair market value of the Company's common stock on the date of grant. Stock options must expire no later than the tenth anniversary of the date of grant, except for incentive stock options granted to 10% shareholders, in which case expiration may be no later than the fifth anniversary of the date of grant. A holder may pay the exercise price for a stock option in cash, shares of previously owned common stock or pursuant to a cashless exercise program approved by the Grantor, or any combination of the foregoing.

Stock Appreciation Rights. A stock appreciation right entitles the holder to a payment in cash or shares of the Company's common stock equal to the excess of the fair market value of the number of shares of the Company's common stock underlying the stock appreciation right as of the date the stock appreciation right is exercised over the base amount of the stock appreciation right, which is determined by the Grantor. A stock appreciation right is subject to the terms and conditions that the Grantor, in its sole discretion and subject to the terms of the Plan, shall determine at the time the award is made. Exercisability of a stock appreciation right may be contingent on continued employment for a specified period and/or attainment of one or more performance goals. The base amount of a stock appreciation right may not be less than the fair market value of the number of shares of common stock underlying the stock appreciation right as of the date the stock appreciation right is granted. The term of a stock appreciation right may not exceed ten years.

Restricted Stock. A restricted stock award is an award of shares of the Company's common stock for consideration or without consideration, subject to the restrictions, terms and conditions that the Grantor, in its sole discretion and subject to the terms of the Plan, shall determine at the time the award is made, including the conditions on which the award will vest and no longer be subject to forfeiture. A restricted stock award may, if the Grantor in its sole discretion decides, provide for an unconditioned grant. Restricted stock is forfeited to the Company if the vesting requirements set for the award, which may include continued employment for a specified period and/or attainment of one or more performance goals, are not met. The recipient of a restricted stock award has the right to vote the shares and receive dividends, subject to the restrictions on the common stock shares.

Restricted Stock Units. A restricted stock unit represents the right to receive one share of the Company's common stock in the future, subject to the restrictions, terms and conditions that the Grantor, in its sole discretion, and subject to the terms of the Plan, shall determine at the time the award is made, including the conditions on which the award will vest and no longer be subject to forfeiture. Restricted stock units will be forfeited if the vesting requirements set for the award, which may include continued employment for a specified period and/or attainment of one or more performance goals, are not met.

Phantom Stock Units. A phantom stock unit represents the right to receive an amount of cash in the future equal to the value of one share of the Company's common stock on the payment date, subject to the terms and conditions that the Grantor, in its sole discretion and subject to the terms of the Plan, shall determine at the time the award is made, including the conditions on which the award will vest and no longer be subject to forfeiture. Phantom stock units will be forfeited if the vesting requirements set for the

award, which may include continued employment for a specified period and/or attainment of one or more performance goals, are not met.

Other Awards. The Grantor may grant other awards that are based on or linked to the value of the Company's common stock.

Employee Stock Purchases. The Compensation Committee may adopt a plan or program pursuant to which designated employees may purchase common shares of stock from the Company.

Fair Market Value. For the purposes of the Plan, fair market value is equal to the closing sales price of a share of the Company's common stock on the business day immediately preceding the date of grant.

Adjustments for Changes in Capitalization. If the Compensation Committee determines that a dividend, recapitalization, stock split, merger, consolidation, or other similar corporate transaction or event, equitably requires an adjustment, then the Compensation Committee will adjust, as appropriate, any or all of:

- the number and kind of shares of common stock (or other securities or property) with respect to which awards may be granted or awarded;
- the number and kind of shares of common stock (or other securities or property) subject to outstanding awards; and
- the grant, purchase or exercise price with respect to any outstanding option or stock appreciation right.

Termination of Employment. Awards made under the Plan which have not vested or become exercisable will generally be forfeited if the holder ceases to be an employee of the Company or its subsidiaries except in the case of termination as a result of a change of control. (See *Change in Control*, below). If a holder voluntarily resigns before eligibility for retirement or is terminated by the Company or its subsidiaries for cause, the awards that have become exercisable remain exercisable for a period of thirty days following the effective date of the termination of employment. In addition, the Grantor may, in its sole discretion, accelerate the vesting or exercisability of the holder's awards that are unvested or not exercisable at the time of the holder's termination of employment.

If a holder of stock options or SARs ceases to be employed by the Company or its subsidiaries because of a reduction in force, the participant's death or disability, retirement, transfer to a related entity or involuntary termination of employment for other than cause, all of his outstanding vested options and SARs will remain exercisable until the remaining term of the stock options or SARs ends.

If a participant retires, dies or becomes disabled, all restrictions applicable to his restricted stock and phantom or restricted stock units will lapse. If the participant's employment is terminated due to a transfer to a related entity or a decrease in the Company's ownership of a subsidiary, all restrictions will remain in effect until the end of the applicable restriction period.

Change in Control. All outstanding awards become fully vested and/or exercisable upon a change in control. For the purposes of awards that are not subject to section 409A of the Internal Revenue Code (see *U.S. Tax Consequences*, below), a change in control is defined as the occurrence of one or more of the following events:

- a person or group becomes the beneficial owner of shares representing more than 50% of Company's common stock;
- the shareholders of the Company approve any plan or proposal for the liquidation, dissolution or winding up of the Company;

- the Company (i) consolidates with, merges into or participates in a share exchange with another entity or another entity merges into the Company, and in the case of any such merger, consolidation or share exchange, the Company's common stock is changed or exchanged into other assets or securities as a result, or (ii) conveys, transfers or leases all or substantially all of its assets; or
- any time continuing directors do not constitute a majority of the Board. Continuing directors are individuals who were members of the Board on the effective date of the Plan or who were nominated for election or elected to the Board with the affirmative vote of a majority of directors comprising the Board or, if applicable, the Nominating Committee of the Board, who were continuing directors immediately prior to such nomination or election.

For purposes of awards that are subject to section 409A, a change of control is defined as the occurrence of one or more of the following events:

- a person or group acquires ownership of more than 50% of the total voting power of the Company; or
- a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or
- a person or group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) substantially all of the assets of the Company.

In general, stock options, stock appreciation rights and restricted stock are not subject to section 409A, and restricted stock units and performance stock units are subject to section 409A (although the Company intends that all such awards will be designed to avoid section 409A's adverse tax consequences; see *U.S. Tax Consequences*, below).

Amendment and Termination. The 2007 LTIP may be terminated by the Board at any time. The Board may amend the 2007 LTIP (and the awards issued thereunder), but may not:

- without prior approval of the stockholders, take any action that requires shareholder approval to comply with any tax, regulatory or stock exchange requirements, including increasing the maximum number of shares of common stock that may be issued under the Plan; or
- amend the Plan in a way that adversely affects any rights of an outstanding award holder without prior approval of the holder of such award, except in accordance with the Plan or applicable award.

