

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

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

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

PENN NATIONAL GAMING, INC.

(Name of Registrant as Specified In Its Charter)

N/A

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

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

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

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

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

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

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

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

Robert S. Ippolito
Secretary

Wyomissing, Pennsylvania
April 30, 2009

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

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

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

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

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
June 3, 2009

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

INFORMATION CONCERNING SOLICITATION AND VOTING

Record Date and Shares Outstanding

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

Revocability of Proxies

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

Voting and Solicitation

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

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

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

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

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

GOVERNANCE OF THE COMPANY

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

Board of Directors

The Company's Board of Directors currently consists of seven members: Peter M. Carlino, Harold Cramer, Wesley R. Edens, David A. Handler, John M. Jacquemin, Robert P. Levy and Barbara Z. Shattuck. The Board has determined that all of the directors, other than Mr. Carlino, are independent under the current Marketplace Rules of the National Association of Securities Dealers, Inc. (the "Marketplace Rules"). The Board believes that its current size permits each of its members to communicate frequently with management and allows for the calling of meetings on short notice to facilitate the Company's consideration of opportunities and challenges as they arise.

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

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

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

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

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

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

Audit Committee. John M. Jacquemin (Chairman), Harold Cramer and Barbara Z. Shattuck are the members of the Audit Committee. The Board has determined that Messrs. Jacquemin and Cramer and Ms. Shattuck are independent under the current Marketplace Rules and the SEC regulations. The Board has determined that Mr. Jacquemin, the Chairman of the Audit Committee, satisfies the SEC criteria of a "financial expert" and is "financially sophisticated" for the purposes of the Marketplace Rules. The Audit Committee operates under a written charter adopted by the Board of Directors that complies with the current Marketplace Rules, which is available at <http://www.pngaming.com/main/corporategovernance.shtml>.

Because of his position as one of five trustees for the Carlino Family Trust, an irrevocable trust (see "Security Ownership of Principal Shareholders and Management" beginning on page 42 of this Proxy Statement), Harold Cramer falls outside the SEC safe harbor providing that a person will not be deemed an affiliate for purposes of determining audit committee member independence if he or she beneficially owns 10% or less of an issuer's voting stock. Mr. Cramer's voting and investment power in connection with the shares of the Company's common stock held by the Carlino Family Trust is, however, shared with the other trustees. Peter M. Carlino has the sole power to vote the shares held by the Carlino Family Trust, except in the case of a sale of all or substantially all of the Company's assets,

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a merger where the Company will not be the surviving entity or a liquidation where the manner, in which the trust's shares are voted as determined by a vote of all five trustees. The Board considered Mr. Cramer's beneficial ownership as a result of being a trustee of the Carlino Family Trust. In light of the identity of beneficiaries and purposes of the Carlino Family Trust, the Board has determined that Mr. Cramer is independent for the purpose of the SEC regulations and the Marketplace Rules.

The principal functions of the Audit Committee are to:

serve as an independent and objective party to monitor the integrity of the Company's financial reporting process and internal control system;

appoint, compensate and, where appropriate, discharge and replace the Company's independent registered public accounting firm;

oversee, review and appraise the audit efforts of the Company's independent registered public accounting firm and internal auditors; and

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

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

The Chairman of the Compensation Committee is responsible for leadership of the Compensation Committee and sets meeting agendas. The Compensation Committee may form subcommittees and delegate authority to them, as it deems appropriate. The Chief Executive Officer ("CEO") and the Senior Vice President, Human Resources, generally attend Compensation Committee meetings, but neither are present for executive sessions or any discussion of their own compensation.

The Compensation Committee is in charge of reviewing executive compensation programs annually to determine whether they are properly coordinated and achieving their intended purposes as well as periodically reviewing the policies for administration of the Company's executive compensation programs.

The Compensation Committee is also responsible for:

assessing the Company's management succession planning;

approving the number of incentive awards that the CEO may grant to employees other than executive officers; and

administering and interpreting the Company's Amended and Restated 1994 Stock Option Plan, as amended, the 2003 Long Term Incentive Compensation Plan, the Annual Incentive Plan and the 2008 Long Term Incentive Compensation Plan.

