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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from to

Commission File Number 0-24206

Penn National Gaming, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: **(610) 373-2400**

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

As of June 30, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $584,765,412. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the Nasdaq National Market on June 28, 2002. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and beneficial owners of more than ten percent of the registrant's Common Stock.

The number of shares of the registrant's Common Stock outstanding as of March 21, 2003 was 39,251,534.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2003 annual meeting of shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

This document includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terms such as "believes," "estimates," "expects," "intends," "may," "will," "should" or "anticipates" or the negative or other variation of these or similar words, or by discussions of strategy or risks and uncertainties. Specifically, forward-looking statements may include, among others, statements concerning:

- our expectations of future results of operations or financial condition;
- our expectations for our properties and the facility that we manage in Canada;
- the timing, cost and expected impact on our market share and results of operations of our planned capital expenditures;
- our expectations with respect to the integration and future results of operations of Hollywood Casino Corporation;
- the impact of our regional diversification;
- our expectations with regard to further acquisitions and the integration of any companies we may acquire;
- the outcome and financial impact of the litigation in which we are involved;

- the actions of regulatory authorities with regard to our business and the impact of any such actions;
- the expected effect of regulatory changes that we are pursuing; and
- expectations of the continued availability of capital resources.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, they are inherently subject to risks, uncertainties and assumptions about us and our subsidiaries and, accordingly, we cannot assure you that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, risks related to the following:

- capital projects at our gaming and pari-mutuel facilities;
- the activities of our competitors;
- the existence of attractive acquisition candidates;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses;
-

our dependence on key personnel; our inability to recognize the benefits of the integration of Hollywood Casino Corporation;

- the outcome and financial impact of any "Event of Default" under the indentures governing the 13% senior secured notes due 2006 and 13% first mortgage notes due 2006 issued by the Hollywood Casino Shreveport general partnership and Shreveport Capital Corporation;
- the maintenance of agreements with our horsemen and pari-mutuel clerks; and
- the impact of terrorism and other international hostilities.

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

PART I

ITEM 1. BUSINESS

Overview

We are a leading diversified, multi-jurisdictional owner and operator of gaming properties, as well as horse racetracks and associated off-track wagering facilities, or OTWs, which we refer to in this document as our pari-mutuel operations. We own or operate six gaming properties located in Canada, Colorado, Louisiana, Mississippi and West Virginia that are focused primarily on serving customers within driving distance of the properties. We also own two racetracks and eleven OTWs in Pennsylvania, and operate, through a joint venture, a racetrack in New Jersey. As a result of our acquisition of Hollywood Casino Corporation, completed on March 3, 2003, we now also own a gaming property located in Illinois and additional gaming properties in Louisiana and Mississippi. We believe that our portfolio of assets provides us with a diversified cash flow from operations. We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and, to the extent capital is available, the continued pursuit of strategic acquisitions of gaming properties in attractive regional markets.

On March 3, 2003, we completed the acquisition of Hollywood Casino Corporation for a purchase price of approximately $774.3 million, including related acquisition costs and the repayment of existing debt of Hollywood Casino Corporation, bringing three new regional markets to our expanded gaming portfolio: Aurora, IL, Tunica, MS and Shreveport, LA. We believe this combination with Hollywood Casino Corporation makes us the seventh largest gaming company in the U.S. based on reported total revenues.

The following table summarizes certain features of our properties and our managed facility as of March 12, 2003:

	Location	Type of Facility	Gaming Square Footage	Gaming Machines	Table Games
Current Property:					
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/Thoroughbred racing	83,600	2,700	—
Casino Magic—Bay St. Louis	Bay St. Louis, MS	Dockside gaming	39,500	1,141	37
Boomtown Biloxi	Biloxi, MS	Dockside gaming	33,600	1,147	22
Casino Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,041	38
Bullwhackers	Black Hawk, CO	Land-based gaming	20,700	905	—
Penn National Race Course(1)	Harrisburg, PA	Thoroughbred racing	—	—	—
Pocono Downs(1)	Wilkes-Barre, PA	Harness racing	—	—	—
Freehold Raceway(2)	Monmouth, NJ	Harness racing	—	—	—
Operated:					
Casino Rama	Orillia, Ontario	Land-based gaming	75,000	2,202	122
Totals			280,400	9,136	219
Recently Acquired Property:					
Hollywood Aurora	Aurora, IL	Dockside gaming	53,000	1,105	36
Hollywood Tunica	Tunica, MS	Land-based gaming	54,000	1,574	36
Hollywood Shreveport	Shreveport, LA	Dockside gaming	59,000	1,434	66
Totals			166,000	4,113	138

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

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

Owned Properties

Charles Town Entertainment Complex

The Charles Town Entertainment Complex in Charles Town, WV was our property that generated the most revenue for 2002. We acquired the facility in 1997 and immediately began a redevelopment effort. Today, the Charles Town Entertainment Complex features approximately 2,700 gaming machines (up from 400 in 1997), Charles Town Races™, simulcast wagering and dining. The facility is located within a one-hour driving distance of Baltimore, MD and Washington, D.C. and is the only gaming property west of these two cities. The complex is located on a portion of a 250-acre parcel and includes a 3/4-mile all-weather, lighted thoroughbred racetrack with a 3,000-person grandstand. Significant undeveloped land surrounds the property and we have a right of first refusal for an additional 250 acres that are adjacent to the complex.

We have undertaken a number of initiatives to drive growth at Charles Town. In November 2000, we expanded the gaming area to over 53,000 square feet and unveiled a 150-seat restaurant and bar. Most recently, we opened a 1,500-space structured parking facility and completed the addition of 30,000 square feet of gaming space.

In February 2002, the West Virginia Lottery Commission approved our request to add up to 1,500 additional gaming machines at Charles Town for a total of 3,500. We added approximately 700 gaming machines as part of our recent expansion, bringing the facility to present capacity, and plan to add the remaining machines in 2003.

Casino Rouge

We acquired Casino Rouge in April 2001 in connection with our acquisition of CRC Holdings, Inc., or CRC. Casino Rouge is currently one of two dockside riverboat gaming facilities operating in Baton Rouge, LA. The property features a four-story, 47,000-square foot riverboat casino, reminiscent of a nineteenth century Mississippi River paddlewheel steamboat, and a two-story, 58,000-square foot dockside embarkation building. The riverboat features approximately 28,000 square feet of gaming space, 1,041 gaming machines and 38 table games and has a capacity of 1,800 customers. The dockside embarkation facility offers a variety of amenities, including a steakhouse, a 268-seat buffet, food and bar service, lounge areas, meeting and planning space and a gift shop.

We believe that the Baton Rouge region is a well protected market, with only two licensed casinos and no additional licenses available in Louisiana. Based upon information published by the State of Louisiana Gaming Control Board, in 2002, total gaming revenues within the Baton Rouge market were $179.7 million, with Casino Rouge having approximately a 56.9% market share.

Casino Magic—Bay St. Louis

We acquired Casino Magic—Bay St. Louis in August 2000. Casino Magic—Bay St. Louis currently offers 39,500 square feet of gaming space, with 1,141 slot machines and 37 table games. Casino Magic—Bay St. Louis is located on the Mississippi Gulf Coast, within driving distance of New Orleans, LA, Mobile, AL and other cities in the Southeast. Casino Magic—Bay St. Louis was the first dockside casino in Mississippi to operate on a barge rather than a traditional riverboat. The casino is located on a 17-acre marina with the adjoining land-based facilities situated on 591 acres. The property includes a 201-room hotel, the 291-room Bay Tower Hotel with banquet and meeting space, a 10,000 square foot conference facility, an 1,800-seat entertainment facility, an 18-hole Arnold Palmer-designed championship golf course, five restaurant venues and a live entertainment lounge. There remains ample room for expansion as the market grows.

We have initiated a number of focused enhancements at Casino Magic—Bay St. Louis, as we seek to maintain our status as a leading destination resort with the broadest offering of amenities on the

Gulf Coast. In the second quarter of 2002, we completed a $37 million expansion, which included the opening of the Bay Tower Hotel, convention facility, three new restaurant venues and renovations to the existing buffet facility and gaming floor. We expect that the conference facility space will enhance mid-week business. The new hotel has enhanced weekend business at Casino Magic—Bay St. Louis and geographically extends the casino's target market.

Boomtown Biloxi

We acquired Boomtown Biloxi, also located in the Mississippi Gulf Coast, in August 2000. The property offers 33,600 square feet of gaming space, with 1,147 slot machines and 22 table games. In addition, the property includes a full service buffet restaurant, a 120-seat deli-style restaurant, a full-service bakery, a western dance hall/cabaret and a 20,000-square foot family entertainment center.

Boomtown Biloxi offers gaming and entertainment amenities to primarily local, middle income customers. The casino has an "old west" theme with western memorabilia, country/western music and employees dressed in western attire. Our strategy is to continue to focus on this market by providing moderately priced, quality amenities and by utilizing a broad array of marketing programs. During 2002, slot machine play increased as a result of a marketing strategy focused on direct mail marketing to known customers and new mass marketing campaigns highlighting "loose" slots and quality restaurants.

Bullwhackers

In April 2002, we completed our acquisition of the assets of the Bullwhackers properties in Black Hawk, CO from Colorado Gaming and Entertainment Co., a subsidiary of Hilton Group plc. These assets include, but are not limited to, the Bullwhackers Casino, the adjoining Bullpen Sports Casino and the Silver Hawk Saloon and Casino. The Bullwhackers Casino includes 20,700 square feet of gaming space consisting of 905 slot machines. These casinos are located on leased land and 3.25 acres of land purchased by us in the acquisition, most of which is utilized for a 475-car parking area.

Since the purchase we have implemented a new player tracking system to assist with our marketing programs, evaluated employee performance and staffing levels and reviewed operations for cost effectiveness. Our new management team has implemented a number of new initiatives to improve operating margins for 2003. In December, we started renovations to the interior and exterior of our casinos at a cost of $4.0 million to improve the quality of the customer experience and increase our market share. Operating results have also been adversely affected by a major road construction project on the main highway leading into Black Hawk. This project was started in early September 2002 and should be completed by the end of the second quarter of 2003.

Operated Property

Casino Rama

In April 2001, we purchased the management service contract for Casino Rama in Orillia, Ontario, Canada, entitled the Development and Operating Agreement, in connection with our acquisition of CRC. Through CHC Casinos Canada Limited, or CHC Casinos, our indirectly wholly-owned subsidiary, we operate Casino Rama, a full service gaming and entertainment facility, on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. Casino Rama was established in July 1996 and is located on the lands of the Mnjikaning First Nation, approximately 90 miles north of Toronto. The property has approximately 75,000 square feet of gaming space, 2,202 gaming machines and 122 table games. A 5,000-seat entertainment facility was opened in July 2001 and a 300-room hotel was opened on June 30, 2002. The majority of the capital for this expansion was financed by an affiliate of the Mnjikaning First Nation, and is projected to be repaid out of the revenue of Casino Rama

pursuant to the terms of the Development and Operating Agreement. We were not required to commit any capital to these projects.

The Development and Operating Agreement under which CHC Casinos operates the facility sets out the duties, rights and obligations of CHC Casinos. As the operator, CHC Casinos is entitled to a base fee equal to 2.0% of gross revenues of the casino and an incentive fee equal to 5.0% of the casino's net operating margin. The agreement terminates on July 31, 2011, and the Ontario Lottery and Gaming Corporation has the option to extend the term of the agreement and CHC Casino's appointment as operator for two successive periods of five years each commencing on August 1, 2011.

Racing Properties

Racing Property Overview

In addition to our gaming assets, we own and operate Penn National Race Course, Pocono Downs and eleven off-track wagering facilities, or OTWs, in Pennsylvania and Freehold Raceway in New Jersey.

Penn National Race Course is located on approximately 225 acres fifteen miles northeast of Harrisburg, 100 miles west of Philadelphia and 200 miles east of Pittsburgh. It is one of only two thoroughbred racetracks in Pennsylvania. The property includes a one-mile all-weather, lighted thoroughbred racetrack, a $^{7}/_{8}$-mile turf track, a grandstand and a clubhouse. The property also includes approximately 400 acres that are available for future expansion or development.

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

Our OTWs and racetracks provide areas for viewing import simulcasts and televised sporting events, placing pari-mutuel wagers and dining. We operate eleven of the twenty-one OTWs in operation in Pennsylvania; two remaining OTWs are authorized for operation. Only licensed racing associations can operate OTWs or accept customer wagers on simulcast races. We have been transmitting simulcasts of our races to other OTWs and receiving simulcasts of races from other OTWs for wagering by customers at our OTW locations year-round for more than seven years. Import simulcasts typically include races from premier racetracks such as Belmont Park, Churchill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga.

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

Agreements with Horsemen and Pari-Mutuel Clerks

We have agreements with the horsemen at each of our racetracks. Simulcasting agreements are subject to horsemen's approval. The continuation of these agreements is required to conduct live racing and export/import simulcasting. On March 23, 1999, we signed our current horsemen agreement with

the Pennsylvania Thoroughbred Horsemen at Penn National Race Course with an initial term that expires on January 1, 2004. Our horsemen agreement with the Pennsylvania Harness Horsemen ended on January 15, 2003. We have signed a new agreement that ends on January 15, 2004. We also have an agreement with the Charles Town Horsemen that has recently been extended to September 2003. Pennwood Racing also has horsemen agreements in effect with the horsemen at Freehold Raceway. We believe that our relations with the horsemen are good and expect to extend agreements which are expiring in the near-term.

In addition to horsemen agreements, in order to operate gaming machines in West Virginia, we are required to enter into a written agreement with the pari-mutuel clerks regarding the proceeds of our gaming machines at Charles Town. This agreement expires in December 2004.

Telephone Account Wagering/Internet Wagering

In 1983, we pioneered Telebet®, the complete account wagering operation for Penn National Race Course. The platform offers account wagering on more than 70 U.S. racetracks, and currently has more than 40,000 telephone account betting customers from across the U.S. In 1995, Pocono Downs instituted Dial-A-Bet®, a similar account betting system.

We have also developed strategic relationships to further our wagering activities. In August 1999, we entered into an agreement with eBet Limited, an Internet wagering operation in Australia, to license their eBetUSA.com technology in the U.S. Through eBetUSA.com, Inc., our wholly-owned subsidiary, we use the eBetUSA.com technology to permit on-line pari-mutuel horseracing wagering over the internet in selected jurisdictions with the approval of the Pennsylvania State Horse Racing Commission and the Pennsylvania Harness Racing Commission and as permitted by applicable federal and state laws, rules and regulations. We currently accept wagers from residents of 16 U.S. jurisdictions.

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

Properties Acquired With the Acquisition of Hollywood Casino Corporation

On March 3, 2003, we acquired Hollywood Casino Corporation. As a result of this acquisition, we acquired three properties in new markets: Aurora, IL, Tunica, MS and Shreveport, LA. We have only recently begun to integrate Hollywood Casino® and its properties into our operations. The disclosure regarding Hollywood Casino herein is based primarily on Hollywood Casino's public filings and the information provided to us in connection with the acquisition.

Hollywood Aurora

Hollywood Aurora is located in Aurora, IL, the third largest city in Illinois, approximately 35 miles west of Chicago. The facility is accessible from major highways, can be reached by train from downtown Chicago and is approximately 30 miles from both the O'Hare International and Midway airports.

Hollywood Aurora has a new 53,000 square foot single-level dockside casino facility with 36 gaming tables and 1,105 gaming machines. The facility features a glass-domed, four-story atrium with two lounges, the award-winning Fairbanks® gourmet steakhouse, the Hollywood Epic Buffet®, a 1950's-style diner, a high-end customer lounge and a private dining room for premium players. Hollywood Aurora also has two parking garages with approximately 1,564 parking spaces. In addition, Hollywood Aurora has retail items at the Hollywood Casino Studio Store™, a highly themed shopping facility that offers movies on video, soundtrack compact discs and logo merchandise from major Hollywood studios.

Hollywood Tunica

Hollywood Tunica, is located in Tunica County, MS. Tunica County is the closest gaming jurisdiction to the Memphis, TN metropolitan area. The Tunica market has become a regional destination resort, attracting customers from surrounding markets such as Nashville, TN, Atlanta, GA, St. Louis, MO, Little Rock, AK and Tulsa, OK.

Hollywood Tunica features a 54,000 square foot, single-level casino with approximately 1,574 slot machines and 36 table games. Hollywood Tunica's 506-room hotel and 123-space recreational vehicle park provide overnight accommodations for its patrons. A plan to convert 22 hotel rooms into 11 new suites and renovate the rest of its hotel rooms is underway and projected to cost approximately $8 million.

The casino includes the highly-themed Adventure Slots® gaming area, featuring multimedia displays of memorabilia from famous adventure motion pictures and over 200 slot machines. Additional entertainment amenities include the award-winning Fairbanks steakhouse, the Hollywood Epic Buffet, a 1950's-style diner named the Hollywood Diner™, an entertainment lounge, a premium players' club, a themed bar facility, an indoor pool and showroom, banquet and meeting facilities. There is also an 18-hole championship golf course adjacent to the facility owned and operated through a joint venture with Harrah's and Boyd Gaming. Hollywood Tunica also offers parking for 1,635 cars.

Hollywood Shreveport

Hollywood Shreveport is located in Shreveport, LA, 190 miles east of Dallas, TX. The principal target markets for Hollywood Shreveport are Dallas and Ft. Worth as well as other communities in East Texas.

The Hollywood Shreveport resort consists of a 403-room, all suite, art deco-style hotel and a three-level riverboat dockside casino. The casino contains approximately 59,000 square feet of space with approximately 1,434 slot machines and 66 table games.

The centerpiece of the resort is a 170,000 square foot land-based pavilion housing numerous restaurants and entertainment amenities. An 85-foot wide seamless entrance connects the casino to the land-based pavilion on all three levels resulting in the feel of a land-based casino. Other amenities include the Fairbanks gourmet steakhouse, the Hollywood Epic Buffet, the Hollywood Diner, the Hollywood Director's Club™ and the Hollywood Celebrity Lounge™. Hollywood Shreveport also features Hollywood's unique Hollywood theme throughout its gaming, dining and entertainment facilities that has been successfully applied at Hollywood Aurora and Hollywood Tunica.

Hollywood Shreveport is owned by the Hollywood Casino Shreveport general partnership which, through HCS I, Inc. and HCS II, Inc., is in turn owned by HWCC—Louisiana, Inc., a Louisiana corporation which is wholly-owned by Hollywood Casino Corporation. The Hollywood Casino Shreveport general partnership operates the Shreveport Casino under a management agreement with HWCC-Shreveport, Inc., a wholly-owned subsidiary of Hollywood Casino Corporation.

Hollywood Casino Shreveport and Shreveport Capital Corporation are co-issuers of $150 million aggregate principal amount of 13% senior secured notes due 2006 and $39 million aggregate principal amount of 13% first mortgage notes due 2006, which we refer to in this document as the Hollywood Shreveport notes. Shreveport Capital Corporation is a wholly owned subsidiary of Hollywood Casino Shreveport formed solely for the purpose of being a co-issuer of the Hollywood Shreveport notes.

The Hollywood Shreveport notes are non-recourse to us and our subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc., which we refer to as the Shreveport entities) and are secured by substantially

all of the assets of the Hollywood Shreveport casino, and the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc.

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

On March 14, 2003, Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Shreveport notes that they have 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Shreveport notes or an "Event of Default" will have occurred under the indentures. There can be no assurance that an "Event of Default" will not occur and that the holders of the Hollywood Shreveport notes will not pursue all rights and remedies that they may have under the indentures as a result. Further, any action on the part of the noteholders may require the Shreveport entities to seek the protection of the bankruptcy laws or other similar remedies.

Trademarks

We own a number of trademarks registered with the U.S. Patent and Trademark Office, or U.S. PTO, including but not limited to, "Telebet," "Dial-A-Bet" and "Players' Choice." We also have a number of trademark applications pending with the U.S. PTO.