U.S. Tax Consequences. The following brief description, which is based on existing law, sets forth certain of the federal income tax consequences of the grant of awards under the 2007 LTIP. This description may differ from the actual tax consequences incurred by any individual recipient of an award. Moreover, existing law is subject to change by new legislation, by new regulations, by administrative pronouncements and by court decisions or by new or clarified interpretations or applications of existing laws, regulations, administrative pronouncements and court decisions. Any such change may affect the federal income tax consequences described below.

Non-Qualified Stock Options. An employee who is granted a non-qualified stock option will not recognize taxable income at the time the stock option is granted. In general, an optionee will be subject to tax for the year of exercise on an amount of ordinary income equal to the excess of the fair market value of the shares on the date of exercise over the option exercise price, and the Company will receive a corresponding federal income tax deduction. Income tax withholding requirements apply upon exercise. The optionee's basis in the shares so acquired will be equal to the option exercise price plus the amount of ordinary income upon which he or she is taxed. Upon subsequent disposition of the shares, the optionee

will recognize capital gain or loss, long-term or short-term, depending upon the length of time the shares are held after the stock option is exercised.

Incentive Stock Options. An optionee is not taxed at the time an incentive stock option is granted. The tax consequences upon exercise and later disposition generally depend upon whether the optionee was an employee of the Company or a subsidiary at all times from the date of grant until three months preceding exercise (one year in the case of disability) and on whether the optionee holds the shares for more than one year after exercise and two years after the date of grant of the stock option.

If the optionee satisfies both the employment rule and the holding rule, for regular tax purposes the optionee will not recognize income upon exercise of the stock option and the Company will not be allowed an income tax deduction at any time. The difference between the option exercise price and the amount realized upon disposition of the shares by the optionee will constitute a long-term capital gain or a long-term capital loss, as the case may be.

If the optionee meets the employment rule but fails to observe the holding rule (a disqualifying disposition), the optionee generally recognizes as ordinary income, in the year of the disqualifying disposition, the excess of the fair market value of the shares at the date of exercise over the option exercise price. Any excess of the sales price over the fair market value at the date of exercise will be recognized by the optionee as capital gain (long-term or short-term depending on the length of time the stock was held after the stock option was exercised). If, however, the sale price is less than the fair market value at the date of exercise, then the ordinary income recognized by the optionee is generally limited to the excess of the sale price over the option exercise price. In both situations, the tax deduction allowable to the Company is limited to the amount of ordinary income recognized by the optionee. Under current Internal Revenue Service guidelines, the Company is not required to withhold any federal income tax in the event of a disqualifying disposition.

Different consequences may apply for an optionee subject to the alternative minimum tax.

Stock Appreciation Rights. An employee will not recognize taxable income upon the award of stock appreciation rights. Upon the exercise of stock appreciation rights, any cash received and the fair market value on the exercise date of any shares of common stock received would constitute ordinary income to the participant, and the Company would be entitled to a deduction in the amount of such income at the time of exercise.

Restricted Stock. An employee who is granted restricted stock will not recognize taxable income at the time the restricted stock is granted. In general, a restricted stockholder will recognize taxable income and the Company will receive a corresponding Federal income tax deduction. However, a restricted stockholder may file with the IRS a section 83(b) election when he or she receives the restricted stock, as a result of which he or she will recognize taxable ordinary income when the stock is granted. Upon subsequent disposition of the shares, the restricted stockholder will recognize capital gain or loss, long-term or short-term, depending on the length of time the shares are held after the value of the shares was recognized as ordinary income.

Phantom Stock Units and Restricted Stock Units. An employee normally will not recognize taxable income upon the award of phantom stock units or restricted stock units. When the conditions and requirements established with respect to such an award have been satisfied, any cash and the fair market value of any shares of the Company's common stock received will constitute ordinary income to the employee who was issued the award in the year in which paid, and the Company will be entitled to a deduction in the same amount.

Deductibility of Executive Compensation. Section 162(m) of the Code disallows a tax deduction to publicly held companies for compensation paid to the Chief Executive Officer and the four most highly compensated executive officers other than the Chief Executive Officer, to the extent that total

compensation exceeds \$1 million per covered officer in any taxable year. The limitation applies only to compensation which is not considered to be performance-based. Compensation deemed paid by the Company in connection with disqualifying dispositions of incentive stock option shares or exercises of non-qualified stock options and stock appreciation rights granted under the 2007 LTIP qualifies as performance-based compensation for purposes of Section 162(m) if the grants were made by a committee of outside directors as defined under Section 162(m). The Company anticipates that any compensation deemed paid by it in connection with disqualifying dispositions of incentive stock option shares or exercises of non-qualified stock options and stock appreciation rights will qualify as performance-based compensation for purposes of Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation. Accordingly, all compensation deemed paid with respect to those stock options should be deductible by the Company without limitation under Section 162(m) of the Code. Compensation paid by the Company in connection with restricted stock, phantom stock units and restricted stock units may be taken into account for purposes of the \$1 million limitation unless the individual award is specifically designed to comply with Section 162(m)'s performance-based exemption, or the independent director, key employee or consultant is not subject to Section 162(m) at the time the Compensation is taken into account for purposes of Section 162(m).

Impact of Section 409A. Section 409A of the Code applies to compensation vested or deferred after December 31, 2004. The Company intends that all awards be designed to avoid adverse Federal income tax consequences under Section 409A.

The Board of Directors unanimously recommends that the shareholders vote FOR the proposal to approve the 2007 LTIP.

**PROPOSAL 3: APPROVAL OF THE PENN NATIONAL GAMING, INC.
2007 LONG TERM INCENTIVE COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS**

On April 25, 2007, the Board of Directors approved, subject to stockholder approval, the Penn National Gaming, Inc. 2007 Long Term Incentive Compensation Plan for Non-Employee Directors (the "Directors' Plan"), under which 750,000 shares of the Company's common stock (approximately 0.88% of the outstanding shares as of April 9, 2007) will be reserved for issuance. The Directors' Plan will not become effective until it is approved by the Company's stockholders and will expire on the tenth anniversary of the effective date. The Board is asking the Company's stockholders to approve the Directors' Plan so that the Company may issue stock options to non-employee directors of the Company under the Directors' Plan. The Directors' Plan will not replace the 2003 Equity Compensation Plan, which authorizes the issuance of stock options to directors and which will remain in place until it terminates in 2013 or all of the stock authorized thereunder is issued.