The Board of Directors is responsible for setting director compensation as well as adopting the Company's equity compensation plans and any amendments thereto. The Compensation Committee assists the Board in this role by reviewing and recommending the structure and amount of director compensation as well as by reviewing and recommending new equity compensation plans and changes to existing equity compensation plans.

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

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

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reviewing and approving, consistent with the compensation philosophy adopted by the Compensation Committee, any annual incentive compensation plan for the CEO and other executive officers, and the related review and approval of the performance criteria, goals and objectives provided for in such plan.

The CEO provides the Compensation Committee performance assessments and compensation recommendations for each executive officer of the Company (other than himself). The Compensation Committee considers the CEO's recommendations with the assistance of an independent compensation consultant, as discussed below, and sets the compensation of the executive officers (other than the CEO) based on such deliberations. The Compensation Committee sets the CEO's compensation in executive session without any member of management present and routinely holds executive sessions without management to facilitate candid discussion regarding executive compensation.

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

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

Compliance Committee. The Compliance Committee has three members. David A. Handler and Robert P. Levy are the current Board members of the Compliance Committee. Steve DuCharme, a former Chairman of the Nevada State Gaming Control Board with over 30 years of experience in law enforcement and gaming regulation, is the Chairman of the Compliance Committee. The Compliance Committee operates under a written charter adopted by the Board of Directors.

The Compliance Committee was established to ensure, through self-regulatory policies and procedures, compliance with applicable laws relating to the Company's gaming and racing businesses and to prevent, to the fullest extent possible, any involvement by the Company in any activities that would pose a threat to the reputation and integrity of the Company's gaming and racing operations.

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

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charter adopted by the Board of Directors that complies with the current Marketplace Rules, which is available at <http://www.pngaming.com/main/corporategovernance.shtml>.

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

The Nominating Committee considers candidates for Board membership suggested by, among others, its members, other Board members and management. The Nominating Committee has authority to retain and terminate a search firm to assist in the identification of director candidates, including the authority to approve the search firm, fees and other retention terms. The Nominating Committee also has authority to obtain advice and assistance from internal and external legal, accounting or other advisers. In selecting nominees for director, the Nominating Committee considers a number of factors, including, but not limited to:

whether a candidate has demonstrated business and industry experience that is relevant to the Company, including recent experience at the senior management level (preferably as chief executive officer or a similar position) of a company as large or larger than the Company;

a candidate's ability to meet the suitability requirements of all relevant regulatory agencies;

a candidate's ability to represent the interests of the shareholders;

a candidate's independence from management and freedom from potential conflicts of interest with the Company;

a candidate's financial literacy, including whether the candidate will meet the audit committee membership standards set forth in the Marketplace Rules;

whether a candidate is widely recognized for his or her reputation, integrity, judgment, skill, leadership ability, honesty and moral values;

a candidate's ability to work constructively with the Company's management and other directors; and

a candidate's availability, including the number of other boards on which the candidate serves, and his or her ability to dedicate sufficient time and energy to his or her board duties.

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

The Nominating Committee will also consider recommendations of nominees for directors by shareholders who have beneficially owned at least 1% of the Company's common stock for a continuous period of not less than 12 months before making such recommendation, provided that such recommendation is in proper written form and timely received by the Secretary of the Company. To be timely, a shareholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the corporation not less than 120 nor more than 150 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. However, in the event that the annual meeting is called for a date that is not within 60 days before or after the anniversary date, which is the case for the 2009 annual meeting, notice must be received not later than the close of business on the tenth day following the day on which notice of the date of the annual meeting is mailed or public disclosure of the date of the annual meeting is made, whichever first occurs.

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To be in proper written form, a shareholder's notice must contain (i) the name, age, business address and residence address of the recommended nominee, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder. In addition, the shareholder's notice must contain (i) the name and record address of such shareholder, (ii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder and each recommended nominee and any other person or persons (including their names) pursuant to which the recommendations are to be made by such shareholder and (iv) any other information relating to such shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must also be accompanied by a written consent of each recommended nominee to provide all information necessary to respond fully to any suitability inquiry conducted under the executive, administrative, judicial and/or legislative rules, regulations, laws and orders of any jurisdiction to which the Company is then subject and such additional information concerning the nominee as may be requested by the Nominating Committee and/or Board of Directors and being named as a nominee and to serve as a director if nominated and if elected. In evaluating recommendations received from shareholders, the Committee will apply the criteria and follow the process described above.