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

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

As a result of our acquisition of Hollywood Casino Corporation, we use the service mark "Hollywood Casino" which is registered with the U.S. PTO. We have been informed that our rights to the "Hollywood Casino" service mark are well established and have significant competitive value to the Hollywood Casino properties. We have also acquired other trademarks used by the Hollywood casinos and their related services. These marks are either registered or are the subject of pending applications with the U.S. PTO.

Competition

—Gaming Operations

The gaming industry is highly fragmented and characterized by a high degree of competition among a large number of participants, many of which have financial and other resources that are greater than ours. Competitive gaming activities include casinos, video lottery terminals and other forms of legalized gaming in the U.S. and other jurisdictions.

Legalized gambling is currently permitted in various forms throughout the U.S. and in several Canadian provinces. Other jurisdictions may legalize gaming in the near future. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. New or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us.

Charles Town, West Virginia. Our gaming machine operations at the Charles Town Entertainment Complex face competition from other gaming machine venues in West Virginia and in neighboring states, including, but not limited to, Dover Downs, Delaware Park and Harrington Raceway in Delaware and the casinos in Atlantic City, New Jersey, and, to a lesser extent, other West Virginia properties that compete for West Virginia and Pennsylvania customers. These venues offer significantly higher stakes for their gaming machines than are permitted in West Virginia. Atlantic City, New Jersey does not have a per-pull limit on its gaming machines, while Delaware has a $25 per-pull limit. The per-pull limit in West Virginia is currently $5 per gaming machine. In addition to existing competition, both Maryland and Pennsylvania have in the past considered legislation to expand gaming in their respective states. Furthermore, both Maryland and Pennsylvania face budget shortfalls and elected governors in the November 2002 election who have stated that they favor gaming. We believe that any impact from passed legislation would not be realized until 2004 or 2005. The failure to attract or retain gaming machine customers at the Charles Town Entertainment Complex, whether arising from such competition or from other factors, could have a material adverse effect on our business, financial condition and results of operations.

Baton Rouge, Louisiana. Casino Rouge faces competition from land-based and riverboat casinos throughout Louisiana and on the Mississippi Gulf Coast, casinos on Native American lands and from non-casino gaming opportunities within Louisiana. The Louisiana Riverboat Economic Development and Gaming Control Act limits the number of gaming casinos in Louisiana to 15 riverboat casinos statewide and one land-based casino in New Orleans. All 15 riverboat licenses are currently issued.

The principal competitor to Casino Rouge is the Argosy Casino, which is the only other licensed riverboat casino in Baton Rouge. We also face competition from three major riverboat casinos and one land-based casino in the New Orleans area, which is approximately 75 miles from Baton Rouge, and from three Native American casinos in Louisiana. The two closest Native American casinos are land-based facilities located approximately 45 miles southwest and approximately 65 miles northwest of Baton Rouge. In addition, a racetrack located approximately 55 miles from Baton Rouge has received authorization to operate gaming machines and plans to install approximately 1,500 gaming machines in the spring of 2004. We will face competition from this racetrack once it operates gaming machines. We also face competition from several truck stop gaming facilities located in certain surrounding parishes, each of which are authorized to operate up to 50 video poker machines.

Mississippi Gulf Coast. Dockside gaming has grown rapidly on the Mississippi Gulf Coast, increasing from no dockside casinos in March 1992 to 12 operating dockside casinos at December 31, 2002. Nine of these facilities are located in Biloxi, two are located in Gulfport and one is located in Bay St. Louis.

Our Mississippi casino operations have numerous competitors, many of which have greater name recognition and financial and marketing resources than we have. Competition in the Mississippi gaming market is significantly more intense than the competition our gaming operations face in West Virginia or our pari-mutuel operations face in Pennsylvania and New Jersey. We cannot be sure that we will succeed in the competitive Mississippi Gulf Coast gaming market. The failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Black Hawk, Colorado. The Black Hawk gaming market is characterized by intense competition. The primary competitive factors in the market are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, types and pricing of non-gaming amenities, name recognition and overall atmosphere. There are currently 21 gaming facilities in the Black Hawk market and five gaming facilities in nearby Central City. Central City and Black Hawk gaming facilities compete for visitors, but historically, Black Hawk has enjoyed an advantage over Central City because customers have to drive through Black Hawk to reach Central City. Central City has received approval for the development of a road directly connecting Central City and Black Hawk with Interstate 70, which would allow customers to reach Central City without driving by or through

Black Hawk. There remain significant financial obstacles to the development of this road and it is uncertain whether it will be developed over the near to intermediate term, or developed at all.

Currently, limited stakes gaming in Colorado is constitutionally authorized in Central City, Black Hawk, Cripple Creek and two Native American reservations in southwest Colorado. However, gaming could be approved in other Colorado communities in the future. The legalization of gaming closer to Denver could have a material adverse effect on our Bullwhackers operation. Bullwhackers also competes with other forms of gaming in Colorado, including lottery gaming, and horse and dog racing. It is also possible that new forms of gaming could compete with our casino. Currently, Colorado law does not authorize video lottery terminals. However, Colorado law permits the legislature, with executive approval, to authorize new types of lottery gaming, such as video lottery terminals, which could compete with slot machine gaming. In addition, two initiatives that would expand gaming in Colorado have been proposed for the November, 2003 election. Each of these proposals would permit no fewer than 500 video lottery terminals, subject to the jurisdiction of the Colorado Lottery Commission, at each of the state's five currently licensed horse and greyhound race tracks. The initiatives set no limit on the number of video lottery terminals that could be operated at these sites. All of the tracks in question are located in or near major urban centers in Colorado, and two of the tracks are located in the Denver metro area. If either initiative is placed on the ballot and is approved by the voters of the state, the resulting competition could have a material adverse effect on our business in the Black Hawk market.

Orilla, Ontario. Our operation of Casino Rama through CHC Casinos faces competition in Ontario from a number of casinos and racetracks with gaming machine facilities. Currently, there are two other commercial casinos, five charity casinos and at least 15 racetracks with gaming machines in the province of Ontario. All of the casinos and gaming machine facilities are operated on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. The Ontario Lottery and Gaming Corporation also operates several province-wide lotteries.

There are two charity casinos and three racetracks with gaming machine facilities that directly affect Casino Rama. The two charity casinos together have 105 gaming tables and 952 gaming machines. The number of gaming machines at the racetracks range from 100 to over 1,700 each. In addition, the Ontario government has recently awarded 200 gaming machines to another racetrack, which will compete with Casino Rama.

There is an interim commercial casino located in Niagara Falls, Ontario, 80 miles southwest of Toronto with approximately 135 gaming tables and 2,000 gaming machines. There is under development a permanent casino in Niagara Falls with a similar number of gaming tables and gaming machines as the interim casino that is scheduled to be completed by the spring of 2004. In addition, it has been proposed in connection with the City of Toronto's waterfront revitalization project that a casino be located in downtown Toronto. However, we are not aware of any definitive plans for the development of such a casino.

Aurora, Illinois. Aurora is part of the Chicago area market that includes properties in the Chicago suburbs in both Illinois and northern Indiana. Hollywood Aurora faces competition from eight other riverboat casinos in the Chicago area market, three dockside casinos which are located in Illinois and five casinos which are located in Indiana, where dockside gaming commenced in July 2002. The implementation of dockside gaming in Indiana is likely to increase competition between southwestern Chicago area casino operations, which includes Hollywood Aurora, and the casinos located in Indiana.

New competition in the region is currently limited by state legislation. The Illinois Riverboat Gambling Act and the rules promulgated by the Illinois Gaming Board under the Riverboat Gambling Act authorize only ten owner's licenses for riverboat gaming operations in Illinois and permit a maximum of 1,200 gaming positions at any time for each of the ten licensed sites. All authorized owner's licenses have been granted and no additional licenses or gaming positions can be permitted

without further state legislation. However, one licensed site ceased construction of its facility in July 1997 and currently is in bankruptcy. In the event that the license issued to the company in bankruptcy is terminated and a license is granted to another entity, we may face competition in the future if such a licensee were to open a gaming facility near Hollywood Aurora.

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

Hollywood Tunica also competes to some extent with a land-based casino complex operated by the Mississippi Band of Choctaw Indians in central Mississippi, approximately 200 miles south and east of Memphis. In addition, Hollywood Tunica may eventually face competition from the opening of gaming casinos closer to Memphis, including DeSoto County, MS, which is the only county between Tunica County and the Tennessee border. DeSoto County has defeated gaming proposals on three separate occasions, most recently in November 1996, and by statute cannot vote on such issue again until 2004. Casino

gaming is not currently legalized in Tennessee or Arkansas. Although management does not anticipate such legislation in the near term, the legalization of gaming in either Tennessee or Arkansas could have a material adverse impact on Hollywood Tunica.

Shreveport, Louisiana. Hollywood Shreveport competes directly with four casinos in the Shreveport market. All of these competitor's have operated in the Shreveport market for several years and have established customer bases. There can be no assurance that Hollywood Shreveport will be able to effectively compete against these four established casinos, or that the Shreveport market is large enough to allow more than four casinos to operate profitably. Furthermore, one or more of the current operators may be able to expand the size of their gaming facilities under Louisiana law, which would directly increase competition in the market.

Also, there can be no assurance that Hollywood Shreveport will be able to effectively compete against any other future gaming operations that Louisiana or other authorities may authorize in the gaming market in which it operates. For example, Harrah's Entertainment, Inc. acquired the controlling interest in Louisiana Downs, a thoroughbred racetrack located near Hollywood Shreveport and has publicly announced plans to pursue development opportunities, including the refurbishment of an existing facility that will open as a temporary casino with slot machines in the summer of 2003 and the construction of a new permanent casino to replace the temporary facility, which is expected to open in the summer of 2004. The completion of this facility would result in another source of competition for Hollywood Shreveport, which could have a material adverse effect on Hollywood Shreveport.

Casino gaming is currently prohibited in several jurisdictions adjacent to Louisiana. As a result, we anticipate that a significant portion of Hollywood Shreveport's customers will be residents of these jurisdictions, primarily Texas. Although casino gaming is currently not permitted in Texas and the Texas Attorney General has issued an opinion that gaming in Texas would require an amendment to the Texas Constitution, the Texas legislature has considered proposals to authorize casino gaming in the past. The legalization of casino gaming in Texas, or in other nearby jurisdictions, would have a material adverse effect on the business, financial condition and results of operations of Hollywood Shreveport.

In addition, Hollywood Shreveport also faces competition from other forms of gaming, such as state-sponsored lotteries and video lottery terminals, pari-mutuel betting on horse and dog racing and

bingo parlors, as well as other forms of entertainment in Louisiana and other places from where it draws its customers.

—Racing and pari-mutuel operations

Our racing and pari-mutuel operations face significant competition for wagering dollars from other racetracks and OTWs, some of which also offer other forms of gaming, as well as other gaming venues such as casinos and state-sponsored lotteries, including the Pennsylvania, New Jersey, Delaware and West Virginia lotteries. Our telephone account and internet wagering operations compete with other providers of such services throughout the country. We also may face competition in the future from new OTWs, new racetracks or new providers of telephone account or internet wagering. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available near our racing and pari-mutuel operations, such gaming opportunities could have a material adverse effect on our business, financial condition and results of operations.

Our OTWs compete with the OTWs of other Pennsylvania racetracks, and new OTWs may compete with our existing wagering facilities. Our competitors have a number of OTW facilities that are near our OTWs. There are currently four racetracks in Pennsylvania, two thoroughbred and two harness. On September 26, 2002, MTR Racing Group, Inc. announced that its wholly-owned subsidiary, Presque Isle Downs, Inc., was granted a license by the Pennsylvania State Horse Racing Commission to conduct thoroughbred horse racing and pari-mutuel wagering in Erie, PA. MTR Racing Group plans to build a state-of-the-art horse racing facility with dirt and turf racing that will also offer concerts, entertainment, and fine and casual dining. It expects the facility to be open for the 2004 racing season. MTR Racing Group's horse racing facility will be located near one of our OTWs. We are currently appealing the Pennsylvania State Horse Racing Commission's license grant to MTR Racing Group. We will face competition from MTR Racing Group's planned new facility if we lose our appeal of the license grant and the new facility is completed.

U.S. and Foreign Revenues

Our revenues from operations in the U.S. for 2000, 2001 and 2002 were approximately $291.8 million, $508.8 million and $646.0 million, respectively. Our revenues from operations in Canada for 2001 and 2002 were approximately $8.3 million and $11.5 million, respectively. We currently do not derive revenue from any countries other than the U.S. and Canada and had no operations in Canada prior to 2001.

Management

Name	Position
Peter M. Carlino	Chairman and Chief Executive Officer
Kevin G. DeSanctis	President and Chief Operating Officer
William J. Clifford	Senior Vice President-Finance and Chief Financial Officer
Robert S. Ippolito	Vice President, Secretary and Treasurer
Jordan B. Savitch	Senior Vice President and General Counsel

Peter M. Carlino. Mr. Carlino has served as our Chairman and Chief Executive Officer since April 1994. From 1984 to 1994, he devoted a substantial portion of his time to developing, building and operating residential and commercial real estate projects located primarily in central Pennsylvania. Since 1976, Mr. Carlino has been President of Carlino Financial Corporation, a holding company that owns and operates various Carlino family businesses, in which capacity he has been continuously active in strategic planning for Carlino Financial and monitoring its operations.

Kevin G. DeSanctis. Mr. DeSanctis joined us in February 2001, as our President and Chief Operating Officer. From 1995 to 2000, Mr. DeSanctis served as Chief Operating Officer, North America, for Sun International Hotels Limited where he was responsible for complete oversight of day-to-day operations of the company's gaming properties in North America and the Bahamas. Prior to joining Sun International, Mr. DeSanctis' experience included management and pre-opening responsibilities for gaming operations in Las Vegas, NV, Atlantic City, NJ, New Orleans, LA, and Black Hawk, CO.

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

Robert S. Ippolito. In July 2001, we appointed Mr. Ippolito to the position of Vice President. Mr. Ippolito has served as our Secretary and Treasurer since April 1994 and as our Chief Financial Officer from April 1994 until July 2001. Mr. Ippolito brings 21 years of gaming and racing experience to the management team both as a manager at a major accounting firm and as an officer of companies in the racing business.

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

Regulations

General

We are subject to federal, state, local and, in Canada, provincial regulations, related to our current live racing, pari-mutuel, gaming machine and casino operations. The following description of the regulatory environment in which we operate is only a summary and not a complete recitation of all applicable regulatory laws. Moreover, our current and proposed operations could be subjected at any time to additional or more restrictive regulations, or banned entirely.

Colorado Regulation

Our operations at Bullwhackers are subject to regulation by the Colorado Limited Gaming Control Commission, or the Gaming Commission, which was created by the Limited Gaming Amendment to the Colorado Constitution. Based upon that constitutional authority as well as the authority of the Colorado Limited Gaming Act, the Gaming Commission has a broad grant of power to ensure compliance with Colorado law and any regulations adopted thereunder, which we collectively refer to as the Colorado regulations.

The Limited Gaming Act also established the Colorado Division of Gaming within the Colorado Department of Revenue. The Division of Gaming acts as staff for and under the direct supervision of the Gaming Commission for purposes of licensing, implementing, regulating and supervising the conduct of limited stakes gaming.

It is illegal to operate a gaming facility without a license issued by the Gaming Commission. The licenses are revocable and nontransferable. The failure or inability to obtain and maintain necessary gaming licenses would have a material adverse effect on the gaming operations of Penn Bullwhackers, Inc., Penn Bullpen, Inc., and Penn Silver Hawk, Inc., which we refer to as our Colorado casinos.

Our Colorado casinos were granted retail/operator licenses, the effective dates of which were concurrent with their openings. The licenses are subject to continued satisfaction of suitability requirements. The current licenses for each of our Colorado casinos must be annually renewed by express action of the Gaming Commission and, for the current year, must be renewed on or before April 18, 2003. There can be no assurance that our Colorado casinos can successfully renew their licenses in a timely manner from year-to-year.

All persons employed by us and our Colorado casinos who are involved, directly or indirectly, in gaming operations in Colorado also are required to obtain various forms of gaming licenses. Key licenses are issued to "key employees," which include any executive, employee or agent of a licensee having the power to exercise a significant influence over decisions concerning any part of the operations of a licensee. At least one key license holder must be on the premises of each Colorado casino at all times that a casino is open for business.

The Gaming Commission closely regulates the suitability of persons owning or seeking to renew an interest in a gaming license, and the suitability of a licensee can be adversely affected by persons associated with the licensee. Additionally, any person or entity having any direct interest in us or any casino directly or indirectly owned by us may be subject to administrative action, including personal history and background investigations. The actions of persons associated with us, such as its management or employees, could jeopardize any licenses held by our Colorado casinos.

As a general rule, under the Colorado regulations, it is a criminal violation for any person to have a legal, beneficial, voting or equitable interest, or right to receive profits, in more than three retail gaming licenses in Colorado. We have an interest in three such licenses. Any expansion opportunities

that we may have in Colorado are prohibited unless one or more of the existing licenses are terminated or one or more of our Colorado casinos is sold.

The Colorado Division of Gaming may require any person having an interest in a licensee or an applicant for a license to provide background information, information on sources of funding, and a sworn statement that the interested person or applicant is not holding that interest for another party. The Gaming Commission may, at its discretion, require any person having an interest in a licensee to undergo a full background investigation and to pay for that investigation in the same manner as an applicant for a license. A background investigation includes an examination of one's personal history, financial associations, character, record, and reputation, as well as the people with whom a person has associated.

The Gaming Commission has the right to request information from any person directly or indirectly interested in or employed by a licensee, and to investigate the moral character, honesty, integrity, prior activities, criminal record, reputation, habits and associations of: (i) all persons licensed pursuant to the Colorado Limited Gaming Act; (ii) all officers, directors and stockholders of a licensed privately held corporation; (iii) all officers, directors and stockholders holding either a 5% or greater interest or a controlling interest in a licensed publicly traded corporation; (iv) any person who as agent, consultant, advisor or otherwise, exercises a significant influence upon the management or affairs of a publicly traded corporation; (v) all general partners and all limited partners of a licensed partnership; (vi) all persons that have a relationship similar to that of an officer, director or stockholder of a corporation (such as members and managers of a limited liability company); (vii) all persons supplying financing or lending money to any licensee connected with the establishment or operation of limited gaming; and (viii) all persons having a contract, lease or ongoing financial or business arrangement with any licensee, if such contract, lease or arrangement relates to limited gaming operations, equipment, devices or premises.

If the Gaming Commission determines that a person or entity is not suitable to own a direct or indirect voting interest in us or any of our affiliates, our Colorado casinos may be sanctioned unless the person or entity disposes of its voting interest. Sanctions may include the loss of the casino licenses and financial penalties. In addition, the Colorado regulations prohibit a licensee or any affiliate of a licensee from paying dividends, interest or other remuneration to any person found to be unsuitable, or recognizing the exercise of any voting rights by any person found to be unsuitable.

The Gaming Commission also has the power to require us to suspend or dismiss our officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or who are found to be unsuitable to act in such capacities. The Gaming Commission or the Director of the Division of Gaming may review a licensee's gaming contracts, require changes in the contract before the licensee's application is approved or participation in the contract is allowed, and require a licensee to terminate its participation in any gaming contract.

The Division of Gaming may inspect, without notice, premises where gaming is being conducted; may seize, impound or remove any gaming device; may examine and copy all of a licensee's records; may investigate the background and conduct of licensees and their employees; and may bring disciplinary actins against licensees and their employees. The Division of Gaming may also conduct detailed background checks of persons who lend money to or invest money in a licensee and such persons may be required to be found suitable as a condition to such loan or investment.