Description of the Directors' Plan

The following is a description of the purpose and a summary of the provisions of the Directors' Plan. The Directors' Plan is attached to this proxy statement as Appendix B.

General. Under the Directors' Plan, the Company will issue to each non-employee director on the first business day of each calendar year, an option to purchase 30,000 shares of the Company's common stock, under the terms and conditions set forth in the Directors' Plan and such other terms and conditions determined by the Board of Directors or the Compensation Committee. In addition, if an individual first becomes a non-employee director of the Company on any day other than the first business day of a calendar year, he or she shall be granted, on the first business day on which he or she is a non-employee director, an option to purchase a number of shares equal to 2,500 multiplied by the number of full calendar months remaining in the year.

Purpose. The purpose of the Directors' Plan is threefold:

- To advance the interests of the Company and its shareholders by providing a means by which the Company shall be able to motivate non-employee directors to direct their efforts to those activities that will contribute materially to the Company's success;
- To link remunerative benefits paid to non-employee directors with the enhancement of shareholder value; and
- To enable the Company to attract and retain as non-employee directors highly qualified persons for the successful conduct of its business.

Administration of the Directors' Plan. The Directors' Plan is administered by the Compensation Committee, which is comprised solely of non-employee, independent directors of the Board. Except for matters that are required by the terms of the Directors' Plan to be decided by the Board, the Compensation Committee has the authority and the discretion under the Directors' Plan to interpret and construe the Directors' Plan, to prescribe, amend and rescind rules, regulations, policies and practices, to approve such conditions and restrictions on awards as it deems appropriate and to make all other determinations in connection with the administration of the Directors' Plan.

Eligible Directors. Non-employee directors of the Company are eligible to receive stock options under the Directors' Plan. We currently have five non-employee directors.

Number of Shares Available for Issuance. The aggregate number of such shares that may be issued under the Directors' Plan shall not exceed 750,000. The Board or the Compensation Committee may adjust the aggregate 750,000 share limit if it determines that a dividend, recapitalization, stock split, merger, consolidation or other similar corporate transaction or event equitably requires an adjustment.

Common Stock Repurchases. Within 120 days of the issuance of any stock options, the Company will purchase a number of shares common stock equal to the number of shares of common stock represented by such award. However, if such purchase may not, or the Company reasonably determines should not, be made within 120 days of issuance because of legal restrictions or market conditions, the period will extend for additional 120 days periods until all such shares are purchased. For a discussion of the share repurchase program authorized by the Company's Board, see Common Stock Repurchases on page 11 of this proxy statement.

Types of Awards. The Directors' Plan provides only for the issuance of stock options to non-employee directors. No other awards are permitted under the Directors' Plan.

Stock Options. A stock option gives the holder the right to receive a designated number of shares of the Company's common stock during the period that the option is vested upon payment of the exercise price for the stock option, subject to the terms and conditions that are set forth in the Directors' Plan and such additional terms and conditions (not inconsistent with the terms and conditions set forth in the Directors' Plan) that the Board, in its sole discretion and subject to the terms of the Directors' Plan, shall determine at the time the option is issued.

All options issued under the Directors' Plan shall have the following terms and conditions:

- The exercise price per share shall be the fair market value of a share of the Company's common stock on the date the option is granted.
- The option shall expire seven (7) years from the date the option is granted.
- The option shall become exercisable as follows: one-third (1/3) on the first anniversary of the date of grant; an additional one-third (1/3) on the second anniversary of the date of grant; and the remaining one-third (1/3) on the third anniversary of the date of grant.
- If the non-employee director voluntarily terminates his or her service or his or her service is terminated for cause, all of his or her options are forfeited on the 30th day following his or her termination of service. In the event of any other termination of service as a non-employee director, vested options will remain outstanding and exercisable for the balance of their term and unvested options will be forfeited on the 30th day following the non-employee director's termination of service.
- The exercise price for a stock option may be paid in cash or shares of previously owned common stock or the options may be exercised pursuant to a cashless exercise program permitted by the Board or the Committee.

Fair Market Value. For the purposes of the Directors' Plan, fair market value is equal to the closing sales price of a share of the Company's common stock on business day immediately preceding the date of grant.

Adjustments for Changes in Capitalization. If the Board or Compensation Committee determines that a dividend, recapitalization, stock split, merger, consolidation, or other similar corporate transaction or event, equitably requires an adjustment, then it will adjust, as appropriate, any or all of:

- the number and kind of shares of common stock (or other securities or property) that may be purchased pursuant to the exercise of an option;
- the number and kind of shares of common stock (or other securities or property) subject to outstanding options; and

- the grant, purchase or exercise price with respect to any outstanding option.

Change in Control. All outstanding options become fully vested and exercisable upon a change in control. For the purposes of the Directors' Plan, a change in control is defined as the occurrence of one or more of the following events:

- a person or group becomes the beneficial owner of shares representing more than 50% of Company's common stock;

- the shareholders of the Company approve any Directors' Plan or proposal for the liquidation, dissolution or winding up of the Company;
- the Company (i) consolidates with, merges into or participates in a share exchange with another entity or another entity merges into the Company, and in the case of any such merger, consolidation or share exchange, the Company's common stock is changed or exchanged into other assets or securities as a result, or (ii) conveys, transfers or leases all or substantially all of its assets; or
- any time continuing directors do not constitute a majority of the Board. Continuing directors are individuals who were members of the Board on the effective date of the Directors' Plan or who were nominated for election or elected to the Board with the affirmative vote of a majority of directors comprising the Board or, if applicable, the Nominating Committee of the Board, who were continuing directors immediately prior to such nomination or election.

Amendment and Termination. The Directors' Plan may be terminated by the Board at any time. The Board may amend the Directors' Plan (and the awards issued thereunder), but may not:

- without prior approval of the stockholders, take any action that requires shareholder approval to comply with any tax, regulatory or stock exchange requirements, including increasing the maximum number of shares of common stock that may be issued under the Directors' Plan;
- amend the provisions of the Directors' Plan regarding the number of options that are issued to Directors; or
- amend the Directors' Plan or an award in any way that adversely affects any rights of an outstanding award holder without prior approval of the holder of such award, except in accordance with the Directors' Plan or the applicable award.