Compensation of Directors

The Company pays director fees to each director who is not an employee of the Company. As previously reported, due to the proposed merger (the "Merger") contemplated by the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 15, 2007, by and among the Company, certain affiliates of Fortress Investment Group LLC ("Fortress") and certain affiliates of Centerbridge Partners, L.P. ("Centerbridge"), in 2007 the Company's Board of Directors determined that the compensation to be paid in 2008 to non-employee directors be composed of a fixed amount of cash compensation (with no special payment, meeting fees or equity grants). Each non-employee director was to receive \$150,000, 50% of which was paid on January 25, 2008, and the balance of which was being paid in equal monthly installments throughout 2008 (with the total balance payable at the time of the closing of the Merger). At June 30, 2008, each non-employee director had received \$112,500. The Board of Directors also indicated that it would consider whether additional equity grants were appropriate if the Merger was not consummated. On August 8, 2008, the Company's Board of Directors approved changes to the 2008 compensation for the non-employee directors to discontinue any further cash payments for 2008 and to grant to each non-employee director options to purchase 20,000 shares of common stock of the Company at an exercise price of \$29.34 per share (the closing price of the Company's common stock on the trading day immediately preceding the date of grant). The options vest over four years, 25% on the first anniversary of the date of grant and 25% on each succeeding anniversary, but accelerate immediately upon a change in control.

On December 29, 2008, the Company's Board of Directors amended the stock ownership guidelines for non-employee directors of the Company. Each non-employee director is expected to own and hold shares of common stock equal in value to at least five times the annual cash retainer (exclusive of separate committee retainers) for non-employee directors in the applicable year. Current non-employee directors have until December 31, 2011 to achieve this ownership level. New non-employee directors have a period of three years from the date of initial election to achieve this ownership guideline.

Table of Contents**2008 Director Compensation Table**

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

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)	Total (\$)
Harold Cramer	112,500	453,444	565,944
Wesley R. Edens(2)			
David A. Handler	112,500	600,144	712,644
John M. Jacquemin	112,500	453,444	565,944
Robert P. Levy	112,500	438,294	550,794
Barbara Z. Shattuck	112,500	438,294	550,794

- (1) The amounts listed above reflect the dollar value recognized, in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share Based Payment," ("SFAS 123(R)"), for financial statement reporting purposes during 2008 for all existing stock option awards. Assumptions used in the calculation of these amounts are included in footnote 4 to the Company's audited financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008. In fiscal 2008, each non-employee director received options to purchase 20,000 shares of the Company's common stock, which for financial statement reporting purposes was deemed to have had a grant date fair value of \$209,794. In addition, as more fully described in "Compensation Discussion and Analysis" commencing on page 13 of this Proxy Statement, effective on December 31, 2008, the Company extended the term of all of its outstanding stock options from seven years to ten years and the incremental expense for financial statement reporting purposes relating thereto, which varied among the directors based on the number of options held at such time, is included in the table above. At December 31, 2008, the aggregate number of outstanding stock options held by each non-employee director was: Mr. Cramer 200,000; Mr. Handler 245,000; Mr. Jacquemin 215,000; Mr. Levy 102,500; and Ms. Shattuck 140,000.
- (2) Mr. Edens was appointed to the Company's Board of Directors on October 30, 2008 but did not receive compensation for serving in 2008.

Shareholder Access Policy

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

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

The Company's Board of Directors currently consists of seven members: Peter M. Carlino, Harold Cramer, Wesley R. Edens, David A. Handler, John M. Jacquemin, Robert P. Levy and Barbara Z. Shattuck. The Board has determined that all of the directors, other than Mr. Carlino, are independent under the current Marketplace Rules. Two Class I directors will be elected at the Annual Meeting to hold office, subject to the provisions of the Company's bylaws, until the annual meeting of shareholders of the Company to be held in the year 2012 and until their respective successors are duly elected and qualified.