The Gaming Commission has enacted Rule 4.5, which imposes requirements on publicly traded corporations holding gaming licenses in Colorado and on gaming licenses owned directly or indirectly by a publicly traded corporation, whether through a subsidiary or intermediary company. The term "publicly traded corporation" includes corporations, firms, limited liability companies, trusts, partnerships and other forms of business organizations. Such requirements automatically apply to any ownership interest held by a publicly traded corporation, holding company or intermediary company

thereof, when the ownership interest directly or indirectly is, or will be upon approval of the Gaming Commission, 5% or more of the entire licensee. In any event, if the Gaming Commission determines that a publicly traded corporation, or a subsidiary, intermediary company or holding company has the actual ability to exercise influence over a licensee, regardless of the percentage of ownership possessed by that entity, the Gaming Commission may require the entity to comply with the disclosure regulations contained in Rule 4.5.

Under Rule 4.5, gaming licensees, affiliated companies and controlling persons commencing a public offering of voting securities must notify the Gaming Commission no later than ten business days after the initial filing of a registration statement with the U.S. Securities and Exchange Commission. Licensed publicly traded corporations are also required to send proxy statements to the Division of Gaming within five days after their distribution.

Licensees to whom Rule 4.5 applies must include in their charter documents provisions that: restrict the rights of the licensees to issue voting interests or securities except in accordance with the Limited Gaming Act and the Colorado regulations; void the transfer of voting securities or other voting interests issued in violation of the Limited Gaming Act and the Colorado regulations until the issuer ceases to be subject to the jurisdiction of the Gaming Commission or until the Gaming Commission, by affirmative act, validates the transfer; and provide that holders of voting interests or securities of licensees found unsuitable by the Gaming Commission may, within 60 days of such finding of unsuitability, be required to sell their interests or securities back to the issuer at the lesser of the cash equivalent of the holders' investment or the market price as of the date of the finding of unsuitability. Alternatively, the holders may, within 60 days after the finding of unsuitability, transfer the voting interests or securities to a person suitable to the Gaming Commission. Until the voting interests or securities are held by suitable persons, the issuer may not pay dividends or interest, the securities may not be voted, they may not be included in the voting or securities of the issuer, and the issuer may not pay any remuneration in any form to the holders of the securities.

Notification must be given to the Division of Gaming of the acquisition of direct or indirect beneficial ownership of:

- 5% or more of any class of voting securities of a publicly traded corporation that is required to include in its articles of organization the Rule 4.5 charter language provisions; or

- 5% or more of the beneficial interest in a gaming licensee directly or indirectly through any class of voting securities of any holding company or intermediary company of a licensee.

Notification must be made to the Division of Gaming by persons acquiring these interests. Such persons must submit all requested information, are subject to a finding of suitability as required by the Division of Gaming or the Gaming Commission, and must be informed of these requirements by the licensee. A person other than an institutional investor whose interest equals 10% or more of a publicly traded corporation or a 10% beneficial interest in a gaming licensee, directly or indirectly, through any class of voting securities of any holding company or intermediary company of a licensee must apply to the Gaming Commission for a finding of suitability within 45 days after acquiring such securities.

An institutional investor who, individually or in association with others, acquires, directly or indirectly, the beneficial ownership of 15% or more of any class of voting securities or 15% of the beneficial interest in a gaming licensee, directly or indirectly, through any class of voting securities of any holding company or

intermediary company of a licensee must apply to the Gaming Commission for a finding of suitability within 45 days after acquiring such interests.

Licensees must also notify any qualifying persons of these requirements. Whether or not so notified, qualifying persons are responsible for complying with these requirements.

The Colorado regulations also provide for exemption from the requirements for a finding of suitability when the Gaming Commission finds such action to be consistent with the purposes of the Limited Gaming Act. However, there are no express standards provided by law that would govern the Gaming Commission's decision on whether to grant such an exemption, and it cannot be determined whether such exemption will in fact be granted if requested. The Gaming Commission may determine that anyone with a material relationship to, or material involvement with, a licensee or an affiliated company must apply for a finding of suitability or must apply for a key employee license. There are no deadlines for the Division of Gaming to conduct such suitability reviews or for the Gaming Commission to consider and, in its sole discretion, act upon such reports.

Pursuant to Rule 4.5, persons found unsuitable by the Gaming Commission must be removed from any position as an officer, director, or employee of a licensee, or of a holding or intermediary company. Such unsuitable persons also are prohibited from any beneficial ownership of the voting securities of any such entities. Licensees, or affiliated entities of licensees, are subject to sanctions for paying dividends or distributions to persons found unsuitable by the Gaming Commission, or for recognizing voting rights of, or paying a salary or any remuneration for services to, unsuitable persons. Licensees or their affiliated entities also may be sanctioned for failing to pursue efforts to require unsuitable persons to relinquish their interests.

The Gaming Commission must provide prior approval of any sale, lease, purchase, conveyance, or acquisition of an interest in a casino licensee, except as provided in Rule 4.5 relating to publicly traded corporations.

Casinos located in Colorado may operate only between 8:00 a.m. and 2:00 a.m., and may permit only individuals 21 years or older to gamble or consume alcohol in the casino. Slot machines (including video poker), blackjack, poker, and approved variations of those games are the only permitted games, with a maximum single wager of $5.00. Casinos located in Colorado may not extend credit, directly or indirectly, to gaming patrons. The Colorado Constitution and Gaming regulations restrict the percentage of space a casino may use for gaming to fifty percent (50%) of any floor and thirty-five percent (35%) of the overall square footage of the building in which the casino is located.

The Gaming Commission establishes, effective July 1 of each year, the gaming tax rates for the ensuing year. Under the Colorado Constitution and the Colorado regulations, the rate can be increased to as much as forty percent (40%) of "adjusted gross proceeds," as that term is defined by the Colorado regulations and Colorado caselaw. The Gaming Commission has both raised and lowered gaming tax rates since they were initially set in 1991. Currently, the Gaming Commission imposes gaming taxes based upon a graduated system of tax rates, with the lowest such rate being one-quarter of one percent (.25%) and the highest gaming tax rate being twenty percent (20%). However, in the future, the Gaming Commission may increase any of the existing rates up to forty percent (40%) of adjusted gross proceeds, or change the existing thresholds at which such rates become effective.

In addition, the Gaming Commission or the Colorado General Assembly may impose fees upon gaming devices. There are no limitation on the amounts of such fees, and no such state fees have been imposed at this time.

Currently, the City of Black Hawk imposes a $750 fee upon each gaming device, including slot machines, blackjack and poker tables, in the City. The City may increase or decrease this fee or impose any additional fee at any time. The City imposes various other fees upon casinos, including transportation fees, and such fees may be increased or decreased at the sole discretion of the City.

The Silver Dollar Metropolitan District, operating within the City of Black Hawk, may increase its indebtedness from $15 million to $150 million or more to provide certain infrastructure improvements, notably roadway improvements. Each of the casinos within the District, including but not limited to our

Colorado casinos, would be liable for its proportionate share of this indebtedness, which liability could adversely affect the economic returns realized by the casinos.

Illinois Regulation

Our operation of Hollywood Aurora is subject to regulation by the State of Illinois, a summary of which is provided below. The Illinois Riverboat Gambling Act currently authorizes dockside riverboat gaming upon any water within the State of Illinois or any water other than Lake Michigan which constitutes a boundary of the State of Illinois. The Riverboat Gambling Act strictly regulates the facilities, persons, associations and practices related to gaming operations pursuant to the police powers of the State of Illinois, including comprehensive law enforcement supervision. The Riverboat Gambling Act grants the Illinois Gaming Board specific powers and duties, and all other powers necessary and proper to fully and effectively execute the Riverboat Gambling Act for the purpose of administering, regulating and enforcing the system of riverboat gaming. The Illinois Gaming Board's jurisdiction extends to every person, association, corporation, partnership and trust involved in riverboat gaming operations in the State of Illinois.

The Riverboat Gambling Act requires the owner of a riverboat gaming operation to hold an owner's license issued by the Illinois Gaming Board. The owner's license for the Hollywood Aurora casino was renewed in December 2000 for a period of four years. The Illinois Gaming Board is authorized to issue ten owner's licenses statewide. Each owner's license permits up to two boats as a part of the riverboat gaming operation. In addition to the ten owner's licenses which may be authorized under the Riverboat Gambling Act, the Illinois Gaming Board may issue special event licenses allowing persons who are not otherwise licensed to conduct riverboat gaming to conduct such gaming on a specified date or series of dates. Riverboat gaming under such a license may take place on a riverboat not normally used for riverboat gaming.

An owner's license is issued for an initial period of three years and may be renewed for successive periods of up to four years thereafter. An owner's license is eligible for renewal upon payment of the applicable fee and a determination by the Illinois Gaming Board that the licensee continues to meet all of the requirements of the Riverboat Gambling Act, the Illinois Gaming Board's rules and any conditions placed on a prior license renewal. The Illinois Gaming Board

also requires that officers, directors and employees of a gaming operation and suppliers of gaming equipment, devices and supplies and certain other suppliers be licensed. Licenses issued by the Illinois Gaming Board may not be transferred to another person or entity without the Illinois Gaming Board's approval. All licensed persons and entities must maintain their suitability for licensure and have a continuing duty to disclose any material changes in information provided to the Illinois Gaming Board.

Applicants for and holders of an owner's license are required to obtain formal prior approval from the Illinois Gaming Board for changes proposed in the following areas: (i) key persons, (ii) type of entity, (iii) equity and debt capitalization of the entity, (iv) investors and/or debt holders, (v) source of funds, (vi) economic development plans or proposals, (vii) riverboat capacity or significant design change, (viii) gaming positions, (ix) anticipated economic impact, or (x) agreements, oral or written, relating to the acquisition or disposition of property (real or personal) of a value greater than $1 million.

A holder of an owner's license is allowed to make distributions to its partners, stockholders or itself only to the extent that such distribution would not impair the financial viability of the gaming operation or violate the Riverboat Gambling Act. Factors to be considered by the licensee include, but are not limited to, the following: (i) cash flow, casino cash and working capital requirements, (ii) debt service obligations and covenants associated with financial instruments, (iii) requirements for repairs, maintenance and capital improvements, (iv) employment or economic development requirements of the Riverboat Gambling Act and (v) a licensee's financial projections.

The Illinois Gaming Board will require a business entity or personal disclosure form and approval as a key person for any business entity or individual with an ownership interest or voting rights of more than 5% in a licensee, the trustee of any trust holding such ownership interest or voting rights, the directors of the licensee and its chief executive officer, president and chief operating officer, as well as any other individual or entities deemed by the board to hold a position or a level of ownership, control or influence that is material to the regulatory concerns and obligations of the board. Each key person must file, on an annual basis, a disclosure affidavit, updated personal and background information, and updated tax and financial information. Key persons are required to promptly disclose to the board any material changes in status or information previously provided to the board and to maintain their suitability as key persons. In order for the board to identify potential key persons, each holder of an owner's license is required to file a table of organization, ownership and control with the Illinois Gaming Board to identify the individuals or entities that, through direct or indirect means, manage, own or control the interests and assets of the licensee. Based upon findings from an investigation into the character, reputation, experience, associations, business probity and financial integrity of a key person, the Illinois Gaming Board may enter an order upon the licensee to require economic disassociation of a key person. Each licensee is required to provide a means for the economic disassociation of a key person in the event such disassociation is required. On February 25, 2003, the Illinois Gaming Board granted key person licenses to us, Peter M. Carlino and Kevin G. DeSanctis in connection with their association with the Hollywood Aurora casino. The Illinois Gaming Board imposed a condition on our key person license that we continue to exclude and block all Illinois residents from wagering through our internet pari-mutuel wagering websites.

An ownership interest in a holder of an owner's license may be transferred or pledged as collateral only with the consent of the Illinois Gaming Board.

The Riverboat Gambling Act does not limit the maximum bet or per patron loss and licensees may set any maximum or minimum bets or other limits on wagering. No person under the age of 21 is permitted to wager. Vessels must have the capacity to hold a minimum of 500 persons if operating on the Mississippi River or the Illinois River south of Marshall County, and a minimum of 400 persons on any other waterway. The number of gaming positions is limited to a maximum of 1,200 per license. The 1,200 positions are counted as follows: (i) positions for games utilizing electronic gaming devices (as defined in the Riverboat Gambling Act) are determined as 90% of the total number of such devices available for play; (ii) craps tables are counted as having ten gaming positions; and (iii) any gaming device other than an electronic gaming device or craps table is counted as having five gaming positions. With respect to electronic gaming devices, the payout percentage may not be less than 80% or more than 100%. A licensee may conduct riverboat gambling regardless of whether it conducts excursion cruises. A licensee may permit the continuous ingress and egress of passengers for the purpose of gambling.

In 1999, the Riverboat Gambling Act was amended by Illinois Public Act 91-40 to, among other things, allow dockside gaming. Subsequently, a lawsuit was filed in an Illinois circuit court challenging the constitutionality of certain aspects of the amendment. This lawsuit was dismissed on January 25, 2001. The plaintiffs are appealing the decision dismissing the lawsuit. If the appeal is successful, thus reinstating the case, and the underlying lawsuit is ultimately successful, it may result in a finding that the entire amendment, including dockside gaming, is unconstitutional. Such a finding could have a material adverse effect on the operating results of the Hollywood Aurora casino.

A $3 per person admission tax is imposed on the owner of a riverboat operation. The host municipality or county of the riverboat casino receives $1 of such tax.

Additionally, a wagering tax is imposed on the adjusted gross receipts (generally defined as gross receipts less payments to customers as winnings) at the following graduated rates: 15% for up to $25 million; 22.5% for $25 million to $50 million; 27.5% for $50 million to $75 million; 32.5% for

$75 million to $100 million; 37.5% for $100 million to $150 million; 45% for $150 million to $200 million; and 50% for amounts in excess of $200 million. The licensee is required to wire transfer all such gaming tax payments to the Illinois Gaming Board no later than 3:00 p.m. of the day after the day when the wagers were made.

All use, occupancy and excise taxes that apply to food and beverages and all taxes imposed on the sale or use of tangible property apply to sales aboard riverboats.

The Illinois Gaming Board is authorized to conduct investigations into the conduct of gaming employees and into alleged violations of the Riverboat Gambling Act and to take such disciplinary and enforcement action as it may deem necessary and proper. Employees and agents of the Illinois Gaming Board have access to and may inspect any facilities relating to the riverboat gaming operations at all times.

A holder of any license is subject to imposition of penalties and fines, suspension or revocation of the license, or other action for any act or failure to act by the holder or his or her agents or employees, that is injurious to the public health, safety, morals, good order and general welfare of the people of the State of Illinois, or that would discredit or tend to discredit the Illinois gaming industry or the State of Illinois. Any riverboat operation not conducted in compliance with

the Riverboat Gambling Act may constitute an illegal gaming place and consequently may be subject to criminal penalties, which penalties include possible seizure, confiscation and destruction of illegal gaming devices and seizure and sale of riverboats and dock facilities to pay any unsatisfied judgment that may be recovered and any unsatisfied fine that may be levied. The Riverboat Gambling Act also provides for civil penalties equal to the amount of gross receipts derived from wagering on the gaming, whether unauthorized or authorized, conducted on the day of any violation. The Illinois Gaming Board may revoke or suspend licenses, as the Board may see fit and in compliance with applicable laws of Illinois regarding administrative procedures, and may suspend an owner's license, without notice or hearing, upon a determination that the safety or health of patrons or employees is jeopardized by continuing a riverboat's operation. The suspension may remain in effect until the Illinois Gaming Board determines that the cause for suspension has been abated and it may revoke the owner's license upon a determination that the owner has not made satisfactory progress toward abating the hazard.

The Illinois Gaming Board may waive any licensing requirement or procedure provided by rule if it determines that such waiver is in the best interests of the public and the gaming industry.

Louisiana Regulation

We are subject to regulation by the State of Louisiana as a result of our ownership of Louisiana Casino Cruises, Inc., or LCCI, the operator of Casino Rouge, and the Hollywood Casino Shreveport general partnership, or HCS, the operator of Hollywood Shreveport. We refer to HCS and LCCI together as our Louisiana licensees.

In July 1991, the Louisiana legislature adopted legislation permitting certain types of gaming activity on certain rivers and waterways in Louisiana. Since May 1, 1999, the Louisiana Gaming Control Board, or the Louisiana Board, has regulated such gaming activities.

The Louisiana Riverboat Economic Development and Gaming Control Act, or the Louisiana Act, authorized the issuance of up to 15 licenses to conduct gaming activities on a riverboat of new construction in accordance with applicable law. However, no more than six licenses may be granted to riverboats operating from any one parish. Of the 15 available licenses, 14 are currently in operation. The final license has been awarded to a subsidiary of Pinnacle Entertainment for Lake Charles, LA.

Riverboat gaming licenses in Louisiana are issued for an initial five-year term with five year renewals thereafter. In issuing or renewing a license, the Louisiana Board must find that the applicant is a person of good character, honesty and integrity and that the applicant is a person whose prior

activities, criminal record, if any, reputation, habits and associations do not pose a threat to the public interest of the State of Louisiana or to the effective regulation and control of gaming, or create or enhance the dangers of unsuitable, unfair or illegal practices, methods and activities in the conduct of gaming or the carrying on of business and financial arrangements in connection therewith. The Louisiana Board will grant or renew a license if it finds that: (i) the applicant can demonstrate the capability, either through training, education, business experience, or a combination of the above, to operate a gaming casino; (ii) the proposed financing of the riverboat and the gaming operation is adequate for the nature of the proposed operation and from a source suitable and acceptable to the Louisiana Board; (iii) the applicant demonstrates a proven ability to operate a vessel of comparable size, capacity and complexity to a riverboat so as to ensure the safety of its passengers, with relevant employees being appropriately U.S. Coast Guard certified; (iv) the applicant submits a detailed plan of design of the riverboat in its application for a license; (v) the applicant designates the docking facilities to be used by the riverboat; (vi) the applicant shows adequate financial ability to construct and maintain a riverboat; and (vii) the applicant has a good faith plan to recruit, train and upgrade minorities in all employment classifications.

On September 21, 1999, the Louisiana Board renewed the license of HCS through October 2004, subject to several conditions. On March 29, 2001, in addition to approving our acquisition of CRC, the Louisiana Board renewed LCCI's license through June 2005, subject to several conditions. In each case, the conditions imposed by the Louisiana Board have either already been complied with or are voluntary and standard compliance, procurement, and employment conditions routinely imposed on licensees in the state of Louisiana.

Other regulations imposed by the Louisiana Act or rules adopted pursuant thereto include, but are not limited to, the following: (i) we must periodically submit financial and operating reports to the Louisiana Board for ourselves and our subsidiaries; (ii) owners holding greater than a 5% interest or who are officers or directors of us or subsidiaries related to our Louisiana licensees must be found suitable by the Louisiana Board; (iii) any individual who is found to have a material relationship to, or involvement with our Louisiana licensees may be required to be investigated for suitability; (iv) if a director, officer, or key employee were found to be unsuitable, we and our subsidiaries would have to sever all relationships with that person; (v) the transfer of a license or permit or an interest in a license or permit is prohibited without prior approval; (vi) our Louisiana licensees must notify the Louisiana Board of any withdrawals of capital, loans, advances, or distributions in excess of 5% of retained earnings upon completion of such transaction; and (vii) either of our Louisiana licensees must give prior notification to the Louisiana Board if it applies or receives, accepts or modifies the terms of any loan or other financing transaction or if we receive, accept or modify the terms of a loan or other financing transaction on behalf of or for the benefit of either one of our Louisiana licensees. In some cases, the Louisiana Board will be required to investigate the reported transaction and to either approve or disapprove the transaction.