U.S. Tax Consequences. The following brief description, which is based on existing law, sets forth certain of the federal income tax consequences of the grant of options under the Directors' Plan. This description may differ from the actual tax consequences incurred by any individual recipient of an option. Moreover, existing law is subject to change by new legislation, by new regulations, by administrative pronouncements and by court decisions or by new or clarified interpretations or applications of existing laws, regulations, administrative pronouncements and court decisions. Any such change may affect the federal income tax consequences described below.

A non-employee director who is granted an option under the Directors' Plan will not recognize taxable income at the time the stock option is granted. In general, an optionee will be subject to tax for the year of exercise on an amount of ordinary income equal to the excess of the fair market value of the shares on the date of exercise over the option exercise price, and the Company will receive a corresponding Federal income tax deduction. The optionee's basis in the shares so acquired will be equal to the option exercise price plus the amount of ordinary income upon which he or she is taxed. Upon subsequent disposition of the shares, the optionee will recognize capital gain or loss, long-term or short-term, depending upon the length of time the shares are held after the stock option is exercised.

The options granted under the Directors' Plan are generally referred to as non-qualified stock options. They are not incentive stock options and they are not entitled to the favorable tax consequences that are afforded to incentive stock options.

Section 409A of the Code applies to compensation vested or deferred after December 31, 2004. The options granted under the Directors' Plan are designed to avoid the application of Section 409A.

The Board of Directors unanimously recommends that the shareholders vote FOR the proposal to approve the Director's Plan.

**PROPOSAL 4: APPROVAL OF THE PENN NATIONAL GAMING, INC.
THE ANNUAL INCENTIVE PLAN AND THE PERFORMANCE GOALS THEREUNDER**

On March 14, 2007, the Compensation Committee of the Board of Directors approved a new Annual Incentive Plan. The Annual Incentive Plan provides for cash bonuses payable upon the attainment of pre-established performance goals. Shareholder approval of the Annual Incentive Plan, as summarized herein, will enable the Company to claim tax deductions for all bonuses payable under the Annual Incentive Plan, including bonuses for the 2007 calendar year and bonuses for calendar years through 2011. Without shareholder approval, Section 162(m) of the Code would deny the Company a deduction for bonuses under the Annual Incentive Plan paid to the CEO and the four other most highly compensated executive officers, to the extent each officer's compensation that is subject to Section 162(m) exceeds \$1 million. The unavailability of this deduction would cause the Company to pay higher Federal income taxes.

If the shareholders do not approve this proposal, awards conditionally made by the Compensation Committee under the Annual Incentive Plan for the 2007 performance cycle will be null and void, and no payments under those awards may be made. Irrespective of the shareholders approval of the Annual Incentive Plan, the Company may pay discretionary bonuses or other types of compensation that may not be deductible by the Company. However, no employee has a right to such discretionary compensation as a substitute for a payment under the Annual Incentive Plan in the event that performance targets are not met or that shareholders do not approve this proposal.

Administration. The Annual Incentive Plan is administered by the Compensation Committee. All of the members the Compensation Committee satisfy the independence requirements under the Marketplace Rules and meet the definitions of non-employee director under Rule 16b-3 of the Securities Exchange Act of 1934 and outside director for purposes of Section 162(m) of the Code. The Compensation Committee will, among other things, designate participants from among the eligible employees, establish performance goals within the parameters described below and administer the Annual Incentive Plan as it deems necessary or advisable. The Annual Incentive Plan is not set forth in a formal document. The Compensation Committee has the right to terminate or amend the Annual Incentive Plan, without stockholder approval, at any time and for any reason. The Company also may adopt other bonus or incentive plans.

Eligible Employees. Employees eligible to participate in the Annual Incentive Plan include the Chief Executive Officer, the other executive officers of the Company and other key officers of the Company, which currently consists of approximately nine individuals.

Performance Goals. The Annual Incentive Plan is an incentive compensation plan designed to promote teamwork towards achieving pre-established corporate performance goals each year. The Compensation Committee approved a performance measure of free cash flow compared to the results of a peer group of the Company's competitors and a performance measure of earnings before interest, taxes, depreciation, and amortization (EBIDTA) compared to plan as the business criteria upon which performance goals are based.

Plan Benefits. Participants in the Annual Incentive Plan may receive a bonus with a threshold, target and maximum payout. The annual bonus will be paid depending on whether the performance criteria established for the year are achieved. No bonuses will be paid if performance criteria established for the year do not meet the threshold. If the Company's performance with respect to any or all of the performance criteria meets or exceeds the threshold, then a varying amount of cash, up to the maximum may be achieved. A maximum of \$6,000,000 may be paid each year to each executive who participates in the Annual Incentive Plan. The Committee may determine to pay the bonus in shares of the Company's common stock, instead of cash, under the Company's equity-based incentive compensation plans. The Compensation Committee may reduce, but may not increase, any bonus. For a description of awards made pursuant to the Annual Incentive Plan for the 2007 fiscal year, see the discussion in Compensation

Discussion and Analysis on page 25 of this proxy statement. The actual amount of incentive payouts with respect to the performance objectives and formulas for 2007 that may be made under the Annual Incentive Plan are not presently determinable because such amounts are dependent on the future attainment of the performance objectives with respect to such payouts.

The Board of Directors unanimously recommends that the shareholders vote FOR the proposal to approve the Annual Incentive Plan and the performance goals thereunder.

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EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes certain information with respect to our compensation plans and individual compensation arrangements under which our equity securities have been authorized for issuance as of the fiscal year ended December 31, 2006:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights (\$)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by shareholders	8,086,851	21.9058	4,182,600
Equity compensation plans not approved by shareholders	23,750	7.95	
Total	8,110,601	21.865	4,182,600

Option Grant to the Company's Chairman

On February 6, 2003, the Compensation Committee granted Peter M. Carlino stock options to purchase 95,000 shares of the Company's common stock at an exercise price of \$7.95 per share (adjusted to reflect the Company's March 7, 2005 two-for-one stock split), which was the closing price of the Company's common stock on the day before the options were granted. These stock options, which were granted prior to the adoption of the Company's 2003 Equity Compensation Plan, were not granted under the 1994 Stock Option Plan because sufficient shares did not remain available for grant under such plan. The stock options vested 25% on each of February 6 of 2004, 2005, 2006 and 2007 and expire on February 6, 2013. The terms of the stock options may be amended only by a written agreement between Peter M. Carlino and the Company that is approved by the Compensation Committee.

**SECURITY OWNERSHIP OF PRINCIPAL
SHAREHOLDERS AND MANAGEMENT**

The following table sets forth certain information with respect to beneficial ownership of the Company's common stock as of March 31, 2007, by each person known to the Company to own beneficially more than 5% of the Company's outstanding common stock, each director, the CEO and each of the four other most highly compensated executive officers of the Company and all of the executive officers and directors of the Company as a group. The persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them except as otherwise shown in the footnotes to the table. Unless otherwise indicated in the footnotes to the table, the address of each such person is c/o the Company, 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610.