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

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

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

David A. Handler. Mr. Handler has been a director since 1994. In August 2008, Mr. Handler joined Centerview Partners as a Partner. Centerview Partners is a boutique financial advisory and private equity firm. From April 2006 to August 2008, he was a Managing Director at UBS Investment Bank. From April 2000 until April 2006, he was a Senior Managing Director at Bear Stearns & Co., Inc. From July 1995 to April 2000, Mr. Handler was employed by Jefferies & Company, Inc. where he became a Managing Director in March 1998.

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

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

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

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

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

Robert P. Levy. Mr. Levy has been a director since 1995. He is a past Chairman of the Board of the Atlantic City Racing Association and served a two-year term from 1989 through 1990 as President of the Thoroughbred Racing Association. Mr. Levy has served as the Chairman of the Board of DRT Industries, Inc., a diversified business based in the Philadelphia metropolitan area, since 1960 and is currently on the Board of Directors of Betfair Limited. Mr. Levy owns the Robert P. Levy Stable, a

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thoroughbred racing and breeding operation. Mr. Levy is a director of Fasig-Tipton Company, an equine auction company.

Barbara Z. Shattuck. Ms. Shattuck has been a director since 2004. She is a Managing Director of Shattuck Hammond Partners, an investment banking firm, which is a subsidiary of Morgan Keegan, a Regions Company. Prior to co-founding Shattuck Hammond in 1993, Ms. Shattuck spent 11 years at Cain Brothers, Shattuck & Company, Inc., an investment banking firm she co-founded. From 1976 to 1982 she was a Vice President of Goldman, Sachs & Co. Ms. Shattuck began her career as a municipal bond analyst at Standard & Poor's Corporation. Ms. Shattuck is a member of the board of directors of Sun Life Insurance & Annuity Company of New York.

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

Harold Cramer. Mr. Cramer has been a director since 1994. Until November 1996, Mr. Cramer was the Chairman and Chief Executive Officer of the Graduate Health System. From November 1996 to July 2000, Mr. Cramer was Counsel to Mesirov Gelman Jaffe Cramer & Jamieson, LLP, which merged with Schnader Harrison Segal & Lewis LLP in July 2000. Mr. Cramer is now a retired partner of Schnader Harrison Segal & Lewis LLP.

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

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

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

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

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

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- (1) Audit fees include fees associated with the annual audit, reviews of the Company's quarterly reports on Form 10-Q, annual audits required by law for certain jurisdictions, comfort letters, consents and other audit and attestation services related to statutory or regulatory filings. Audit fees also include the audit of the Company's internal controls over financial reporting, as required by Section 404 of the Sarbanes Oxley Act of 2002.
- (2) Audit related fees include fees for accounting consultations in connection with mergers and acquisitions and the audit of the Company's 401(k) plans.

Tax Fees and All Other Fees

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

Audit Committee Pre-Approval Policy

The Audit Committee's Audit and Non-Audit Services Pre-Approval Policy provides for the pre-approval of audit and non-audit services performed by the Company's independent registered public accounting firm. Under the policy, the Audit Committee may pre-approve specific services, including fee levels, by the independent registered public accounting firm in a designated category (audit, audit related, tax services and all other services). The Audit Committee may delegate, in writing, this authority to one or more of its members, provided that the member or members to whom such authority is delegated must report their decisions to the Audit Committee at its next scheduled meeting. In 2008, all audit services provided by Ernst & Young LLP were pre-approved by the Audit Committee.

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

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COMPENSATION DISCUSSION AND ANALYSIS

For purposes of the following Compensation Discussion and Analysis, the terms "executives" and "executive officers" refer to the Named Executive Officers of the Company as set forth in the Summary Compensation Table, which appears on page 30 of this Proxy Statement, but excludes Leonard M. DeAngelo, the Company's former Executive Vice President, Operations, in light of his departure from the Company on August 1, 2008, and includes Timothy J. Wilmott, the Company's President and Chief Operating Officer, for all periods after he commenced employment with the Company on February 5, 2008.

Executive Summary

Fiscal year 2008 was among the most challenging years ever faced by the Company. The global economic slowdown and the severe disruption in the capital markets affected the Company in a number of ways including impeding the closing of the merger transaction with Fortress and Centerbridge and adversely affecting the Company's operating results for the year ended December 31, 2008. However, due to management's efforts across a number of areas in the Company's operations, we believe that the Company has been successful in mitigating the impact of these challenges. As more fully discussed below under "Company Performance," the Company