The Louisiana Act or rules adopted pursuant thereto contain certain restrictions and conditions relating to the operation of riverboat gaming, including the following: (i) agents of the Louisiana Board are permitted on board at any time during gaming operations; (ii) gaming devices, equipment and supplies may only be purchased or leased from permitted suppliers; (iii) gaming may only take place in the designated gaming area while the riverboat is upon a designated river or waterway; (iv) gaming equipment may not be possessed, maintained or exhibited by any person on a riverboat except in the specifically designated gaming area, or a secure area used for inspection, repair or storage of such equipment; (v) wagers may be received only from a person present on a licensed riverboat; (vi) persons under 21 are not permitted on gaming vessels; (vii) except for slot machine play, wagers may be made only with tokens, chips or electronic cards purchased from the licensee aboard a riverboat; (viii) licensees may only use docking facilities for which they are licensed and may only board and discharge passengers at the riverboat's licensed berth; (ix) licensees must have adequate protection and

indemnity insurance; (x) licensees must have all necessary federal and state licenses, certificates and other regulatory approvals prior to operating a riverboat; and (xi) gaming may only be conducted in accordance with the terms of the license, the Louisiana Act and the rules and regulations adopted by the Louisiana Board.

Fees for conducting gaming activities on a riverboat pursuant to the Louisiana Act include (i) $50,000 per riverboat for the first year of operation and $100,000 per year per riverboat thereafter plus (ii) a percentage of net gaming proceeds (gross revenue). In March 2001, Louisiana passed Act 3 of the 1st Extraordinary Legislative Session which allows riverboat gaming licensees to operate dockside. Prior to the legislation, LCCI was required to maintain up to eight cruises daily, subject to weather and other conditions. In consideration of this change, the tax on gaming revenues was increased from 18.5% to 21.5%, effective April 1, 2001 for LCCI and increased one percent per annum for HCS beginning in April 2001 and continuing until April 2003 to a total of 21.5%.

The Louisiana Act also authorizes the local governing body to assess a boarding fee up to $2.50 in the case of LCCI, and up to $3.00 in the case of HCS. The City/Parish governing body of East Baton Rouge has imposed an admission fee of $2.50 for each patron boarding the vessel. For calendar year ended December 31, 2002, LCCI's boarding fee expense was $4.0 million. For competitive reasons, LCCI and its Baton Rouge competitor have elected not to collect boarding fees from patrons and instead pay those fees from their respective earnings. In lieu of the boarding fee in Shreveport, HCS negotiated a 3.76% tax on the net gaming proceeds (gross revenues) of the Hollywood Casino Shreveport riverboat to be paid to the Caddo Parish School Board.

Proposals to amend or supplement the Louisiana Act are frequently introduced in the Louisiana State legislature. In addition, the state legislature from time to time considers proposals to repeal the Louisiana Act, which would effectively prohibit riverboat gaming in the State of Louisiana. Although we do not believe that a prohibition of riverboat gaming in Louisiana is likely, no assurance can be given that changes in the Louisiana gaming law will not occur or that such changes will not have a material adverse effect on the business of our Louisiana licensees.

Mississippi Regulation

Our operation of Casino Magic—Bay St. Louis, Boomtown Biloxi and Hollywood Tunica is subject to Mississippi regulatory compliance, a summary of which is provided below.

The ownership and operation of casino gaming facilities in Mississippi are subject to extensive state and local regulation primarily through the licensing and regulatory control of the Mississippi Gaming Commission and the Mississippi State Tax Commission. We and certain of our subsidiaries must register and be licensed under the Mississippi Gaming Control Act, or the Mississippi Act, and our gaming operations are subject to the regulatory control of the Mississippi Gaming Commission, the Mississippi State Tax Commission and various local, city and county regulatory agencies. The Mississippi Act, which legalized dockside casino gaming in Mississippi, was enacted on June 29, 1990 and the Mississippi Gaming Commission adopted regulations, effective October 29, 1991, in furtherance of the Mississippi Act.

The laws, regulations and supervisory procedures of Mississippi and the Mississippi Gaming Commission seek to: (i) prevent unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity; (ii) establish and maintain responsible accounting practices and procedures; (iii) maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and safeguarding assets and revenues, providing reliable record keeping and making periodic reports to the Mississippi Gaming Commission; (iv) prevent cheating and fraudulent practices; (v) provide a source of state and local revenues through taxation and licensing fees; and (vi) ensure that gaming licensees, to the extent

practicable, employ Mississippi residents. The regulations are subject to amendment and interpretation by the Mississippi Gaming Commission.

The Mississippi Act provides for legalized dockside gaming in any of the 14 counties that border either the Gulf Coast or the Mississippi River, provided that the voters in an eligible county have not voted to prohibit gaming in that county. Voters have approved dockside gaming in nine of the 14 eligible counties in the state and gaming operations have commenced in Adams, Coahoma, Hancock, Harrison, Tunica, Warren and Washington counties. The law permits unlimited stakes gaming on a 24-hour basis and does not restrict the percentage of space that may be utilized for gaming. There are no limitations on the number of gaming licenses which may be issued in Mississippi. The legal age for gaming in Mississippi is 21.

We are required to submit detailed financial, operating and other reports to the Mississippi Gaming Commission and Mississippi State Tax Commission. Several of our transactions, such as loans and other financing transactions, leases and sales of securities require notice to and/or approval of the Mississippi Gaming Commission.

On August 8, 2000, the Mississippi Gaming Commission issued us a gaming operator's license for Boomtown Biloxi and for Casino Magic—Bay St. Louis. The Mississippi Gaming Commission first issued an operator's license for Hollywood Tunica in 1994, and most recently renewed an operator's license for Hollywood Tunica effective October 20, 2001. On November 20, 2002, the Mississippi Gaming Commission granted certain approvals in connection with our acquisition of Hollywood Casino Corporation. In addition, the Mississippi Gaming Commission has found certain of our key principals suitable.

Each of the officers and directors of Casino Magic—Bay St. Louis, Boomtown Biloxi and Hollywood Tunica must be found suitable or must be licensed by the Mississippi Gaming Commission. In addition, certain of our directors, officers and employees may be required to be found suitable or be licensed if they are engaged in the administration or supervision of, or any other significant involvement with, the activities of Casino Magic—Bay St. Louis, Boomtown Biloxi or Hollywood Tunica. Both a finding of suitability and license require submission of detailed financial information followed by a thorough investigation. Key employees, controlling persons or others who exercise significant influence upon our management or affairs may be deemed to have a material relationship to, or material involvement with us and may be investigated in order to be found suitable or required to be licensed. There can be no assurance that such persons will be found suitable or licensed by, and maintain such a suitability finding or license from, the Mississippi Gaming Commission. The Mississippi Gaming Commission has full and absolute power and authority to deny any application or limit, condition, restrict, revoke or suspend any lien, registration, finding of suitability or approvals, or fine any person licensed, registered, found suitable or approved, for any cause it deems reasonable. Changes in certain officer, director or key employee positions must be reported to the Mississippi Gaming Commission. In addition to its authority to deny an application for a license, the Mississippi Gaming Commission has jurisdiction to disapprove a change in a corporate position. If the Mississippi Gaming Commission were to find a director, officer or employee unsuitable for licensing or unsuitable to continue having a relationship with us, we would have to terminate such person's employment in any capacity in which such person is required to be found suitable or licensed and we would be prohibited from allowing such person to exercise a significant influence over the gaming establishment's operations. We would have similar obligations with regard to any person who refuses to file appropriate applications. No person may be employed as a gaming employee unless such person holds a work permit issued by the Mississippi Gaming Commission. An application for a work permit can be denied for any cause the Mississippi Gaming Commission deems reasonable, and the Mississippi Gaming Commission may summarily suspend or revoke a work permit upon the occurrence of certain specified events.

Mississippi statutes and regulations give the Mississippi Gaming Commission the discretion to require a suitability finding with respect to anyone who acquires any of our securities, regardless of the percentage of ownership. The current policy of the Mississippi Gaming Commission is to require anyone acquiring, directly or indirectly, 5% or more of any voting securities of a registered publicly traded holding company to be found suitable. However, the Mississippi Gaming Commission has adopted a regulation that may permit certain "institutional" investors to obtain a waiver that allows them to beneficially own, directly or indirectly, up to 15% (19% in certain specific instances) of the voting securities of a registered public company without a finding of suitability. If the owner of voting securities who is required to be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any owner of our voting securities found unsuitable and who holds, directly or indirectly, any beneficial ownership of our equity interests beyond such period of time as may be prescribed by the Mississippi Gaming Commission may be guilty of a misdemeanor. Any person who fails or refuses to apply for a finding of suitability or a license within 30 days of being ordered to do so by the Mississippi Gaming Commission may be found unsuitable. We are subject to disciplinary action if we, after receiving notice that a person is unsuitable to be an owner of or to have any other relationship with us, (i) pay the unsuitable person any dividends or interest upon any such security, (ii) recognize the exercise, directly or through any trustee or nominee of any voting rights conferred by such security, or (iii) pay the unsuitable person any remuneration in any form for services rendered or otherwise. In addition, if the Mississippi Gaming Commission finds any owner of voting securities of certain of our subsidiaries unsuitable, such owner must immediately offer all securities to us, and we must purchase the securities so offered for cash at fair market value within ten days.

We are required to maintain current ownership ledgers in the State of Mississippi that may be examined by the Mississippi Gaming Commission at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Gaming Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. We may be required to disclose to the Mississippi Gaming Commission, the identities of the holders of certain of our indebtedness. In addition, the Mississippi Gaming Commission under the Mississippi Act may, in its discretion, (i) require holders of debt securities, including these notes, to file applications, (ii) investigate such holders, and (iii) require such holders to be found suitable to own such debt securities. Although the Mississippi Gaming Commission generally does not require the individual holders of obligations such as the notes to be investigated and found suitable, the Mississippi Gaming Commission retains the discretion to do so for any reason, including but not limited to a default, or where the holder of the debt instrument exercises a material influence over the gaming operations of the entity in question. Any holder of the debt securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Gaming Commission in connection with such an investigation.

The regulations provide that we may not engage in any transaction that would result in a change of our control without the prior approval of the Mississippi Gaming Commission. Mississippi law prohibits us and certain of our subsidiaries from making a public offering or private placement of our securities without the prior approval of the Mississippi Gaming Commission if any part of the proceeds of the offering is to be used to finance the construction, acquisition or operation of gaming facilities in Mississippi, or to retire or extend obligations incurred for one or more of such purposes. The Mississippi Gaming Commission has the authority to grant a continuous approval of securities offerings and has granted us such approval, subject to renewal.

Regulations of the Mississippi Gaming Commission prohibit certain repurchases of securities of publicly traded corporations registered with the Mississippi Gaming Commission without prior approval of the Mississippi Gaming Commission. Transactions covered by these regulations are generally aimed at discouraging repurchases of securities at a premium over market price from certain holders of greater than 3% of the outstanding securities of the registered publicly traded corporation. The regulations of the Mississippi Gaming Commission also require prior approval for a "plan of recapitalization" as defined in such regulations.

The Mississippi Act requires that certificates representing our securities bear a legend to the general effect that the securities are subject to the Mississippi Act and regulations of the Mississippi Gaming Commission. The Mississippi Gaming Commission, through the power to regulate licensees, has the power to impose additional restrictions on the holders of our securities at any time.

We may not engage in gaming activities in Mississippi while also conducting gaming operations outside of Mississippi without approval of the Mississippi Gaming Commission. Such approvals were initially granted to us by the Mississippi Gaming Commission as part of the original licensure process, and additional approvals must be obtained on a jurisdiction-by-jurisdiction basis. The failure to obtain or retain any such approval could have a material adverse effect on us.

We may not transfer any of our licenses and we must renew each license every three years. There can be no assurance that any of our renewal applications will be approved. The Mississippi Gaming Commission may at any time dissolve, suspend, condition, limit or restrict a license or approval to own equity interests in us for any cause it deems reasonable. We may have substantial fines levied against us in Mississippi for each violation of gaming laws or regulations. A violation under any gaming license held by us may be deemed a violation of all of the Mississippi licenses held by us. Suspension or revocation of the Mississippi licenses or of the Mississippi Gaming Commission's approval of us would have a material adverse effect upon our business.

In October 1994, the Mississippi Gaming Commission adopted a regulation requiring, as a condition of licensure or license renewal, that a gaming establishment's site development plan include an approved 500-car parking facility in close proximity to the casino complex and infrastructure facilities that amount to at least 25% of the casino cost. Such facilities may include any of the following: a 250-room hotel of at least a two star rating, as defined by the current edition of the Mobil Travel Guide; a theme park; a golf course; marinas; a tennis complex; entertainment facilities; or any other such facility as approved by the Mississippi Gaming Commission as infrastructure. Parking facilities, roads, sewage and water systems or facilities normally provided by governmental entities are excluded. The Mississippi Gaming Commission may, in its discretion, reduce the number of hotel rooms required where it is shown, to the satisfaction of the Mississippi Gaming Commission, that sufficient rooms are available to accommodate the anticipated visitor load. Such reduction in the number of rooms does not affect the 25% investment requirement imposed by the regulation. Casino Magic—Bay St. Louis, Boomtown Biloxi and related facilities have complied with these requirements. In January 1999, the Mississippi Gaming Commission amended this infrastructure regulation by increasing the minimum level of infrastructure investment from 25% to 100% of the casino cost. However, the 100% infrastructure investment requirement applies only to new casino developments and existing casino developments that are not in operation at the time of their acquisition or purchase, and therefore does not apply to Casino Magic—Bay St. Louis and Boomtown Biloxi. Because Hollywood Tunica was licensed prior to the adoption of the infrastructure investment requirement and has remained open since it was licensed, the Mississippi Gaming Commission has never applied the infrastructure investment requirement to Hollywood Tunica.

License fees and taxes are payable to the State of Mississippi and to the counties and cities in which our Mississippi subsidiaries operate. One of the license fees payable to the state of Mississippi is based upon gross revenue of the licensee (generally defined as gaming receipts less payout to customers

as winnings) and equals 4% of the first $50,000 of monthly gross revenue, 6% of the next $84,000 of monthly gross revenue and 8% of all monthly gross revenue over $134,000. These license fees are allowed as a credit against the licensee's Mississippi income tax liability for the year paid. Additionally, a licensee must pay a $5,000 annual license fee and an annual fee based upon the number of games it operates. Mississippi communities and counties may impose fees on licensees equaling 0.4% the first $50,000 of monthly gross revenues, 0.6% of the next $84,000 of monthly gross revenue and 0.8% of all monthly gross revenues over $134,000. These fees have been imposed in, among other cities, Bay St. Louis, Gulfport, Biloxi, Natchez, Greenville and Vicksburg, and in among other counties, Coahoma County, Hancock County and Tunica County. Certain local and private laws of the State of Mississippi may impose fees or taxes on our Mississippi subsidiaries in addition to the fees described above.

The Mississippi Gaming Commission requires, as a condition of licensure or license renewal, that casino vessels on the Mississippi Gulf Coast that are not self-propelled be moored to withstand a Category 4 hurricane with 155 mile-per-hour winds and 15-foot tidal surge. We believe that all of our Mississippi gaming operations currently meet this requirement. A 1996 Mississippi Gaming Commission regulation prescribes the hurricane emergency procedure to be used by the Mississippi Gulf Coast casinos.

New Jersey Regulation

Our joint venture's operations at Freehold Raceway in New Jersey are subject to regulation (i) by the New Jersey Racing Commission under the New Jersey Racing Act of 1940, as amended, or the Racing Act, and supplemented and the rules and regulations of the New Jersey Racing Commission and (ii) by the New Jersey Casino Control Commission under the Casino Control Act and Casino Simulcasting Act.

Under the Racing Act, all pari-mutuel employees and all others who are connected with the training of horses or the conduct of races, must be licensed by the Racing Commission. In addition, no person may hold or acquire, directly or indirectly, beneficial ownership of 5% or more of the voting securities of the joint venture without the prior approval of the Racing Commission.

At least 85% of the persons employed by the New Jersey joint venture at Freehold Raceway must be residents of New Jersey (excluding jockeys, drivers or apprentices, exercise boys, owners, trainers, clockers, governing and managing officials and heads of departments of the track). The Racing Commission has the authority to require that the joint venture discharge any employee who: (i) fails or refuses for any reason to comply with the rules and regulations of the Racing Commission; (ii) in the opinion of the Racing Commission is guilty of fraud, dishonesty or incompetency; (iii) has been convicted of a crime involving moral turpitude; or (iv) fails or refuses for any reason to comply with any of the provisions of the Racing Act.

Additional restrictions and/or requirements imposed by the Racing Commission on the joint venture's racetrack operations include, but are not limited to, the setting of the admission price required to be charged by the joint venture, a requirement that the joint venture (and all other racetracks operating in New Jersey) must schedule at least one race per day limited to registered New Jersey-bred foals and the methods the joint venture may use to distribute pari-mutuel pools and "breaks" (the odd cents remaining after computing the amount due holders of winning pari-mutuel tickets). The Racing Commission also regulates the manner of keeping of certain of the joint venture's books and records.

The Racing Commission is also responsible for the allocation of racing dates based upon the annual application of the permit holder. The joint venture is entitled to race the same number of dates as in the preceding year, when it is in the public interest to do so, or for such other dates, not exceeding 100 days in the aggregate for harness racing and 75 days in the aggregate for thoroughbred racing, as the Racing Commission shall designate; provided, however that if another permit holder

rejects any of the dates to which they may be entitled the Racing Commission may allot those dates among other permitholders. The Racing Commission has discretion to allot harness race permitholders an additional 200 days and thoroughbred race permitholders an additional 100 days.

The failure to comply with the Racing Act and the rules and regulations of the Racing Commission could result in monetary fines, operations restrictions or the loss of our license.

Because the joint venture simulcasts to Atlantic City casinos, the joint venture's simulcasting agreements are required to be filed with and approved by the Casino Control Commission and the New Jersey Racing Commission. The Casino Control Commission exempted the joint venture from licensure as a non-gaming casino service industry since it is regulated by the Racing Commission. The Casino Control Commission conditioned the exemption on the following conditions: (1) in the event that any of the information provided on the vendor registration forms filed with the Commission changes, updated forms would be filed with the Commission within ten days of the occurrence of the change; (2) the joint venture cooperate with the Commission and Division of Gaming Enforcement and, upon request, provide information in the same manner required of a licensed casino service industry; and (3) the joint venture comply with affirmative action and equal opportunity requirements.

In 2002, the Racing Commission advised us that it had conducted an investigation of the phone/internet wagering account practices of one of our affiliates, eBetUSA.com, Inc. The investigators alleged that eBet did not act with due diligence in verifying all account information given them by prospective customers. eBet was fully cooperative and resolved this matter amicably with the Racing Commission. The Racing Commission closed its investigation file in this matter and took no enforcement action against eBet or us.

In August 2001, the Governor of New Jersey signed legislation that would legalize 15 OTW facilities in New Jersey. We believe that these facilities will begin to open in 2004 and will take approximately five years to be completed. It is anticipated that Pennwood Racing will receive four OTWs, including an OTW on the site of the former Garden State Park. We believe that the average OTW facility will cost $3-$5 million to construct and that each facility will have a payback period of approximately 18 months.

Ontario Regulation

Our gaming operations in Ontario at Casino Rama are subject to the regulatory control of the Alcohol and Gaming Commission of Ontario pursuant to the Gaming Control Act and the contractual provisions in the Development and Operating Agreement among CRC, CHC Casinos, the Ontario Lottery and Gaming Corporation, the Mnjikaning First Nation and certain other parties.

Our wholly-owned subsidiary, CHC Casinos, is required under the Gaming Control Act to be registered as a casino operator with the Alcohol and Gaming Commission of Ontario and must operate in accordance with the terms and conditions of its registration. In addition, we, as a registered gaming related supplier under the Gaming Control Act, have our own set of terms and conditions for registration which must be complied with.