Beneficial ownership is determined in accordance with the rules of the SEC. Shares of common stock subject to options currently exercisable or exercisable within 60 days of March 31, 2007, 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 31, 2007 (85,464,858 shares).

Name and Address	Number of Shares Beneficially Owned	Percentage of Class
Peter M. Carlino(1)(2)	11,822,603	13.76 %
Peter D. Carlino(1)(3)	10,049,186	11.76 %
Richard J. Carlino(1)(4)	9,583,607	11.21 %
David E. Carlino(1)(4)	9,568,459	11.20 %
Carlino Family Trust(1)	9,533,604	11.16 %
Harold Cramer(1)(5)	10,178,316	11.90 %
David A. Handler(6)	172,500	*
John M. Jacquemin(6)	99,900	*
Robert P. Levy(7)	14,100	*
Barbara Z. Shattuck(8)	63,805	*
William J. Clifford(6)(9)	477,500	*
Leonard M. DeAngelo(6)(9)	382,444	*
Jordan B. Savitch(6)(9)	199,260	*
Robert S. Ippolito(6)(9)	187,400	*
Kevin DeSanctis(10)	877,415	1.02 %
All executive officers and directors as a group (10 persons)(6)(9)	14,064,224	16.10 %
FMR Corporation(11)	7,502,010	8.78 %
Akre Capital Management, LLC(12)	7,360,937	8.61 %

Notes to Security Ownership of Principal Shareholders and Management Table

* Less than 1%.

(1) 9,533,604 shares of the Company's common stock are owned by an irrevocable trust (the Carlino Family Trust) among Peter D. Carlino, his eight children and the former spouse of one of his children, as settlors, and certain trustees, as to which Peter M. Carlino has sole voting power for the election of directors and certain other matters. Peter D. Carlino, Peter M. Carlino, David E. Carlino, Richard J. Carlino and Harold Cramer have shared investment power and shared voting power with respect to certain matters.

(2) The number of shares in the table includes 9,533,604 shares owned by the Carlino Family Trust, 452,997 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, 473,755 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, 126,491 shares owned jointly with Mr. Carlino's wife, 266,453 shares owned by Mr. Carlino's wife, 220,000 shares of restricted stock under which Mr. Carlino has voting rights but his disposition rights are currently restricted, and 486,300 shares that may be acquired upon the exercise of outstanding options.

(3) The number of shares in the table includes 9,533,604 shares owned by the Carlino Family Trust and 502,212 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino and Peter D. Carlino's children as to both of which Peter D. Carlino has shared investment power and shared voting power.

(4) The number of shares in the table includes 9,533,604 shares of common stock owned by the Carlino Family Trust.

(5) The number of shares in the table includes 9,533,604 shares owned by the Carlino Family Trust, an aggregate of 502,212 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino and Peter D. Carlino's children as to both of which Harold Cramer has shared investment power and shared voting power and 82,500 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, 390,338 shares; Leonard M. DeAngelo, 329,544 shares; Jordan B. Savitch, 167,260 shares; Robert S. Ippolito, 143,000 shares; David A. Handler, 142,500 shares; and John M. Jacquemin, 97,500 shares; and all executive officers and directors as a group, 1,904,942 shares.

(7) Includes 13,500 shares that may be acquired upon the exercise of outstanding options and 600 shares owned by Mr. Levy's spouse, as to which shares Mr. Levy disclaims beneficial ownership.

(8) Includes 52,500 shares that may be acquired upon the exercise of outstanding options and 2,000 shares owned by Ms. Shattuck's spouse, as to which shares Ms. Shattuck disclaims beneficial ownership.

(9) Includes restricted shares issued as follows: William J. Clifford, 40,000 shares; Leonard M. DeAngelo, 40,000 shares; Jordan B. Savitch, 20,000 shares; Robert S. Ippolito, 20,000 shares; and all executive officers and directors as a group, 340,000 shares, under which each of them has voting rights but his disposition rights are currently restricted.

(10) Includes 816,290 shares that may be acquired upon the exercise of outstanding options.

(11) According to their 13G/A filed with the SEC on February 14, 2007, consists of shares beneficially owned as of December 31, 2006, and includes 1,482,420 shares to which FMR Corporation (FMR) has sole voting power and 7,502,010 shares as to which FMR has sole dispositive power. This Schedule 13G report was filed jointly by FMR, Edward C. Johnson 3d and Fidelity Management & Research Company. Mr. Johnson is Chairman of FMR. Members of Mr. Johnson's family are the predominant owners of Class B shares of FMR, representing 49% of the voting power of FMR and all Class B shareholders have entered into a shareholders' agreement under which all Class B shares will be voted in accordance with the majority vote of Class B shares. As such, members of Mr. Johnson's family may be deemed to be members of a controlling group with respect to FMR. The amounts beneficially owned by FMR include 6,312,290 shares beneficially owned by Fidelity Management & Research Company, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and a wholly-owned subsidiary of FMR; 4,900 shares beneficially owned by Fidelity Management Trust Company, a bank, as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, and a wholly-owned subsidiary of FMR; 203,086 shares beneficially owned by Pyramis Global Advisors, LLC, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, and an indirect wholly-owned subsidiary of FMR; 506,750 shares beneficially owned by Pyramis Global Advisors Trust Company, a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, and an indirect wholly-owned subsidiary of FMR and 474,984 shares owned by Fidelity International Limited (FIL), an investment adviser that is independent of FMR, but a partnership controlled by Edward C. Johnson 3d and his family owns approximately 47% of the voting shares of FIL and Mr. Johnson acts as the Chairman of FIL. FMR and FIL are of the view that they are not acting as a group and that they are not otherwise required to attribute beneficial ownership of the Company's common stock to one another. The address of FMR is 82 Devonshire Street, Boston, MA 02109.

(12) According to their 13G/A filed with the SEC on February 15, 2007, consists of shares beneficially owned as of December 31, 2006 by Akre Capital Management, LLC (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.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

For purposes of the following Compensation Discussion and Analysis, the terms *executives* and *executive officers* refer to the Named Executive Officers of the Company as set forth in the Summary Compensation Table, which appears on page 31 of this proxy statement.