Pursuant to the Gaming Control Act and the terms of CHC Casinos' registration, the Registrar of Alcohol and Gaming must approve any change in the directors or officers of CHC Casinos. The Alcohol and Gaming Commission of Ontario may require the submission of information or material from any person who has an interest in CHC Casinos. This includes us, as the parent company, and our directors and officers.

The Registrar of Alcohol and Gaming has the power, subject to the Gaming Control Act, to grant, renew, suspend or revoke registrations. The Registrar is entitled to make such inquiries and conduct such investigations as are necessary to determine that applicants for registration meet the requirements of the Gaming Control Act and to require information or material from any person who has an interest

in an applicant for registration. Under the Gaming Control Act, a person shall be deemed to be "interested" in another person if: (i) the first person has, or may have in the opinion of the Registrar based on reasonable grounds, a beneficial interest in the other person's business; (ii) the first person exercises, or may exercise, in the opinion of the Registrar based on reasonable grounds, control either directly or indirectly over the other person's business; or (iii) the first person has provided, or may have provided, in the opinion of the Registrar based on reasonable grounds, financing either directly or indirectly to the other person's business. The criteria to be considered in connection with registration under the Gaming Control Act include the financial responsibility, integrity and honesty of the applicant, and the public interest. The Registrar may, at any time, revoke, suspend or refuse to renew CHC Casinos' or our registration for any reason that would have disentitled it or us to registration.

In addition, any person who supplies a casino with goods and services must be registered with the Alcohol and Gaming Commission of Ontario. Key employees who engage in the administration or supervision of gaming or the operation of gaming premises must also be registered with this agency.

The Development and Operating Agreement imposes certain obligations on CHC Casinos relating to the operation of Casino Rama including obtaining all necessary government consents required to operate various components of the casino in accordance with applicable law and ensuring that all persons retained by it for the provision of goods and services to the various components of the casino are also registered as required by law.

Pennsylvania Racing Regulations

Our horse racing operations at Penn National Race Course and Pocono Downs are subject to extensive regulation under the Pennsylvania Racing Act, which established the Pennsylvania State Horse Racing Commission and the Pennsylvania State Harness Racing Commission, or collectively referred to herein as the Pennsylvania Racing Commissions, which are responsible for, among other things, granting permission annually to maintain racing licenses and schedule races; approving, after a public hearing, the opening of additional OTWs and racetracks; approving simulcasting activities; licensing all officers, directors, racing officials and certain other employees of a company; and approving all contracts entered into by a company affecting racing, pari-mutuel wagering and OTW operations.

As in most states, the regulations and oversight applicable to our operations in Pennsylvania are intended primarily to safeguard the legitimacy of the sport and its freedom from inappropriate or criminal influences. The Pennsylvania Racing Commissions have broad authority to regulate in the best interests of racing and may, to that end, disapprove the involvement of certain personnel in our operations, deny approval of certain acquisitions following their consummation or withhold permission for a proposed OTW site for a variety of reasons, including community opposition. The Pennsylvania legislature also has reserved the right to revoke the power of the Pennsylvania Racing Commissions to approve additional OTWs and could, at any time, terminate pari-mutuel wagering as a form of legalized gaming in Pennsylvania or subject such wagering to additional restrictive regulation or taxation; such termination would, and any further restrictions could, have a material adverse effect upon our business, financial condition and results of operations.

We may not be able to obtain or maintain all necessary approvals for the continued operation of our business. We have had continued permission from the Pennsylvania State Horse Racing Commission to conduct live racing at the Penn National Race Course since we commenced operations in 1972, and have obtained permission from the Pennsylvania State Harness Racing Commission to conduct live racing at Pocono Downs. Currently, we have approval from the Pennsylvania Racing Commissions to operate the 11 OTWs that are open. A Pennsylvania Racing Commission may refuse to grant permission to continue to operate existing facilities. The failure to obtain or maintain required regulatory approvals could have a material adverse effect upon our business, financial condition and results of operations.

The Pennsylvania Racing Act requires that any shareholder proposing to transfer beneficial ownership of 5% or more of our shares file an affidavit with us setting forth certain information about the proposed transfer and transferee, a copy of which we are required to furnish to the Pennsylvania Racing Commissions. The certificates representing our shares owned by 5% beneficial shareholders are required to bear certain legends prescribed by the Pennsylvania Racing Act. In addition, under the Pennsylvania Racing Act, the Pennsylvania Racing Commissions have the authority to order a 5% beneficial shareholder of a company to dispose of his common stock of such company if it determines that continued ownership would be inconsistent with the public interest, convenience or necessity or the best interest of racing generally.

To date, Pennsylvania has not legalized gaming in the state. However, the recently elected governor has voiced support for slots at racetracks if proceeds are targeted to socially beneficial causes and the process to legalize gaming in the state, including the introduction of five legislative bills to legalize slot machines, has begun.

West Virginia Racing and Gaming Regulation

Our operations at the Charles Town Entertainment Complex are subject to regulation by the West Virginia Racing Commission under the West Virginia Horse and Dog Racing Act, and by the West Virginia Lottery Commission under the West Virginia Racetrack Video Lottery Act. The powers and responsibilities of the West Virginia Racing Commission under the West Virginia Horse and Dog Racing Act extend to the approval and/or oversight of all aspects of racing and pari-mutuel wagering operations. We have obtained from the West Virginia Racing Commission a license to conduct racing and pari-mutuel wagering at the Charles Town Entertainment Complex. Pursuant to the West Virginia Racetrack Video Lottery Act, we have obtained approval for 3,500 gaming machines and video lottery terminals at the Charles Town Entertainment Complex, approximately 2,700 of which are currently in operation. In addition to licensing, in West Virginia, the legality of gaming machine operation in a particular county is determined by local option election in the county where the racetrack is located. The West Virginia Racetrack Video Lottery Act further provides that 5% of the qualified voters in the county where gaming machines have been permitted by local option election can petition for another election that may be held no sooner than five years after the first election.

The West Virginia Racetrack Video Lottery Act provides that the transfer of more than 5% of the voting stock of a corporation that holds a gaming machine license, or that controls another entity that holds such a license, or the transfer of the assets of a license holder may only be to persons who have met the licensing requirements of the West Virginia Racetrack Video Lottery Act or which transfer has been pre-approved by the West Virginia Lottery Commission. Any transfer that does not comply with this requirement voids the license.

On April 21, 2001, the West Virginia legislature passed a law increasing the maximum per pull wagering limit for gaming machines operated in the state from $2 per pull to $5 per pull. We have reconfigured our gaming machines for this change and began operating machines with the new wagering limit in July 2001. Revenues resulting from the limit increase are subject to taxes at a slightly higher rate. We believe that the net impact of these legislative changes will positively impact our cash flow.

State and Federal Simulcast Regulation

The Federal Interstate Horseracing Act, the Pennsylvania Racing Act, the West Virginia Racing Act and the New Jersey Simulcasting Racing Act require that we have a written agreement with each applicable horsemen's organization in order to simulcast races. We have entered into the horsemen agreements, and in accordance therewith have agreed on the allocations of our revenues from import

simulcast wagering to the purse funds for the Penn National Race Course, Charles Town Races, Pocono Downs and Freehold Raceway.

Taxation

Gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and, in Canada, provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws.

IRS Regulations, Currency Transaction Reporting and Suspicious Activity Reporting

The Internal Revenue Service, or IRS, requires operators of casinos located in the U.S. to file information returns for U.S. citizens, including names and addresses of winners, for all winnings in excess of stipulated amounts. The IRS also requires operators to withhold taxes on certain winnings of nonresident aliens.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department and the gaming regulatory authorities in certain domestic jurisdictions in which we operate casinos require the reporting of currency transactions in excess of $10,000 occurring within a gaming day, including identification of the patron by name and social security number. This reporting obligation commenced in May 1985 and may have resulted in the loss of casino revenues to jurisdictions outside the U.S. that are exempt from the ambit of such regulations. The operation of Casino Rama is subject to similar requirements under Canadian federal law and provincial gaming legislation.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department require the filing of suspicious activity reports by casinos on all transactions of at least $5,000 that the casino knows, suspects, or has reason to suspect fall into specific categories that are deemed to be suspicious. This reporting obligation will commence on March 25, 2003 and may result in the loss of casino revenues to jurisdictions outside the U.S. that are exempt from the ambit of such regulations.

Compliance with Other Laws

Our operations are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. We derive a significant portion of our non-racing revenues from the sale of alcoholic beverages to patrons of our facilities.

Employees and Labor Relations

As of March 3, 2003, we had 13,608 permanent employees.

Certain employees in the admissions, pari-mutuel and/or telebet departments at Penn National Race Course, Pocono Downs and six of our OTWs are represented under collective bargaining agreements between us, the Sports Arena Employees' Union Local 137 and Teamsters Local 401. The agreements originally terminated on September 30, 2002 for track employees but have been extended until March 31, 2003. The agreements extend until September 30, 2005 for OTW employees. We are continuing to negotiate with the track employees in the hopes of reaching a new agreement. The pari-mutuel clerks at Pocono Downs voted to unionize in June 1997. We have held negotiations with Teamsters 401, but do not have a contract to date. Recently a petition to decertify the union was filed by pari-mutuel clerks with the Pennsylvania Department of Labor and, on February 28, 2003, the union was decertified.

In order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of our horse breeders. We have an agreement with the Charles Town Horsemen that expired on December 31, 2002 and was extended until September 30, 2003. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2004.

Risks Related to Our Business

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

Approximately 38.7% and 47.6% of our revenue and EBITDA (earnings before interest, taxes, depreciation and amortization, loss on change in fair value of interest rate swaps and gain/loss on sale of assets and inclusive of earnings from joint venture), respectively, for the year ended December 31, 2002 was derived from our Charles Town operations. With the completion of the acquisition of Hollywood Casino Corporation on March 3, 2003, we expect that a substantial portion of our revenues and EBITDA for the immediate future will be derived from our Charles Town, WV and Aurora, IL facilities. If, among other things, new competitors enter one of these markets, economic conditions in one of these regions deteriorates or a business interruption occurs, our operating revenues and cash flow could decline significantly.

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

On March 3, 2003, we acquired all of the stock of Hollywood Casino Corporation with operations in Aurora, IL, Tunica, MS and Shreveport, LA. The integration of the Hollywood Casino operations and any other properties we may acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating Hollywood Casino, and potential other properties, also may interrupt the activities of those businesses, which could have material adverse effect on our business, financial condition and results of operations.

We expect to continue pursuing expansion and acquisition opportunities and could face significant challenges in managing and integrating the expanded or combined operations. Management of new properties, especially in new geographic areas, may require that we increase our managerial resources. If we fail to effectively manage any growth we may have, it could materially adversely affect our operating results. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions.

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

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

We expect to use a portion of our cash on hand, cash flow from operations and available borrowings under our revolving credit facility for capital expenditures at the Charles Town Entertainment Complex. Such enhancements include the expansion of the gaming floor and the construction of an entertainment venue. These planned enhancements involve similar risks to hotel construction risks including cost over-runs, delays, market deterioration and receipt of required licenses, permits or authorizations, among others.

Any proposed enhancement will require us to significantly increase the size of our existing work force at those properties. We cannot be certain that management will be able to hire and retain a sufficient number of employees to operate these facilities at their optimal levels. The failure to employ the necessary work force could result in inadequate customer service which could ultimately harm profitability.

We face significant competition.

We face significant competition in both our gaming business and racing and pari-mutuel business.

—Gaming Operations

The gaming industry is highly fragmented and characterized by a high degree of competition among a large number of participants, many of which have financial and other resources that are greater than our resources. Competitive gaming activities include casinos, video lottery terminals and other forms of legalized gaming in the U.S. and other jurisdictions.

Legalized gambling is currently permitted in various forms throughout the U.S. and in several Canadian provinces. Other jurisdictions may legalize gaming in the near future. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. New or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us.

—Racing and pari-mutuel operations

Our racing and pari-mutuel operations face significant competition for wagering dollars from other racetracks and OTWs, some of which also offer other forms of gaming, as well as other gaming venues such as casinos and state-sponsored lotteries, including the Pennsylvania, New Jersey, Delaware and West Virginia lotteries. Our telephone account and internet wagering operations compete with providers of such services throughout the country. We also may face competition in the future from new OTWs, new racetracks or new providers of telephone account or internet wagering. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available near our racing and pari-mutuel operations, such gaming opportunities could have a material adverse effect on our business, financial condition and results of operations.

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

We are defendants in various lawsuits relating to matters incidental to our business. The nature of our business subjects us to the risk of lawsuits filed by customers, past and present employees, competitors and others in the ordinary course. As with all litigation, no assurance can be provided as to the outcome of these matters and in general, litigation can be expensive and time consuming. We believe that we have defenses to these lawsuits and are contesting them vigorously; however, we cannot be sure that we will be successful in defending these claims.

Furthermore, certain litigation exists involving Hollywood Casino Corporation and/or its subsidiaries as parties. We have not made an independent evaluation of the Hollywood Casino litigation and are still developing a first-hand understanding of its current litigation. Our current understanding of Hollywood Casino's litigation is based primarily on Hollywood Casino's public filings and the information provided to us in connection with the acquisition.

We may not be successful in the defense of these lawsuits, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations.

We face extensive regulation from gaming and other regulatory authorities.

Licensing Requirements. As owners and operators of gaming and pari-mutuel betting facilities, we are subject to extensive state, local and, in Canada, provincial regulation. State, local and provincial authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. Various regulatory authorities, including the Colorado Division of Gaming, the Illinois Gaming Board, the Louisiana Gaming Control Board, the Mississippi Gaming Commission, the New Jersey Casino Control Commission, the New Jersey Racing Commission, the Alcohol and Gaming Commission of Ontario, the Pennsylvania State Horse Racing Commission, the Pennsylvania State Harness Racing Commission, the West Virginia Racing Commission and the West Virginia Lottery Commission may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. We cannot assure you that we will be able to obtain such renewals or approvals. Regulatory authorities may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

We have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming and pari-mutuel facilities. We cannot assure you that we will be able to retain them or demonstrate suitability to obtain any new licenses, registrations, permits or approvals. If we expand our gaming operations in Canada, Colorado, Illinois, Louisiana, Mississippi, New Jersey, Pennsylvania, West Virginia or to new areas, we will have to meet suitability requirements and obtain additional licenses, registrations, permits and approvals from gaming authorities in these jurisdictions. The approval process can be time-consuming and costly and we cannot be sure that we will be successful.

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

Potential Changes in Regulatory Environment. From time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations in the jurisdictions in which we operate. Any expansion of gaming or restriction on or prohibition of our gaming operations could have a material adverse effect on our operating results.

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

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

We depend on our key personnel.

We are highly dependent on the services of Peter M. Carlino, our Chairman and Chief Executive Officer, and other members of our senior management team. We have entered into employment agreements with Mr. Carlino and certain other officers. However, the loss of the services of any of these individuals could have a material adverse effect on our business, financial condition and results of operations.

Inclement weather and other conditions could seriously disrupt our operations.

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions. Our dockside facilities in Mississippi, Louisiana and Illinois are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, mechanical failure,

extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. Reduced patronage and the loss of a dockside casino or riverboat from service for any period of time due to severe weather could adversely affect our business, financial condition and results of operations.

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

The Federal Horseracing Act, the West Virginia Racing Act and the Pennsylvania Racing Act require that, in order to simulcast races, we have written agreements with the horse owners and trainers at our West Virginia and Pennsylvania race tracks. In addition, in order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of the horse breeders. On March 23, 1999, we signed a new agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course with an initial term that expires on January 1, 2004. Our agreement with the Pennsylvania Harness Horsemen was entered into in November 1999 and ended on January 15, 2003. We have signed a new agreement that ends on January 15, 2004. At the Charles Town Entertainment Complex, we have an agreement with the Charles Town Horsemen that expired on December 31, 2002 but has been extended until September 30, 2003. Our agreement with the pari-mutuel clerks at Charles Town expires on December 31, 2004.

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

An Event of Default may occur under the indentures governing the Hollywood Shreveport notes.

On March 14, 2003, Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Shreveport notes, that they have 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Shreveport notes as required under the indentures governing the notes or an "Event of Default" will have occurred. Under the terms of the indentures governing the Hollywood Shreveport notes, the issuers of the notes were

required to make an offer to purchase the Hollywood Shreveport notes at 101% of the principal amount thereof within ten days of the March 3, 2003 consummation of the merger of our wholly-owned subsidiary with and into Hollywood Casino Corporation. Hollywood Casino Shreveport determined that it does not have the liquidity to repurchase the Hollywood Shreveport notes at 101% of their principal amount and, accordingly, could not make an offer to purchase the Hollywood Shreveport notes as required under the indentures. The Hollywood Shreveport notes are nonrecourse to us and our subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc., which we refer to as the Shreveport entities).

We can provide no assurance that an "Event of Default" will not occur and that the holders of the Hollywood Shreveport notes will not pursue all rights and remedies that they may have under the indentures as a result. Further, any action on the part of the noteholders may require the Shreveport entities to seek the protection of the bankruptcy laws or other similar remedies.

Available Information

For more information about us, visit our web site at www.pngaming.com. Our electronic filings with the Securities and Exchange Commission (including all Forms 10-K, 10-Q, and 8-K, and any amendments to these reports) are available free of charge through our web site within two days after we electronically file with or furnish them to the Securities and Exchange Commission.

ITEM 2. PROPERTIES

The following describes our principal real estate properties:

Charles Town Entertainment Complex. We own a 250-acre parcel in Charles Town, WV, a portion of which contains the Charles Town Entertainment Complex. The Charles Town Entertainment Complex consists of a 83,600 square foot gaming area. The property also includes a 3/4-mile thoroughbred racetrack and an enclosed grandstand and clubhouse. We have a right of first refusal for an additional 250 acres that are adjacent to the facility.

Casino Rouge. We own five acres of a 23-acre site on the east bank of the Mississippi River in the East Baton Rouge Downtown Development District. The remaining 18 acres of the site are currently leased. The property site serves as the dockside embarkation for the Casino Rouge and features a two-story embarkation building with a variety of entertainment amenities. The Casino Rouge is a four-story riverboat casino with 28,000 square feet of gaming area, which we own.

Casino Magic—Bay St. Louis. We own approximately 591 acres in the city of Bay St. Louis, MS, including the 17-acre marina where our barge with 39,500 square feet of gaming space is moored. The property includes an 18-hole golf course, two hotels, and other land-based facilities, all of which we own.

Boomtown Biloxi. We lease substantially all of the 19 acres on which Boomtown Biloxi is located under a 99-year lease that began in 1994. We also lease approximately 5.1 acres of submerged tidelands at the casino site from the State of Mississippi under a ten-year lease with a five-year option to renew. The property includes a casino with 33,600 square feet of gaming space as well as family entertainment center. We own the barge on which the casino is located and all of the land-based facilities.

Bullwhackers. Our Bullwhackers Casino, the adjoining Bullpen Sports Casino and the Silver Hawk Saloon and Casino are located on an approximately four acre site. The casinos on the property have 20,700 square feet of gaming space.

Casino Rama. We do not own any of the land located at or near the casino or Casino Rama's facilities and equipment. The Ontario Lottery and Gaming Corporation has a long-term ground lease

with an affiliate of the Mnjikaning First Nation, for the land on which Casino Rama is situated. Under the Development and Operating Agreement, CHC Casinos has been granted a license coupled with an interest in land pursuant to which it, as the operator, has been granted full access to Casino Rama during the term of the Development and Operating Agreement to perform its services under the Agreement. A casino with 75,000 square feet of gaming space as well as a hotel are located on the site. The Casino Rama facilities are located on approximately 57 acres.

Penn National Race Course. We own approximately 225 acres in Grantville, PA where the Penn National Race Course is located. The property includes a one mile all-weather thoroughbred racetrack, a 7/8-mile turf track, a grandstand and a clubhouse. The property also includes approximately 400 acres surrounding the Penn National Race Course that are available for future expansion or development.