Objectives of the Compensation Program

Over the past 10 years, the Company has achieved a 28% compound annual growth in stock price making it one of the top performing companies in increasing shareholder value. In recognition of its growth in total shareholder return (5 year growth of 43% per year) and its 5 year and 12 month growth in sales and earnings, the Company was named to Forbes' Platinum 400 List of Best Big Companies in America of 2006 and further identified as the best managed company in the Hotel, Restaurant, and Leisure industries.

The Company recognizes that a talented management group plays a key role in achieving these results. Therefore, the Company believes it must attract and retain key talent to continue its outstanding performance, and that the compensation program is crucial to its continued success.

The Company views other companies in the gaming industry as its primary competition for executive talent. The gaming industry is a highly competitive business, and, as such, the Company recognizes that it needs a competitive compensation program to attract and retain the top talent necessary for it to continue to achieve outstanding results. Many executives have joined the Company from other gaming operations. The following compensation philosophy has been developed to support the Company and its businesses.

Compensation Philosophy

To support its objectives, the Compensation Committee has adopted and annually reviews and confirms a compensation philosophy which serves as the guide for all executive compensation decisions.

Compensation Philosophy Statement. The Company intends to maintain an executive compensation program that will help it attract and retain the executive talent needed to grow and further the strategic interests of the business. To this end, the Company provides a compensation and benefits program that will be sufficiently attractive to provide talented executives with good reason for remaining with the Company and continuing in their efforts to improve shareholder value. The Company's program is designed to motivate and reward executives to achieve and exceed targeted results. Pay received by the executives will be commensurate with the performance of the Company, the business unit they are part of, and their own individual contribution.

Compensation Program Design. Consistent with the compensation philosophy, the compensation program is designed to support the marketplace positioning for each element of compensation to equate the level of pay with the comparable targeted market position for results, thereby creating a consistent pay for performance environment (75th percentile pay compared to the peer group for 75th percentile performance compared to the peer group). Specifically, salaries are targeted to be competitive, defined as comparable to *at market* rates (50th percentile compared to the peer group), to attract and retain the executives needed to run the business and provide them with a fair program with upside potential of variable compensation tied to performance. The total cash opportunity (base plus annual incentives) and total compensation opportunity (cash plus stock) are targeted at the 75th percentile of the peer group for 75th percentile results compared to the peer group and the maximum opportunity is set to reflect above 90th percentile levels for results that exceed the 90th percentile. Benefits and perquisites offered are selected to be competitive and fair when compared to practices of the peer companies and of the gaming industry.

Included in the peer group of gaming industry peers for 2006: Aztar Corporation, Boyd Gaming Corporation, Harrah's Entertainment, Inc., Isle of Capri Casinos, Inc., MGM Mirage, Pinnacle Entertainment, Inc., Station Casinos, Inc., Trump Entertainment Resorts, Inc., and Wynn Resorts, Ltd. Due to changes in the gaming industry, the peer group for 2007 includes: Ameristar Casinos, Inc., Boyd Gaming Corporation, Harrah's Entertainment, Inc., Isle of Capri Casinos, Inc., Las Vegas Sands Corp., MGM Mirage, Pinnacle Entertainment, Inc., Station Casinos, Inc., Trump Entertainment Resorts, Inc., and Wynn Resorts, Ltd.

To ensure a competitive compensation program, the Company and the Compensation Committee, with the assistance of its compensation consultant, closely monitor the compensation practices of other gaming companies to ensure the programs assist in attracting and retaining executives. The Compensation Committee receives and reviews extensive research of the marketplace on an ongoing basis. The research focuses on practices and trends in compensation for executive officers, including:

- types of compensation programs in other companies,
- design details of compensation programs,
- compensation levels for executives,
- compensation trends and new practices,
- pay mix, vesting terms, types of equity used,
- stock ownership levels,
- amount of pay from equity incentives, and
- types of benefits and perquisites provided to executives.

The Compensation Committee reviews different aspects of business performance, including total shareholder return, return on equity, net income, revenue growth, market capitalization, and cash flow compared to the results of industry peers. Additionally, in 2006, the Compensation Committee reviewed and discussed the relationship between performance and pay, the Company's historical performance compared to industry peers, the amount of stock set aside and used for long-term incentive plans, and the types of performance measures that are used by other companies for their annual and long-term incentive programs.

Elements of the Compensation Program

Base Salary. Consistent with the compensation philosophy, base salaries are targeted to approximate the 50th percentile (median) of the peer group. Salaries are also reviewed and compared to market rates and internal relationships for fairness. Salaries are then reviewed and set based on judgments regarding external and internal relationships, specific position duties and responsibilities, and assessment of individual contribution and position value to the Company.

Overall salaries for executive officers in 2006 fell somewhat below the median of the peer group at the 44th percentile, due in part to the significant growth in revenues and company size over the last few years, as salaries have not quite kept pace with the company growth and its peer group ranking. For 2006, salaries were increased significantly to reflect the substantial increase in the size of the Company as a result of the acquisition of Argosy Gaming Company and the contributions of the individual executives to the Company during 2005 and to be more consistent with industry practices. Moreover, the Company was in the process of implementing a significant capital expenditure program to provide for future growth. The salary for the Chief Executive Officer was raised from \$1,000,000 to \$1,400,000 to recognize his outstanding performance in leading the Company and overseeing its continued growth as well as to reflect his enhanced responsibilities in connection with the increase in company size and complexity following the Argosy

Gaming Company acquisition. Pursuant to the terms of his employment agreement, dated July 31, 2006, the salary for the Executive Vice President of Operations was increased from \$500,000 to \$750,000 to reflect his additional duties and responsibilities after the acquisition of Argosy Gaming Company, and the implementation of a significant expansion at several Company properties.

Salary increases for executive officers for 2007 represent a 7.1% increase over 2006 levels with the Chief Executive Officer receiving a 7.1% increase to \$1,500,000. The salary for the CFO was increased from \$585,000 to \$700,000 to reflect his performance and increased responsibility.

Annual Incentive. Pursuant to the annual incentive compensation program in 2006, the Compensation Committee and the Board of Directors approved performance-based awards for the Chief Executive Officer and other executive officers. Award amounts were set based upon the Chief Executive Officer's and Board's assessment of EBITDA results, which significantly exceeded the Company's 2006 EBITDA guidance, and the Chief Executive Officer's assessment of individual contribution for each executive officer. For 2006, awards ranged from 67-100% of salary. Historically, the program provided a range of potential payments from 50-100% of salary.

The Company began revising its annual incentive program in 2005 to structure a more formal plan and offer an increased opportunity to reward outstanding performance consistent with the compensation philosophy and industry practices. Business issues, including the acquisition of Argosy Gaming Company and the necessary state regulatory approvals in connection with the acquisition, delayed the final design and implementation of the new plan until 2007.