Pocono Downs. We own approximately 400 acres in Plains Township, outside of Wilkes-Barre, PA where Pocono Downs is located. The property includes a 5/8-mile all weather, lighted harness track, a grandstand and a clubhouse. A two-story building that houses the Pocono Downs office is also located on the property.

Freehold Raceway. Through our joint venture, we own a 51-acre site in Freehold in Western Monmouth County, NJ where Freehold Raceway in located. The property features a half-mile oval harness track and a 150,000 square foot grandstand.

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

Our OTW Locations

Location	Size (Sq. Ft.)	Owned/Leased	Date Opened
Erie, PA	22,500	Owned	May, 1991
Reading, PA	22,500	Leased	May, 1992
Allentown, PA	28,500	Owned	July, 1993
Chambersburg, PA	12,500	Leased	April, 1994
York, PA	25,000	Leased	March, 1995
Lancaster, PA	24,000	Leased	July, 1996
Williamsport, PA	14,000	Owned	February, 1997
Carbondale, PA	13,000	Owned	March, 1998
Hazleton, PA	13,000	Leased	March, 1998
Johnstown, PA	14,220	Leased	September, 1998
East Stroudsburg, PA	12,000	Leased	July, 2000

Properties Acquired in Recent Acquisition

On March 3, 2003, we acquired Hollywood Casino Corporation. As a result of this acquisition, we entered three new markets, Aurora, IL, Tunica, MS and Shreveport, LA. We have only recently begun to integrate Hollywood Casino and its properties into our operations and are still developing a first-hand understanding of its properties and have only information disclosed in the Hollywood Casino public filings and in connection with the acquisition.

Aurora. As of March 3, 2003, in Aurora, IL, we own a 117,000 square foot dockside barge structure and land based pavilion, with 53,000 square feet of gaming space. The property also includes two parking garages under capital lease agreements.

Tunica. As of March 3, 2003, we lease approximately 70 acres of land in Tunica, MS, which contains a single-level casino with 54,000 square feet of gaming space and other land-based facilities, including a hotel.

Shreveport. As of March 3, 2003, we lease approximately nine acres of land in Shreveport, IL, which contains a dockside casino with 59,000 square feet of gaming space along with a hotel and land-based pavilion that includes various entertainment amenities.

Other. We lease 11,045 square feet of office space in two office buildings in Wyomissing, Pennsylvania for our executive offices. The office buildings are owned by an affiliate of Peter M. Carlino, our Chairman and Chief Executive Officer. Prior to March 6, 2003, we also leased an aircraft from a company owned by one of our directors. We believe the lease terms for both the executive office and aircraft to be no less favorable than such lease terms that could have been obtained from unaffiliated third parties.

ITEM 3. LEGAL PROCEEDINGS

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

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

In August 2002, Capitol Lake Properties, Inc., the lessor of the property on which Casino Rouge conducts a significant portion of its dockside operations, filed a lawsuit against us in the 19th Judicial District Court for the Parish of East Baton Rouge, LA seeking a declaratory judgment that the plaintiff is entitled to terminate the lease and/or void our option to renew the lease due to certain alleged defaults by us or our predecessors-in-interest. The current term of our lease expires in January 2004. Discovery has not yet commenced and no trial date has been set.

In October 2002, in response to our plans to relocate the river barge underlying the Boomtown Casino to an adjacent property, Rafael Skrmetta, the lessor of the property on which the Boomtown Casino conducts a portion of its dockside operations, filed a lawsuit against us in the U.S. District Court for the Southern District of Mississippi seeking a declaratory judgment that (i) we must use the leased premises for a gaming use or, in the alternative, (ii) after the move we will remain obligated to make the revenue based rent payments to plaintiff set forth in the lease. The plaintiff filed this suit immediately after the Mississippi Gaming Commission approved our request to relocate the barge. Since such approval, the Mississippi Department of Marine Resources and the U.S. Army Corps of Engineers have also approved our plan to relocate the barge. The case is in the discovery phase at this time. A trial date has not yet been set.

Litigation of Hollywood Casino Corporation

On March 3, 2003, we acquired Hollywood Casino Corporation. Since this acquisition was consummated through the merger of one of our wholly-owned subsidiaries into Hollywood Casino Corporation, our consolidated financial condition and results of operations may now be affected by the final outcome of any pending legal or administrative proceedings against Hollywood Casino Corporation or its subsidiaries. At present, we do not believe that the final outcome of these matters will have a material adverse effect on our consolidated financial position or results of operations. However, we have only recently begun to integrate Hollywood Casino and its properties into our operations and are still developing a first-hand understanding of its operations.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Range of Market Price

Our common stock is quoted on The Nasdaq National Market under the symbol "PENN." The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on The Nasdaq National Market, adjusted to reflect our June 25, 2002 stock split.

	High	Low
2001		
First Quarter	$ 7.56	$ 4.63
Second Quarter	13.10	5.44
Third Quarter	13.99	6.48
Fourth Quarter	15.33	8.01
2002		
First Quarter	$ 19.05	$ 12.43
Second Quarter	20.89	14.81
Third Quarter	20.85	11.00
Fourth Quarter	22.25	14.61

The closing sale price per share of our common stock on The Nasdaq National Market on March 21, 2003, was $19.25. As of March 21, 2003, there were approximately 563 holders of record of our common stock.

Dividend Policy

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial and operating data for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 are derived from our consolidated financial statements that have been audited by BDO Seidman, LLP, independent certified public accountants. The selected consolidated financial and operating data should be read in conjunction with our consolidated financial statements

and Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

	Year Ended December 31,				
	1998	1999	2000(1)	2001(2)	2002(3)
	(in thousands, except per share data)				
Income statement data:(4)					
Revenue:					
Gaming	$ 37,665	$ 55,415	$ 159,589	$ 364,139	$ 494,271
Racing	106,850	102,827	113,230	112,087	115,167
Management service fee	—	—	—	8,297	11,479
Other	9,550	12,118	27,788	57,193	64,342
Gross revenues	154,065	170,360	300,607	541,716	685,259
Less: Promotional allowances	—	—	(8,806)	(24,579)	(27,713)
Net Revenues	154,065	170,360	291,801	517,137	657,546
Operating expenses:					
Gaming	26,544	34,951	94,087	206,633	278,807
Racing	70,303	68,808	77,063	78,110	84,002
General and administrative	23,932	30,030	44,677	92,003	113,964
Other	8,080	11,173	18,776	31,407	42,194
Depreciation and amortization	5,318	7,733	12,039	32,093	36,456
Total operating expenses	134,177	152,695	246,642	440,246	555,423
Income from operations	19,888	17,665	45,159	76,891	102,123
Other income (expenses), net	(7,866)	(7,155)	(16,447)	(40,525)	(44,405)
Income before income taxes and extraordinary item	12,022	10,510	28,712	36,366	57,718
Taxes on income	4,519	3,777	10,137	12,608	21,704
Income before extraordinary item	7,503	6,733	18,575	23,758	36,014
Extraordinary item—loss on early extinguishment of debt, net of income taxes of $4,615 in 2000 and $2,773 in 2002	—	—	(6,583)	—	(5,151)
Net income	$ 7,503	$ 6,733	$ 11,992	$ 23,758	$ 30,863
Per share data:(5)					
Basic income per share before extraordinary item	$ 0.25	$ 0.23	$ 0.62	$ 0.78	$ 0.95
Basic net income per share	$ 0.25	$ 0.23	$ 0.40	$ 0.78	$ 0.82
Diluted income per share before extraordinary item	$ 0.24	$ 0.22	$ 0.60	$ 0.75	$ 0.92
Diluted net income per share	$ 0.24	$ 0.22	$ 0.39	$ 0.75	$ 0.79
Weighted shares outstanding—basic	30,030	29,674	29,936	30,653	37,775
Weighted shares outstanding—diluted	30,748	30,392	30,886	31,837	39,094
Other data:					
Net cash provided by operating activities	$ 11,866	$ 22,461	$ 41,813	$ 85,833	$ 100,854
Net cash used in investing activities	(22,333)	(29,756)	(229,770)	(216,335)	(102,433)
Net cash provided by (used in) financing activities	(4,561)	9,903	201,810	145,593	18,312
Depreciation and amortization	5,318	7,733	12,039	32,093	36,456
Interest expense	8,804	9,613	20,644	46,096	42,104
EBITDA(6)	25,206	26,496	59,481	112,336	141,359
Capital expenditures	22,333	13,243	27,295	41,511	88,902
Balance sheet data:					
Cash and cash equivalents	$ 6,826	$ 9,434	$ 23,287	$ 38,378	$ 55,121
Total assets	160,798	189,712	439,900	679,377	765,480
Total debt	78,256	91,213	309,299	458,909	375,018
Shareholders' equity	59,036	66,272	79,221	103,265	247,000

(1) Reflects operations included since the August 8, 2000 acquisition of Casino Magic—Bay St. Louis casino and Boomtown Biloxi casino.

(2) Reflects operations included since the April 27, 2001 acquisition of all of the gaming assets of CRC Holdings, Inc. and the minority interest in Louisiana Casino Cruises, Inc.

(3) Reflects operations included since the April 25, 2002 acquisition of Bullwhackers.

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

(5) Per share data has been retroactively restated to reflect the increased number of common stock shares outstanding as a result of our June 25, 2002 stock split.

(6) EBITDA or earnings before interest, taxes, depreciation and amortization, loss on change in fair value of interest rate swaps and gain/loss on sale of assets and inclusive of earnings from joint venture, is not a measure of performance or liquidity calculated in accordance with generally accepted accounting principles. EBITDA information is presented solely as a supplemental disclosure because we believe that it is a widely used measure of operating performance in the gaming industry. EBITDA should not be construed as an alternative to operating income, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure of performance determined in accordance with generally accepted accounting principles. We have significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in EBITDA. It should also be noted that other gaming companies that report EBITDA information may calculate EBITDA in a different manner than us.

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

Overview

We derive substantially all of our revenues from gaming and pari-mutuel operations. Since September 1997, our gaming revenues have accounted for an increasingly larger share of our total revenues. Our acquisition of Hollywood Casino Corporation in the first quarter of 2003 will continue to impact our revenue mix between gaming and pari-mutuel revenues on a prospective basis. Our pari-mutuel revenues have been derived from wagering on our live races, wagering on import simulcasts at our racetracks and OTWs and through telephone account wagering, and fees from wagering on export simulcasting our races at out-of-state locations. Our other revenues have been derived from admissions, program sales, food and beverage sales, concessions and certain other ancillary activities. For the years ended December 31, 2000, 2001 and 2002, gaming revenue represented approximately 54.0%, 81.3% and 84.7% of our total revenue, respectively.

Acquisitions

Casino Magic—Bay St. Louis and Boomtown Biloxi

On August 8, 2000, we completed our acquisition of the Casino Magic—Bay St. Louis casino and the Boomtown Biloxi casino from Pinnacle Entertainment, Inc. for approximately $201.3 million in cash, including acquisition costs of $6.3 million. The purchase price was funded with a portion of the proceeds from a $350 million senior secured credit facility. As a result of the refinancing and repayment of existing debt, we recorded an $11.2 million pre-tax extraordinary charge, which was included in our results of operations for the year ended December 31, 2000. The results of operations for these properties from the period August 8, 2000 to December 31, 2002 are included in the results of operations discussed below.

Casino Rouge and Casino Rama

On April 27, 2001, we completed our acquisition of Casino Rouge in Baton Rouge, Louisiana and the management contract for Casino Rama in Orillia, Ontario, Canada for approximately $182 million, including the repayment of existing debt of CRC and its subsidiaries. The purchase price of the acquisition was funded by the proceeds of our offering of $11^1/_8$% senior subordinated notes due 2008, which was completed in March 2001. The results of operations for these properties for the period April 27, 2001 to December 31, 2002 are included in the results of operations discussed below.

Bullwhackers Casino

On April 25, 2002, we completed our acquisition of Bullwhackers Casino in Black Hawk, Colorado for approximately $7.1 million in cash, including acquisition costs of $.6 million. The results of operations of this property from the period April 25, 2002 to December 31, 2002 are included in the results of operations discussed below.

Acquisition Since 2002

Hollywood Casino Corporation

On March 3, 2003, we completed our acquisition of Hollywood Casino Corporation for a total purchase price of approximately $774.3 million, including related acquisition costs and the repayment of debt of Hollywood Casino Corporation. The acquisition was funded with a portion of the proceeds of our $800 million senior secured credit facility and cash available from Hollywood Casino Corporation. The results of operations for Hollywood Casino will be included in our consolidated financial statements from such date. Hollywood Casino owns and operates distinctively themed casino entertainment facilities in major gaming markets in Aurora, IL, Tunica, MS and Shreveport, LA. As a result of the acquisition, we believe we will be the seventh largest gaming company in the U.S. based on gaming revenues. The acquisition expands our customer base and increases geographic diversity, allowing us to be less dependent on our Charles Town property for financial growth. Hollywood Casino also brings to us a solid brand with widespread recognition that we can apply, as appropriate, to our other assets to drive marketing programs and efficiencies. Under the terms of the agreement, one of our wholly-owned subsidiaries merged with and into Hollywood Casino, and Hollywood Casino stockholders received cash in the amount of $12.75 per share at closing, or $328.1 million, and holders of Hollywood Casino stock options received $19.0 million representing the aggregate difference between $12.75 per share and their option exercise prices.

Critical Accounting Estimates

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements. The critical accounting estimates that we believe are the most critical to aid in fully understanding our reported financial results include the following:

Revenue recognition

In accordance with common industry practice, our casino revenues are the net of gaming wins less losses. Racing revenues include our share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, our share of wagering from import and export simulcasting and our share of wagering from our OTWs. The vast majority of wagers for both businesses are in the form of cash and we do not grant credit to our customers to a significant extent. Our receivables consist principally of amounts due from simulcasting of our races to other racetracks and their OTWs. We also have receivables due under our management contract with Casino Rama for management fees and for expenses, primarily salaries and wages, payable in accordance with our contract. Historically, we have not experienced any significant bad debts from uncollected receivables.

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

As a result of our acquisitions of the Mississippi properties in 2000 and CRC in 2001, intangible assets and goodwill increased significantly. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation and (ii) the ongoing evaluation for impairment.

In connection with these acquisitions, a valuation was completed to determine the allocation of the purchase prices. Upon completion of the valuation process, approximately $146.9 million was allocated to goodwill and $25.7 million to the management service contract. The management service contract is amortizable under Financial Accounting Standards Board ("FASB") Statement No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). Because our goodwill is no longer amortized, there may be more volatility in reported income than under previous accounting standards because impairment losses, if any, are likely to occur irregularly in varying amounts. The purchase price allocation process requires management estimates and judgments as to the remaining useful lives of the assets purchased and present value computations for the management service contract. If growth rates, operating margins, or useful lives, among other assumptions, differ from the estimates and judgments used in the purchase price allocation, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill or require an acceleration in amortization expense of the management service contract.

At December 31, 2002, we had a net property and equipment balance of $450.9 million, representing 58.9% of total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as our current operating strategy. Future events such as property expansions, new competition and new regulations, could result in a change in the manner in which we are using certain assets requiring changes in the estimated useful lives of such assets. In assessing the recoverability of the carrying value of property and equipment, we must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record an impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income.

Accounting for income taxes

We account for income taxes in accordance with FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS 109") which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of all of the deferred tax asset will not be realized.

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

In addition, we operate within multiple taxing jurisdictions and are subject to audit in each jurisdiction. These audits can involve complex issues that may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all periods.

Litigation, Claims and Assessments

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

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" ("Interpretation No. 45"). This Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

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

to January 31, 2003, the provisions of Interpretation No. 46 are applicable no later than July 1, 2003. We do not expect this Interpretation to have an effect on our consolidated financial statements.

In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS 143 requires entities to record the fair value of the liability for an asset retirement obligation in the period in which it is incurred and is effective for our 2003 fiscal year. The adoption of SFAS 143 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This new pronouncement also amends Accounting Research Bulletin (ARB) No. 51 "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired and also broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Adoption of SFAS 144 on January 1, 2002, did not have any impact on our financial position, cash flows or results of operations for the year ended December 31, 2002.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). The rescission of FASB No. 4, "Reporting Gains and Losses from Extinguishment of Debt" applies to us. FASB No. 4 required that gains and losses from extinguishment of debt that were included in the determination of net income be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. SFAS 145 is effective for our fiscal year beginning January 1, 2003. We had losses on early extinguishment of debt, net of income taxes of $6.6 million and $5.2 million for the years ended

December 31, 2000 and 2002, respectively. These losses reflect the write-off of deferred finance fees and pre-payment fees associated with bank debt that was repaid with the proceeds of new financing. Effective January 1, 2003, pursuant to SFAS 145, the losses on early extinguishment of debt will be included in "Other expenses" in our consolidated Statements of Income.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), which addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" which previously governed the accounting treatment for restructuring activities. SFAS 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144. Those costs include, but are not limited to, the following: (1) termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or individual deferred-compensation contract, (2) costs to terminate a contract that is not a capital lease, and (3) costs to consolidate facilities or relocate employees. SFAS 146 does not apply to costs associated with the retirement of long-lived assets covered by SFAS 143. SFAS 146 will be applied prospectively and is effective for exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", an amendment of FASB Statement No. 123 ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends Accounting Principles Board ("APB") Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002. We will continue to account for stock-based employee compensation using the intrinsic value method of APB Opinion No. 25, "Accounting for Stock Issued to Employees," but have adopted the enhanced disclosure requirements of SFAS 148.

Results of Operations

The results of operations by property for the years ended December 31, 2000, 2001, and 2002 are summarized below (in thousands):

	Revenues(1)			EBITDA(2)		
	2000	2001	2002	2000	2001	2002
Charles Town Entertainment Complex	$ 135,290	$ 193,624	$ 254,431	$ 35,469	$ 51,252	$ 67,242
Casino Magic-Bay St. Louis(3)	31,571	86,146	95,756	6,092	18,658	18,980
Boomtown Biloxi(3)	24,634	69,761	73,225	3,460	13,546	14,450
Casino Rouge(4)	—	61,980	105,034	—	15,444	27,685
Casino Rama Management Contract(4)	—	8,297	11,479	—	7,632	10,608
Bullwhackers(5)	—	—	16,843	—	—	1,427
Pennsylvania Racing Operations	101,937	98,713	102,516	18,171	14,709	13,148
New Jersey Joint Venture	—	—	—	2,322	2,531	1,965
Corporate eliminations(6)	(1,631)	(1,775)	(1,779)	—	—	—
Corporate overhead	—	391	41	(6,033)	(10,436)	(14,146)
Non-recurring charges and expenses	—	—	—	—	(1,000)	—

Total	**$ 291,801**	**$ 517,137**	**$ 657,546**	**$ 59,481**	**$ 112,336**	**$ 141,359**

(1) Net revenues are net of promotional allowances.

(2) EBITDA or earnings before interest, taxes, depreciation and amortization, loss on change in fair value of interest rate swaps and gain/loss on sale of assets and inclusive of earnings from joint venture, is not a measure of performance or liquidity calculated in accordance with generally accepted accounting principles. EBITDA information is presented solely as a supplemental disclosure because we believe that it is a widely used measure of operating performance in the gaming industry. EBITDA should not be construed as an alternative to operating income, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure of performance determined in accordance with generally accepted accounting principles. We have significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in EBITDA. It should also be noted that other gaming companies that report EBITDA information may calculate EBITDA in a different manner than us.

(3) Reflects results since the August 8, 2000 acquisition.