Working with its compensation consultant, the Compensation Committee approved a new performance-based Annual Incentive Plan for 2007 which provides two measures: an internal measure, EBITDA versus plan, and an external measure, free cash flow versus peer group results. For 2007, the awards for meeting the internal measure goals will be paid in cash and the awards for meeting the external measure goals will be paid in restricted stock with 3-year pro rata vesting. To further a pay for performance environment, the plan is being presented to shareholders for their approval so that awards under the plan qualify as performance-based compensation that will be exempt from the federal income tax \$1,000,000 deduction limitation imposed under Section 162(m) of the Code. These exemptions allow the Committee to decrease, but not increase, the amounts of all awards and maintain the tax deductibility of all performance-based payments.

Internal Measure. EBITDA versus plan, EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

For 2007, the Committee approved the following EBITDA goals for the Company:

	% of Achievement	EBITDA
•Threshold	98%	\$ 618,000,000
•Target	100%	\$ 633,000,000
•Maximum	102%	\$ 648,000,000

The threshold and maximum amounts were determined based on a historical review of the predictability of the Company's target EBITDA and management's ability to achieve those results.

The EBITDA budget is built from the ground up at each of the Company's properties, and subject to a thorough corporate review process that analyzes marketplace conditions and trends, property structure, margins and operating performance prior to being finalized into the annual corporate operating plan and approved by the Board of Directors.

The Chief Executive Officer has a target of 100% of salary and a range of 50% to 150% of salary from threshold to maximum. The other executives have targets of 50% or 75% of salary with a range from 50% to 150% of target for threshold to maximum performance.

External Measure. The Company has added an external measure of free cash flow versus 2007 peer group results with the following Company goals:

•Threshold:	50th percentile (median) performance
•Target:	75th percentile performance
•Maximum:	Highest of peers

No awards will be paid unless 2007 free cash flow is at or above the median results of the peer group, which will be measured using the Standard & Poor's database. Actual company results for this measure will then be ranked against the peer group results to determine the award. Targets are the same percentage of salary as for the internal measure (EBITDA) Chief Executive Officer at 100% of salary and other executives at 50% or 75% of salary for 75th percentile performance. The range is a threshold of 50% of target for 50th percentile performance and 175% of target for achieving the highest return of the peer group.

Stock Options. The Company believes that the stock option program is an important element of the executive compensation program since it most directly rewards for the increase in shareholder value, for which performance historically ranks above the 90th percentile of general industry results. The Company believes that stock option grants have assisted the Company in attracting and retaining executives. In setting stock option grant amounts, the Compensation Committee looks to set stock option grants consistent with the compensation philosophy and considers gaming industry practices as well as individual performance and contribution to results. The options vest at the rate of 25% per year to assist in retaining executives.

For 2006, the Company granted stock options to executive officers generally at the same number of shares as the grant from the prior year. The 2006 option grants were set after a review of recent long term incentive compensation practices at competitors in the gaming industry and an extensive discussion of individual performance and contribution to results. The Committee set option award amounts that were competitive compared to industry practices, reflected the contributions of the individual executive officers during 2005 and would motivate the executives to perform in 2006 and beyond. The Executive Vice President of Operations received a grant of 250,000 shares in connection with his employment agreement, dated July 31, 2006, which is intended to be his only grant during the 3-year term of his employment contract.

For 2007, the Company granted stock options to executive officers for the following amounts: Chief Executive Officer, 300,000 shares; Senior Vice President, Finance and Chief Financial Officer, 100,000 shares; Senior Vice President and General Counsel, 50,000 shares; Vice President, Secretary and Treasurer, 40,000 shares. The Executive Vice President of Operations, whose option grant in 2006 was made pursuant to the terms of his employment agreement, dated July 31, 2006, has not received a grant in 2007.

Restricted Stock. In 2005, the Committee approved a special one-time restricted stock award to executive officers and the grants were made in January 2006. The purpose of the award was to recognize and reward executive officers for the successful completion of the acquisition of Argosy Gaming Company, while also providing a strong retention incentive to remain with the Company. Vesting of the shares is 50% after 4 years, and 100% after 5 years.

Benefits and Perquisites. In 2006, certain executive officers received the following supplemental benefits and perquisites: Company match on voluntary deferred compensation, Company contribution to

401(k) plan, life insurance coverage, country club membership, reimbursement for automobile allowance, and personal use of Company aircraft. These programs are described in more detail on page 43 of this proxy statement. These programs are consistent with competitive practice in the gaming industry and the objectives of the compensation philosophy.

Deferred Compensation. The Company does not offer a formal defined benefit pension program. Instead, the Company provides executives with a voluntary deferred compensation program with a Company match of up to 5% of annual salary and/or bonus. The program is described in more detail on page 36 of this proxy statement. This program is consistent with competitive practices in the gaming industry.

Employment Agreements. Executive officers have employment agreements with the Company. The main purpose of these agreements is to protect the Company from certain business risks (threats from competitors, loss of confidentiality or trade secrets and solicitation of customers and employees) and to define the Company's right to terminate the employment relationship. The employment agreements also protect the executive from certain risks, such as a change in control of the Company. In the event of a change in control, executive officers receive a cash payment equal to three times the sum of their annual base salary and highest annual cash bonus over the two years preceding the change in control. If any change in control payment results in excise tax under the Code, then the executive officer is entitled to a gross-up payment so that the net amount equals the change in control payment less ordinary and normal taxes. The change in control payment amount (and the excise tax gross-up) was set to be competitive with practices in the gaming industry. The determination to trigger payment upon a change in control, as opposed to upon termination following a change in control, was meant to promote an orderly transition of senior management in the event of a change in control. This provision was intended to encourage executives to remain with the Company during the time between agreeing to a change in control transaction and the closing of the transaction, which can be lengthy because of regulatory approval requirements, and for a reasonable transition period after the change in control occurs. The executives are not entitled to the change in control payment until the change in control occurs. Because of the uncertainty associated with a second trigger, executives often believe they need to terminate their employment immediately following a change in control in order to receive the change in control payment. The single trigger mechanism was chosen to remove that ambiguity and avoid having senior management terminate immediately upon a change in control. In addition, to encourage the executive officers to stay for a 90-day transition period after a change in control, the executive officers receive 75% of this change in control payment on the effective date of the change in control, but the remaining 25% is not paid until 90 days after a change in control. The agreements are described in more detail on pages 37 and 38 of this proxy statement.