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

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

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

Year Ended December 31, 2002 compared to Year Ended December 31, 2001

Revenues for the year ended December 31, 2002 increased by $140.4 million, or 27.2%, to $657.5 million in 2002 from $517.1 million in 2001. Revenues increased at the Charles Town Entertainment Complex by $60.8 million, or 31.4%, to $254.4 million in 2002 from $193.6 million in 2001 as a result of the addition of gaming space, the building of a parking facility, an increase in the number of gaming machines in 2002 and a higher percentage in 2002 of coin-out machines compared to video voucher machines. The CRC properties, Casino Rouge and Casino Rama, which were acquired

on April 27, 2001, increased revenues by $46.2 million, or 65.7%, to $116.5 million in 2002 from $70.3 million in 2001. The increase is primarily due to the inclusion of these properties for the full fiscal year in 2002. Revenues increased at our two Mississippi properties by $13.1 million, or 8.4%, to $169.0 million in 2002 from $155.9 million in 2001, as a result of the new hotel and increased marketing efforts. Our acquisition of Bullwhackers Casinos on April 25, 2002 added $16.8 million in revenues to our total for 2002. Revenues from the Pennsylvania racetracks and OTWs increased by approximately $3.8 million, or 3.9%, to $102.5 million in 2002 from $98.7 million in 2001 primarily due to an increase in wagering through our phone bet and internet call center.

Operating expenses for the year ended December 31, 2002 increased by $115.2 million, or 26.2%, to $555.4 million in 2002 from $440.2 million in 2001. Operating expenses increased at the Charles Town Entertainment Complex by $44.7 million, or 29.3%, to $197.5 million in 2002 from $152.8 million in 2001 primarily due to increased gaming taxes paid to the State of West Virginia and additional cost of operating the new gaming areas. The CRC properties, Casino Rouge and Casino Rama, increased expenses by $33.3 million, or 61.3%, to $87.6 million in 2002 from $54.3 million in 2001. Operating expenses increased at our two Mississippi properties by $13.0 million, or 9.5%, to $149.4 million in 2002 from $136.4 million in 2001, primarily due to the opening and operation of the new Bay Tower Hotel at Casino Magic—Bay St. Louis, as well as, higher gaming revenues creating higher gaming taxes and increased marketing expenses. Bullwhackers Casinos added $15.9 million to expenses in 2002. Operating expenses at the Pennsylvania racetracks and OTWs increased by $4.7 million, or 5.3%, to $93.0 million in 2002 from $88.3 million in 2001, primarily due to direct racing-related expenses associated with the internet segment of our business. Corporate overhead increased by $3.6 million, or 34.3%, to $14.1 million in 2002 from $10.5 million in 2001 primarily due to additional corporate staff and office space needed to support the recent acquisitions, including the recent Hollywood acquisition.

EBITDA increased by $29.1 million, or 25.9%, to $141.4 million in 2002 from $112.3 million in 2001. EBITDA increased by $34.8 million at our gaming operations due to facility expansion, the Bullwhackers acquisition, effective marketing and controlling costs. The Pennsylvania racetracks and OTWs and New Jersey joint venture EBITDA accounted for a decrease of $2.1 million over last year. Corporate overhead expenses increased by $3.6 million, or 34.3%, to $14.1 million in 2002 from $10.5 million in 2001.

Net interest expense decreased by $2.5 million in 2002 as a result of restructuring our debt. By using the proceeds of our February 2002 equity offering and the $175 million senior subordinated note offering, we were able to reduce our outstanding debt by approximately $84 million.

During the year ended 2002, we incurred a $5.8 million pre-tax charge to earnings as a result of the change in fair value of our interest rate swaps. The financial institutions that provided our $350 million senior credit facility required the interest rate swap agreements for the variable rate term loans. The term loans were repaid in March 2002 from the proceeds of our equity and senior subordinated note offering but the related interest rate swap agreements were not canceled. Generally accepted accounting principles require the change in fair value of the swaps be recognized in our financial statements as if they were settled at the end of each reporting period until the agreements expire.

As part of our debt restructuring, we charged to operations deferred financing costs of $5.9 million related to the prepayment of the variable rate term loans provided by our $350 million senior credit facility. In addition, we paid a prepayment penalty of $2.0 million. The total, $7.9 million, has been reflected as an extraordinary item, net of income tax benefit of $2.8 million, in our consolidated statements of income for 2002.

Charles Town Entertainment Complex

Total revenues for the year ended December 31, 2002 increased by $60.8 million, or 31.4%, to $254.4 million in 2002 from $193.6 million in 2001. Gaming revenues increased by $59.1 million, or 36.2%, to $222.1 million in 2002 from $163.0 million in 2001, primarily due to the addition of 30,000 square feet of gaming space, which was completed in September 2002. As a result of the expansion, we added 715 reel-spinning, coin-out gaming machines, bringing the total average number of machines to 2,312 for the year 2002, compared to 2,000 gaming machines for the year 2001. These additional gaming machines and the continued shift in machine mix to a higher percentage of reel-spinning, coin-out machines, resulted in an increase in average win per machine of $264 for the year ended December 31, 2002 compared to $224 for the year ended December 31, 2001. Racing revenues increased by $.3 million, or 1.5%, to $20.9 million in 2002 from $20.6 million in 2001, due to an increase in the number of jurisdictions carrying our signal and an increase in live racing days. Export racing revenue increased by $1.3 million, or 37.4%, as a result of running an additional 21 race days. Revenue from live and import simulcast races decreased by $1.0 million. The decrease in import racing is consistent with industry trends, while live racing was adversely affected by weather conditions in December 2002. Other revenue increased by $2 million, or 13.8%, to $16.5 million in 2002 from $14.5 million in 2001 primarily as a result of higher food and beverage revenues from opening of the new food court in July of 2002, the elimination of the buffets, a reduction in bus passenger promotions, and revenue producing contracts for other ancillary services.

Total operating expenses for the year ended December 31, 2002 increased $44.7 million, or 29.3%, to $197.5 million in 2002 from $152.8 million in 2001. The increase was primarily due to an increase in gaming and racing related taxes of $37.3 million attributable to increased gaming and racing revenues and a change in gaming legislation that resulted in higher gaming taxes and a higher net administrative fee paid to the State of West Virginia. Salaries and wages increased by $4.6 million primarily due to additional staffing associated with increased gaming units, gaming square footage and expanded concession and dining facilities. Total marketing expenses decreased $1.2 million in 2002 as a result of the elimination of giveaway programs and live entertainment costs. The marketing focus in 2002 was on media advertising and promotional campaigns to increase awareness of the facility. Other expenses increased due to an increase in property insurance premiums, real estate taxes and operating costs associated with the expanded capacity of the facility. Depreciation and amortization increased by $1.2 million as a result of the $50 million expansion of the facility. EBITDA for the year ended December 31, 2002 increased by $15.9 million, or 31.0%, to $67.2 million in 2002 from $51.3 million in 2001.

Casino Rouge

The acquisition of Casino Rouge in Baton Rouge, Louisiana was completed on April 27, 2001. Results for the year ended December 31, 2002 will compare a twelve month period in 2002 to an eight month period in 2001.

Casino Rouge had total revenues for the twelve months ended December 31, 2002 of $105.0 million and $62.0 million for the eight-month period ended December 31, 2001. Based upon information published by the State of Louisiana Gaming Control Board, at December 31, 2002 our market share of gaming revenues was 57.6% compared to a market share of 53.6% at December 31, 2001. Our market share increased as a result of changes made to improve our slot product and a marketing program that is focused on increasing market share in patron counts and revenues. As a result, enrollment in our player's club has increased as well as the number of visits being tracked. During the summer, we had a strong increase in market share due to our marketing program and construction and renovations at our main competitor's operation.

Operating expenses at Casino Rouge for the twelve months ended December 31, 2002 were $83.4 million and $51.3 million for the eight month period ended December 31, 2001. Gaming taxes as a percent of gaming expenses increased as a result of the increase in the Louisiana gaming tax rate and admissions tax rate that allows our boat to remain dockside. Since the hiring of a new general manager in March 2002, our management team has been reviewing the operations and staffing to develop a more efficient operation. These efforts have resulted in an increase in our operating margins to 26.3% on EBITDA of $27.7 million in 2002 compared to an operating margin of 24.8% on EBITDA of $15.4 million in 2001.

Casino Magic—Bay St. Louis

For the year ended December 31, 2002, total revenues at Casino Magic Bay—St. Louis increased by $9.7 million, or 11.3%, to $95.8 million from $86.1 million in 2001. The opening of the new 14-story, 291-room Bay Tower hotel was the primary factor for increases in gaming and hotel revenue. Gaming revenues increased by $6.9 million, or 8.9%, to $84.3 million from $77.4 million in 2001. We were able to achieve these results by implementing a marketing program that emphasized group sales for the hotel and convention center, headliner entertainment and aggressive play-based promotions. As a result, our operations had an increase of 9.8% in slot play, a 3.3% increase in table game play and a 31.1% increase in hotel, food and beverage, golf and other revenue compared to 2001.

Operating expenses for Casino Magic—Bay St. Louis increased by $10.3 million, or 13.7%, to $85.4 million in 2002 from $75.1 million in 2001. The primary factor contributing to the increase in expenses was the opening and operation of the new Bay Tower hotel. We incurred $1.2 million in pre-opening expenses relating to the new hotel and convention center that opened the last weekend in May 2002. Gaming tax expenses increased by $1.0 million due to increased slot and table play. Marketing expenses increased by $1.1 million to promote our new facility and amenities. Operating expenses, including payroll, increased by $2.2 million due to the opening of the new hotel and restaurant venues and customer service requirements for increased slot and table play. Administrative expenses increased by $5.3 million, primarily due to higher property and general liability insurance premiums, additional human resources expenses, including the cost of an on-site medical clinic and increased facilities expenses, such as maintenance and utilities costs. EBITDA increased by $.3 million, or 1.6%, to $19.0 million in 2002 from $18.7 million in 2001. Operating margins decreased to 19.8% in 2002 from 21.7% in 2001 due to pre-opening and operating costs associated with the Bay Tower hotel and convention center.

Boomtown Biloxi

At Boomtown Biloxi total revenues increased by $3.4 million, or 4.9%, to $73.2 million in 2002 from $69.8 million in 2001. Gaming revenues increased by $3.5 million, or 5.7%, primarily as a result of an increase in slot machine play. The increase in slot play was driven by our refined marketing strategy which focuses on direct mail marketing to known customers and new mass marketing campaigns highlighting our being voted best in five categories by the readers of a local Gulf Coast newspaper.

Operating expenses for Boomtown Biloxi increased by $2.7 million, or 4.4%, to $64.0 million in 2002 from $61.3 million in 2001. Gaming taxes increased by $.5 million as a result of the increased gaming revenue. Payroll and benefits expenses increased by $.7 million primarily due to increases in health insurance

costs and other benefit programs. Food and beverage expenses decreased by $.6 million due to lower costs of goods sold from our joint purchasing program with Casino Magic—Bay St. Louis. Administrative expenses increased by $1.1 million due to increases in our property and general liability insurance programs, our land lease, which is based on a percentage of gaming revenues, and other general operating expenses. EBITDA increased by $1.0 million, or 7.4%, to $14.5 million in 2002 from $13.5 million in 2001. Operating margins increased to 19.8% in 2002 compared to 19.3% in 2001.

Bullwhackers

The acquisition of Bullwhackers was completed on April 25, 2002. For the period April 25 to December 31, 2002, Bullwhackers had revenues of $16.8 million consisting mainly of gaming revenue. Operating expenses totaled $15.4 million; EBITDA was $1.4 million and operating margins were 8.3% for the period.

Since the purchase we have implemented a new player tracking system to assist with our marketing programs, evaluated employee performance and staffing levels and reviewed operations for cost effectiveness. Our new management team has implemented a number of new initiatives to improve operating margins for 2003. In December we started renovations to the interior and exterior of our casinos at a cost of $4.0 million to improve the quality of the customer experience and increase our market share. Operating results have been adversely affected by a major road construction project on the main highway leading into Black Hawk. This project was started in early September 2002 and should be completed by the end of the second quarter of 2003.

Casino Rama

The acquisition of a management contract to operate Casino Rama in Orillia, Canada, was completed on April 27, 2001. Results for the year ended December 31, 2002 will compare a twelve month period in 2002 to an eight month period in 2001.

Management service fees earned under the Casino Rama management contract for the twelve months ended December 31, 2002 were $11.5 compared to $8.3 million for eight months ended December 31, 2001. The opening of the new entertainment center in July 2001 and the new hotel and convention center in July 2002 have positively impacted the management service fees. The new facilities have helped to offset the negative impact of the opening of new competition, and the expansion of existing competition, in locations between Toronto and Casino Rama. EBITDA was $10.6 million in 2002 and $7.6 million in 2001.

Pennsylvania Racing

Revenues for Penn National Race Course, Pocono Downs and the eleven OTWs increased by $3.8 million, or 3.9%, to $102.5 million in 2002 from $98.7 million in 2001. Wagering through our call center accounted for most of the increase. We opened the call center last summer in Grantville, PA and focused on telephone account wagering growth through our Players' Choice® programs and on Internet wagering growth through joint ventures with eBetUSA and Playboy®. These programs have resulted in a significant growth in telephone account activity and internet wagering. Penn National Race Course wagering on live races and commissions earned on export simulcasts were adversely affected due to the cancellation of eleven race days during the year because of weather. We lost seven race days in the fourth quarter. Penn National Race Course and Pocono Downs continue to focus on increasing the average number of horses per race that will improve the quality of our race program. With a better race program, we anticipate increased wagering on our live program and export simulcasts. Other factors that contributed to increased revenues include a change in our marketing approach from a focus on increasing attendance to increasing the frequency of visits from our existing customers, customer service improvements, and a food and beverage menu change at our off-track wagering facilities.

Operating expenses increased by $4.7 million, or 5.3%, to $93.0 million in 2002 from $88.3 million in 2001. Direct racing related expenses, including, but not limited to, purses, simulcast fees and pari-mutuel taxes, accounted for $2.8 million of the increase. Increases in payroll, employee benefits, marketing and property and general liability insurance programs accounted for the balance of the expense increases. EBITDA decreased by $1.6 million, or 10.9%, to $13.1 million in 2002 from $14.7 million in 2001. Operating margins decreased to 12.8% in 2002 compared to 14.9% in 2001.

Corporate Overhead Expenses

Corporate overhead expenses increased by $3.6 million, or 34.3%, to $14.1 million in 2002 from $10.5 million in 2001. Salaries and wages, payroll taxes, and employee benefits increased by $3.0 million as a result of additional staff at the corporate office necessary to support recent acquisitions, severance payments and additional payroll expense due to the accelerated vesting of stock options. Legal expenses increased by approximately $.6 million due to an increase in litigation and regulatory compliance expenses. Travel expenses increased by approximately $.6 million due to the increase in travel required for the management of our properties.

New Jersey Joint Venture

We have an investment in Pennwood Racing, Inc., which operates Freehold Raceway in New Jersey and, until May 2001, operated Garden State Park in New Jersey. In May 2001, Garden State Park was sold and the joint venture ceased operating Garden State Park. Our 50% share of Pennwood's net income was $2.0 million in 2002, compared to $2.5 million in 2001, and was recorded as other income on the income statement. The decrease in the joint venture's net income in 2002 is a result of the lost revenue from wagering that took place at Garden State Park offset by the savings in operating expenses that were realized by closing the facility.

Year Ended December 31, 2001 compared to Year Ended December 31, 2000

The format of the presentation of the year ended December 21, 2001 compared to the year ended December 31, 2000 has changed from the presentation in our Annual Report on Form 10-K for the fiscal year ended 2001. The presentation has been changed to conform to the format of other information presented in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, the financial information reflects the reclassification of items of revenue and expense to conform to currently effective accounting pronouncements.

Revenues for the year ended December 31, 2001 increased by $225.3 million, or 77.2%, to $517.1 million in 2001 from $291.8 million in 2000. Revenues increased at the Charles Town Entertainment Complex by $58.3 million, or 43.1%, to $193.6 million in 2001 from $135.3 million in 2000 as a result of an increase in the number of gaming machines from 1,500 to 2,000 in 2001 and a higher percentage in 2001 of coin-out machines compared to video voucher machines. Revenues increased at our Mississippi properties by $99.7 million to $155.9 million in 2001 from $56.2 million in 2000 (which represented revenues from the August 8, 2000 acquisition date through December 31, 2000). The CRC properties, which were acquired on April 27, 2001, accounted for $70.3 million of the increase. Revenues from the Pennsylvania racetracks and OTWs decreased by approximately $3.2 million due to a Commonwealth of Pennsylvania racing subsidy of $1.6 million received in 2000 but not in 2001 and a decrease in wagering.

Operating expenses for the year ended December 31, 2001 increased by $193.6 million, or 78.5%, to $440.2 million in 2001 from $246.6 million in 2000. Operating expenses increased at the Charles Town Entertainment Complex by $48.7 million, or 46.8%, to $152.8 million in 2001 from $104.1 million in 2000 due in large part to additional gaming machines in 2001 and a higher percentage of more expensive coin-out machines compared to video voucher machines. Operating expenses increased at our Mississippi properties by $85.9 million to $136.4 million in 2001 from $50.5 million in 2000. The CRC properties also accounted for $53.7 million of the increase. Operating expenses at the Pennsylvania racetracks and OTWs increased by $.6 million. Corporate overhead increased by $4.5 million, or 75.0%, to $10.5 million in 2001 from $6.0 million in 2000 primarily due to additional corporate staff needed to support the recent acquisitions.

EBITDA increased by $52.8 million, or 88.7%, to $112.3 million in 2001 from $59.5 million in 2000. EBITDA at the Charles Town Entertainment Complex increased by $14.8 million, or 41.7%, to

$50.3 million in 2001 from $35.5 million in 2000. EBITDA increased at our Mississippi properties by $22.6 million to $32.2 million in 2001 from $9.6 million in 2000. The CRC properties accounted for $23.1 million of the increase. The Pennsylvania racetracks and OTWs and New Jersey joint venture EBITDA accounted for a decrease of $3.2 million over last year. Corporate overhead increased by $4.5 million, or 75.0%, to $10.5 million in 2001 from $6.0 million in 2000.

Net interest expense increased $24.3 million in 2001 due primarily to additional borrowings in August 2000 of approximately $200.0 million to finance the Mississippi acquisitions and $200.0 million in April 2001 to finance the CRC acquisition.

Charles Town Entertainment Complex

Total revenues for the year ended December 31, 2001 increased by $58.3 million, or 43.1%, to $193.6 million in 2001 from $135.3 million in 2000. Gaming revenues increased by $55.7 million, or 51.0%, to $165.0 million in 2001 from $109.3 million in 2000, primarily due to expansion of the gaming floor, which was completed in December 2000. As a result of the expansion, we added 500 reel-spinning, coin-out gaming machines, bringing the total average number of machines to approximately 2,000 for the year 2001, compared to approximately 1,500 gaming machines for the year 2000. These additional gaming machines and the continued shift in machine mix to a higher percentage of reel-spinning, coin-out machines, resulted in an increase in average win per machine of $224 for the year ended December 31, 2001 compared to $199 for the year ended December 31, 2000. Racing revenues increased by $1.8 million, or 8.9%, to $22.1 million in 2001 from $20.3 million in 2000. This increase was primarily due to 25 additional racing days and an increase in export wagering by $43.1 million, or 28.2%, to $196.2 million as a result of additional racing days and overall larger per day wagering averages. Other revenue increased by $.8 million, or 14.0%, to $6.5 million in 2001 from $5.7 million in 2000 primarily as a result of higher food and beverage revenues from opening of the Sundance Cafe™ in November 2000, and expansion of the concession areas, dining room and the buffet.