Other Compensation Policies

- *Restatements.* The Company does not currently have a policy requiring a specific course of action with respect to compensation adjustments following later restatements of financial results. Under those circumstances, the Compensation Committee would evaluate whether compensation adjustments are appropriate based upon the facts and circumstances surrounding the restatement and existing laws.
- *Timing of Option Grants.* For the annual option grants made to the executives in 2006, the Compensation Committee began its process of determining what stock option grant amounts were appropriate for the executives early in the fourth quarter of 2005 and the option grants were made at the first Compensation Committee meeting of 2006, which had been the Compensation Committee's practice for stock option grants to continuing executives in recent years. The Compensation Committee also historically granted stock options to new executives on the day that their employment with the Company commenced. The exercise price for option grants is set at the

fair market value of the Company's common stock on the date of grant, which, pursuant to the terms of the 2003 Equity Compensation Plan, is the closing price of the Company's common stock on the business day immediately before the date of grant.

In December 2006, the Compensation Committee adopted a stock option grant procedure, pursuant to which, for annual stock option awards to eligible executive officers, the grant date will be the first trading day of the calendar year provided that such grants are approved by the Committee after the completion of the Company's budget for such year but in advance of the beginning of such year. The options awarded in 2007 to the executives were granted in accordance with this procedure. In addition, with respect to executive officers subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, grants made by the Compensation Committee upon commencement of employment, promotions and upon the renewal of employment contracts are made on the day employment commences, the promotion is effective or the employment contract is renewed, respectively, which had been the Committee's practice prior to the adoption of the procedure.

Impact of Regulatory Requirements

Under Code Section 162(m), a company generally may not deduct compensation in excess of \$1,000,000 paid to the chief executive officer and the other four most highly compensated officers, subject to certain exemptions. While the Compensation Committee takes the availability of Section 162(m) exemptions into consideration when establishing executive compensation programs, in order to design compensation programs that address the Company's needs, neither the Compensation Committee nor Company has established a policy that mandates that all compensation must be exempt from the Section 162(m) deduction limitation.

Report of the Compensation Committee

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth on pages 25 through 30 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 has recommended to the Company's Board of Directors that the Company's Compensation Discussion and Analysis be included in the Company's proxy statement for the 2007 Annual Meeting of Shareholders.

The information disclosed in the Company's Report of the Compensation Committee shall not be deemed to be soliciting material, or to be filed with the SEC or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934.

Compensation Committee of the Board of Directors

Harold Cramer, Chairman

David A. Handler

Barbara Z. Shattuck

Summary Compensation Table

The following table sets forth information concerning the compensation earned during the fiscal year ended December 31, 2006 by the Company's Chief Executive Officer, Chief Financial Officer, and three other most highly compensated individuals serving as executive officers on December 31, 2006 and one individual who would have been one of the three most highly compensated executives except that he was not an executive officer on December 31, 2006 (collectively, the Named Executive Officers):

Name and Principal Position	Year	Salary (\$)	Bonus \$(1)	Stock Awards \$(2)	Option Awards \$(3)	All Other Compensation \$(4)	Total (\$)
Peter M. Carlino Chairman and Chief Executive Officer	2006	1,400,000	1,400,000	864,424	3,556,757	450,797	7,671,978
William J. Clifford Sr. Vice President, Finance and Chief Financial Officer	2006	585,000	585,000	256,031	1,486,624	141,346	3,054,001
Leonard M. DeAngelo Executive Vice President of Operations	2006	650,000	625,000	256,031	1,606,786	63,450	3,201,267
Jordan B. Savitch Senior Vice President and General Counsel	2006	390,000	260,000	128,016	808,306	23,876	1,610,198
Robert S. Ippolito Vice President, Secretary and Treasurer	2006	260,000	182,000	128,016	711,351	34,100	1,315,467
Kevin DeSanctis Former President and Chief Operating Officer(5)	2006	800,000	772,604	384,047	2,371,171	143,762	4,471,584

(1) These amounts reflect the bonuses earned for 2006. See discussion in Compensation Discussion and Analysis on page 25 of this proxy statement.

(2) The amounts reflect the dollar value recognized, in accordance with SFAS 123R, for financial statement reporting purposes during 2006 for all existing awards of restricted stock awards. Assumptions used in the calculation of these amounts are included in footnote 3 to the Company's audited financial statements included in both its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and its Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

(3) The amounts reflect the dollar value recognized, in accordance with SFAS 123R, for financial statement reporting purposes during 2006 for all existing stock option awards. Assumptions used in the calculation of these amounts are included in footnote 3 to the Company's audited financial statements included in both its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and its Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

(4) See All Other Compensation Table below for more information.

(5) Mr. DeSanctis ceased being an executive officer of the Company on October 9, 2006 and an employee of the Company on February 9, 2007.

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)	Perquisites		Personal Use of Company Airplane (\$)(5)	Total (\$)
					Club Memberships (\$)	Personal Use of Company Vehicle (\$)(4)		
Peter M. Carlino	2006	119,615	4,400	124,406	3,724	2,459	196,193	450,797
William J. Clifford	2006	54,168	4,400				82,778	141,346
Leonard M. DeAngelo	2006	57,500	4,400	1,550				63,450
Jordan B. Savitch	2006	19,476	4,400					23,876
Robert S. Ippolito	2006	24,981	4,400	2,769		1,950		34,100
Kevin DeSanctis	2006	82,511	4,400	3,485		2,550	50,816	143,762

- (1) This column reports the Company's matching contribution under the Company's Deferred Compensation Plan.
- (2) This column reports the Company's contributions to the Named Executive Officer's 401(k) savings accounts.
- (3) This column reports term life insurance policy premiums paid by the Company on behalf of Messrs. DeAngelo and DeSanctis and split dollar life insurance policy premiums paid by the Company on behalf of Mr. Ippolito and certain irrevocable trusts created by Peter M. Carlino. For further discussion of the split dollar life insurance policies, see the description under "Transactions with Related Persons" on page 44 of this proxy statement.
- (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.

Grants of Plan-Based Awards

The following table sets forth certain information regarding grants of plan-based awards during 2006:

Name	Grant Date	Grant Board Approval Date	All Other Stock Awards: Number of Shares of Stock (#)(1)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards (\$/Sh)(3)	Grant Date Fair Value of Stock and Option Awards (\$)(4)
Peter M. Carlino	1/12/2006	1/11/2006		300,000	33.12	4,395,150
	1/12/2006	1/11/2006	60,000			1,987,200
William J. Clifford	1/12/2006	1/11/2006		100,000		