Total operating expenses for the year ended December 31, 2001 increased $48.7 million, or 46.8%, to $152.8 million in 2001 from $104.1 million in 2000. The increase was primarily due to an increase in gaming and racing related taxes of $32.5 million attributable to increased gaming and racing revenues and a change in gaming legislation that resulted in higher gaming taxes and a higher net administrative fee paid to the State of West Virginia. Salaries and wages increased by $5.2 million primarily due to additional staffing associated with increased gaming units, gaming square footage and expanded concession and dining facilities. Total marketing expenses increased $1.9 million in 2001 as a result of additional media advertising and promotional campaigns to increase awareness of the facility. Other expenses increased due to an increase in property insurance premiums and operating costs associated with the expanded capacity of the facility. Depreciation and amortization increased by $4.8 million as a result of higher capital expenditures in 2001. EBITDA for the year ended December 31, 2001 increased by $14.8 million, or 41.7%, to $50.3 million in 2001 from $35.5 million in 2000.

Casino Rouge

The acquisition of Casino Rouge in Baton Rouge, Louisiana, was completed on April 27, 2001. For the period from April 28, 2001 to December 31, 2001, Casino Rouge had revenues of $62.0 million consisting mainly of gaming revenues. Operating expenses for Casino Rouge totaled $51.3 million consisting of gaming ($29.4 million), other ($3.4 million), general and administrative ($13.8 million) and depreciation and amortization expense ($4.7 million). EBITDA for Casino Rouge totaled $15.4 million for the same period.

Casino Magic—Bay St. Louis

Operating results in 2000 for Casino Magic—Bay St Louis only include the period from August 8, 2000 through December 31, 2000. For the year ended December 31, 2001, Casino Magic—Bay St. Louis had revenues of $86.1 million consisting mainly of gaming revenue. Operating expenses for Casino Magic—Bay St. Louis totaled $75.1 million EBITDA for Casino Magic—Bay St. Louis totaled $18.7 million for the period. Casino Magic—Bay St. Louis has numerous competitors, many of which have greater name recognition and financial and marketing resources than we do. Competition in the Mississippi gaming markets is significantly more intense than the competition that our gaming operations face in West Virginia or our pari-mutuel operations face in Pennsylvania and New Jersey.

Boomtown Biloxi

Operating results in 2000 for Boomtown Biloxi only include the period from August 8, 2000 through December 31, 2000. For the year ended December 31, 2001, Boomtown Biloxi had revenues of $69.8 million consisting mainly of gaming revenue. Operating expenses for Boomtown Biloxi totaled $61.3 million.

EBITDA for Boomtown Biloxi totaled $13.5 million for the period. Boomtown Biloxi has numerous competitors, many of which have greater name recognition and financial and marketing resources than we do. Competition in the Mississippi gaming markets is significantly more intense than the competition that our gaming operations face in West Virginia or our pari-mutuel operations face in Pennsylvania and New Jersey.

Casino Rama

The acquisition of a management contract to operate Casino Rama in Orillia, Canada, was completed on April 27, 2001. For the period from April 28, 2001 to December 31, 2001, management fees from the Casino Rama management contract totaled $8.3 million for which there was $.7 million of direct operating expenses relating to the associated revenues and amortization of $1.7 million related to the management services contract. EBITDA for Casino Rama totaled $7.6 million for the same period.

Pennsylvania Racing

Revenues for Penn National Race Course, Pocono Downs and the eleven OTWs for the year ended December 31, 2001 decreased by $3.2 million, or 3.1%, to $98.7 million in 2001 from $101.9 million in 2000. Live racing revenue accounted for $1.4 million of the decrease as a result of a decline in attendance, inclement weather and smaller fields in the first five months of 2001. Full card simulcasting accounted for $2.0 million of the decrease, again due to lower attendance in 2001. Other racing revenue declined by $1.6 million in 2001 compared to 2000 as a result of a Commonwealth of Pennsylvania racing subsidy received in 2000 but not in 2001. Although the Commonwealth passed a similar subsidy measure in 2001, subsidy payments by the Commonwealth were frozen and were not received. This decrease was partially offset by an increase in revenues of approximately $2.3 million due to the opening of a new OTW facility in East Stroudsburg, PA, that was in operation for all of 2001 compared to five months in 2000.

Operating expenses for the year ended December 31, 2001 increased by $.6 million, or .68%, to $88.3 million in 2001 from $87.7 million in 2000. Other operating expenses, administrative expenses and concessions expenses increased $.9 million to $11.6 million compared to $10.7 million for the same period the previous year due to a full year of operations at the East Stroudsburg OTW. Racing-related expenses such as purses, simulcast fees and pari-mutuel taxes declined by $.6 million, in part due to lower racing revenues. EBITDA for the year ended December 31, 2001 decreased by $3.5 million, or 80.1%, to $14.7 million in 2001 from $18.2 million in 2000.

Corporate Overhead Expenses

Corporate overhead expenses increased by $4.5 million, or 75.0%, to $10.5 million in 2001 from $6.0 million in 2000. Salaries and wages, payroll taxes, employee benefits, relocation expenses and office rent increased by $2.0 million due to the addition of new staff at the corporate office to support the Mississippi and CRC acquisitions. Liability insurance increased by $.5 million due to increased limits for general liability, fiduciary and directors and officers liability insurance and increased insurance rates as a result of market conditions. Consulting and professional services increased by $1.0 million due to acquisition-related activities and regulatory expenses. Travel expenses increased by $.4 million as a result of supporting properties in Mississippi, Louisiana and Canada.

New Jersey Joint Venture

We have an investment in Pennwood Racing, Inc., which operates Freehold Raceway in New Jersey and, until May 2001, operated Garden State Park. In May 2001, Garden State Park was sold and the joint venture ceased operating Garden State Park. Our 50% share of net income was $2.5 million in 2001 compared to $2.3 million in 2000 and was recorded as other income on the income statement. The increase in the joint venture's net income is due in part to impairment expenses recorded in December 2000 related to the then-proposed May 2001 closure of Garden State Park and decreased interest expense in 2001, offset by the decrease in operating income in 2001 as a result of the closure of Garden State Park.

Non-recurring Charges and Expenses

Non-recurring charges and expenses for the year ended December 31, 2001 were $1.0 million as a result of the settlement of the Showboat litigation.

Liquidity and Capital Resources

Historically, our primary sources of liquidity and capital resources have been cash flow from operations, borrowings from banks and proceeds from the issuance of debt and equity securities.

Net cash provided by operating activities was $100.9 million for the year ended December 31, 2002. This consisted of net income of $30.9 million, non-cash reconciling items of $64.7 million and net increases in current liability accounts along with net decreases in current asset accounts of $5.3 million, net of assets and liabilities acquired in the Bullwhackers acquisition.

Cash flows used in investing activities totaled $102.4 million for the year ended December 31, 2002. Expenditures for property, plant, and equipment totaled $88.9 million and included renovations of the buffet restaurant and new hotel construction at Casino Magic—Bay St. Louis of $22.5 million, the 1,500 space structured parking facility and additional 30,000 square feet of gaming space at Charles Town of $50.4 million, maintenance capital expenditures at our properties of $14.6 million, and Bullwhackers renovations of $1.4 million. Net payments under interest rate swaps were $3.8 million. Proceeds from the sale of property and equipment were $.4 million. The aggregate purchase price for the Bullwhackers acquisition was $7.1 million. Costs incurred in connection with the Hollywood acquisition were $2.5 million. Cash in escrow decreased by $.5 million as a result of a deposit made for Bullwhackers land.

Cash flows from financing activities provided net cash flow of $18.3 million for the year ended December 31, 2002. Aggregate proceeds from the issuance of notes were $173.8 million, of which $3.3 million was used to pay financing costs associated with the issuance. Principal payments on long-term debt under our existing credit facility, net of additional borrowings on the revolving line of credit, were $258.9 million. Net proceeds from the exercise of stock options totaled $10.6 million. Proceeds from an equity offering totaled $96.1 million.

Capital Expenditures

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

	Year Ending December 31, 2003
Property	
Charles Town Entertainment Complex	$ 24,000
Boomtown Biloxi	24,000
Bullwhackers Casino	10,000
Corporate	600
Totals	$ 58,600

The Charles Town Facility is in the process of adding 38,300 square feet of gaming space, which will house approximately 800 additional slot machines, expand the food court and provide space for an entertainment facility. Cost of the construction and related activities is estimated at $24.0 million, of which we have contracts in the amount of $13.3 million. The project is anticipated to be completed by the third quarter of 2003.

In January 2002, we signed an option to purchase approximately 4 acres of land adjacent to our Boomtown Biloxi property for $4.0 million. The purchase is contingent upon receiving certain governmental and third-party consents, authorizations, approvals and licenses which we expect could occur in 2003. If successful, we expect to use the land for additional parking for our Boomtown Biloxi facility and to expand the property in the event that we move the boat.

In 2002, we began refurbishing the Bullwhackers facade and interior. We expect to spend an additional $4.0 million, which includes the purchase of $1.0 million of slot machines and related equipment, in 2003 on this project. As of March 12, 2003, we have contracts in the amount of $1.6 million. This project is scheduled for completion in the second quarter of 2003. In the fourth quarter of 2002, we signed an agreement to purchase a land lease. There is currently $1.0 million in escrow to execute this $6 million land purchase in April 2003. The purchase will save approximately $1 million per year based on current operating performance.

In 2003 we are expanding our corporate offices to allow for additional workstation and office space due to increased personnel. The first portion of this project is scheduled for completion in the second quarter of 2003.

For 2003, we expect to expend approximately $30 million for maintenance capital expenditures at our properties, including the Hollywood Casino properties.

We expect to use cash generated from operations and cash available under the revolver portion of our senior secured credit facility to fund our anticipated capital expenditure and maintenance capital expenditures in 2003. See "—Outlook" below.

$350 Million Senior Secured Credit Facility

On August 8, 2000, we entered into a $350 million senior secured credit facility with a syndicate of lenders led by Lehman Brothers Inc. and CIBC World Markets Corp. that replaced our then-existing credit facilities. In connection with our equity and debt financing transactions in February 2002, we repaid the entire then-outstanding balances under the Tranche A and Tranche B term loans. As of December 31, 2002, there was no outstanding balance on the revolving credit facility and $71.0 million was available for re-borrowing (after giving effect to outstanding letters of credit as of December 31,

2002). Subsequently, on March 3, 2003, we terminated this facility when we entered into our new $800 million senior secured credit facility described below.

$800 Million Senior Secured Credit Facility

On March 3, 2003, we entered into an $800 million senior secured credit facility with a syndicate of lenders that replaced our $350 million credit facility.

The credit facility is comprised of a $100.0 million revolving credit facility maturing on September 1, 2007, a $100.0 million Term A facility loan maturing on September 1, 2007 and a $600 million Term B Facility loan maturing on September 1, 2007. The maturity dates will be extended to the fifth anniversary dates for the revolving and Term A loans and the sixth anniversary date for the Term B loan if our outstanding $11^1/8\%$ Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after March 3, 2003. Up to $20.0 million of the revolving credit facility may be used for the issuance of standby letters of credit. In addition, up to $20 million of the revolving credit facility also may be used for short-term credit to be provided to us on a same-day basis. On March 3, 2003 we borrowed the entire Term A and Term B term loans to complete the purchase of Hollywood Casino and to call their $360 million Senior Secured Notes.

At our option, the revolving and the Term A credit facilities may bear interest at (1) the highest of $^1/2$ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 2.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 3.25%, in either case, with the applicable rate based on our total leverage. The Term B credit facility may bear interest at (1) the highest of $^1/2$ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 3.00%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 4.00%, in either case, with the applicable rate based on our total leverage.

The terms of our $800 million senior secured credit facility require us to satisfy certain financial covenants, such as leverage and fixed charge coverage ratios, and limitations on indebtedness, liens, investments and capital expenditures.

11 1/8% Senior Subordinated Notes due 2008

On March 12, 2001, we completed a private offering of $200,000,000 of our 11 1/8% senior subordinated notes due 2008. The net proceeds of the 11 1/8% notes were used, in part, to finance our acquisition of Casino Rouge and the management service contract at Casino Rama, including the repayment of certain existing indebtedness of CRC. Interest on the 11 1/8% notes is payable on March 1 and September 1 of each year. The 11 1/8% notes mature on March 1, 2008. As of December 31, 2002, all of the principal amount of the 11 1/8% notes is outstanding.

We may redeem all or part of the 11 1/8% notes on or after March 1, 2005 at certain specified redemption prices. Prior to March 1, 2004, we may redeem up to 35% of the 11 1/8% notes from proceeds of certain sales of our equity securities. The 11 1/8% notes also are subject to redemption requirements imposed by state and local gaming laws and regulations.

The 11 1/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of our current and future wholly-owned domestic subsidiaries. The 11 1/8% notes rank equally with our future senior subordinated debt and junior to our senior debt, including debt under our senior credit facility. In addition, the 11 1/8% notes will be effectively junior to any indebtedness of our non-U.S. or unrestricted subsidiaries, none of which have guaranteed the 11 1/8% notes.

The 11 1/8% notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933. On July 30, 2001, we

completed an offer to exchange the 11 1/8% notes and guarantees for 11 1/8% notes and guarantees registered under the Securities Act having substantially identical terms.

8 7/8% Senior Subordinated Notes due 2010

On February 28, 2002, we completed a public offering of $175,000,000 of our 8 7/8% senior subordinated notes due 2010. Interest on the 8 7/8% notes is payable on March 15 and September 15 of each year, beginning September 15, 2002. The 8 7/8% notes mature on March 15, 2010. As of December 31, 2002, all of the principal amount of the 8 7/8% notes is outstanding. We have used the net proceeds from the offering, totaling approximately $170.1 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under the existing senior secured credit facility.

We may redeem all or part of the 8 7/8% notes on or after March 15, 2006 at certain specified redemption prices. Prior to March 15, 2005, we may redeem up to 35% of the 8 7/8% notes from proceeds of certain sales of our equity securities. The 8 7/8% notes also are subject to redemption requirements imposed by state and local gaming laws and regulations.

The 8 7/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of our current and future wholly-owned domestic subsidiaries. The 8 7/8% notes rank equally with our future senior subordinated debt, including the 11 1/8% senior subordinated notes, and junior to our senior debt, including debt under our senior credit facility. In addition, the 8 7/8% notes will be effectively junior to any indebtedness of our non-U.S. or unrestricted subsidiaries, none of which have guaranteed the 8 7/8% notes.

Equity Offering

On February 20, 2002, we completed a public offering of 9,200,000 shares of our common stock at a public offering price of $15.25 per share. Of the common shares sold in the offering, 6,700,000 shares were sold by us and 2,500,000 shares were sold by The Carlino Family Trust, a related party. We used the net proceeds from the offering, totaling approximately $96.1 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under the existing senior secured credit facility. We did not receive any proceeds from the offering by The Carlino Family Trust.

Commitments and Contingencies

—Contractual Cash Obligations

As discussed above, in February 2002 we completed public offerings of common stock and 8 7/8% senior subordinated notes and used the proceeds of those offerings to repay the outstanding term loan indebtedness under the senior secured credit facility. As of December 31, 2002, there was no indebtedness outstanding under the credit facility and there was approximately $71.0 million available for borrowing under the revolving credit portion of the credit facility. The following table reflects these

recent offerings and the repayment of the senior secured credit facility as of December 31, 2002 (in thousands):

	Payments Due By Period				
	Total	2003	2004 - 2005	2006 - 2007	2008 and After
Senior secured credit facility(1)	$ —	$ —	$ —	$ —	$ —
11 1/8% senior subordinated notes due 2008(2)					
Principal	200,000	—	—	—	200,000

Interest	122,375	22,250	44,500	44,500	11,125
8 7/8% senior subordinated notes due 2010(3)					
Principal	175,000	—	—	—	175,000
Interest	116,484	15,531	31,063	31,062	38,828
Operating leases	37,963	5,119	7,353	5,048	20,443
Total	$ 651,822	$ 42,900	$ 81,916	$ 80,610	$ 445,396

(1) As of December 31, 2002 there was no indebtedness outstanding under the credit facility and there was approximately $71.0 million available for borrowing under the revolving credit portion of the credit facility.

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

(3) The $175.0 million aggregate principal amount of 8 7/8% notes matures on March 15, 2010. Interest payments of approximately $7.8 million are due on each March 15 and September 15 until March 15, 2010.

—Other Commercial Commitments

The following table presents our material commercial commitments as of December 31, 2002 for the following future periods:

		Amount of Commitment Expiration Per Period			
	Total Amounts Committed	2003	2004 - 2005	2006 - 2007	2008 and After
		(in thousands)			
Revolving Credit Facility(1)	$ —	$ —	$ —	$ —	$ —
Letters of Credit(1)	4,011	4,011	—	—	—
Guarantees of New Jersey Joint Venture Obligations(2)	9,583	767	8,816	—	—
Total	$ 13,594	$ 4,778	$ 8,816	$ —	$ —

(1) The available balance under the revolving portion of the $75.0 senior secured credit facility is diminished by outstanding letters of credit.

(2) In connection with our 50% ownership interest in Pennwood Racing, Inc., our joint venture in New Jersey, we have entered into a debt service maintenance agreement with Pennwood's lender to guarantee up to 50% of Pennwood's $19.2 million term loan. Our obligation as of December 31, 2002 under this guarantee is approximately $9.6 million.

—Interest Rate Swap Agreements

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

Hollywood Shreveport Notes

Hollywood Casino Shreveport and Shreveport Capital Corporation are co-issuers of $150 million aggregate principal amount of 13% senior secured notes due 2006 and $39 million aggregate principal amount of 13% first mortgage notes due 2006, which we refer to in this document as the Hollywood Shreveport notes. Hollywood Casino Shreveport is a general partnership that owns and operates the Hollywood Shreveport casino. Shreveport Capital Corporation is a wholly owned subsidiary of Hollywood Casino Shreveport formed solely for the purpose of being a co-issuer of the Hollywood Shreveport notes.

The Hollywood Shreveport notes are non-recourse to us and our subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc., which we refer to as the Shreveport entities) and are secured by substantially all of the assets of the Hollywood Shreveport casino, and the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc.

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

On March 14, 2003, Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Shreveport notes that they have 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Shreveport notes or an "Event of Default" will have occurred under the indentures. There can be no assurance that an "Event of Default" will not occur and that the holders of the Hollywood Shreveport notes will not pursue all rights and remedies that they may have under the indentures as a result. Further, any action on the part of the noteholders may require the Shreveport entities to seek the protection of the bankruptcy laws or other similar remedies.

Outlook

Based on our current level of operations, and anticipated revenue growth, we believe that cash generated from operations and amounts available under our credit facility will be adequate to meet the anticipated debt service requirements, capital expenditures and working capital needs for Penn National Gaming, Inc. and its restricted subsidiaries for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated revenue growth will be realized, or that future borrowings will be available under our credit facility or otherwise will be available to enable us to service our indebtedness, including the credit facility and the notes, to retire or redeem the notes when required or to make anticipated capital expenditures. In addition, if we consummate significant acquisitions in the future, our cash requirements may increase significantly. We may need to refinance all or a portion of our debt on or before maturity. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On December 20, 2000, we entered into an interest rate swap with a notional amount of $100 million and a termination date of December 22, 2003. Under this agreement, we pay a fixed rate of 5.835% against a variable interest rate based on the 90-day LIBOR rate. On August 3, 2001, we entered into an interest rate swap with a notional amount of $36 million with a termination date of June 30, 2004. Under this agreement, we pay a fixed rate of 4.8125% against a variable interest rate based on the 90-day LIBOR rate. At December 31, 2002, the 90-day LIBOR rate was 1.4%. We entered into these interest rates swap agreements due to the requirements of the senior secured credit facility and to reduce the impact of future variable interest payments related to our senior secured credit facility.

In 2001, we accounted for the effective interest rate swap agreements as cash flow hedges. The changes in the fair values of effective interest rate swaps were recorded as adjustments to accrued interest in the accompanying consolidated balance sheet with the offset recorded in accumulated other comprehensive loss, which as of December 31, 2001 amounted to $3.8 million, net of an income tax benefit of $2.0 million. The amount of ineffectiveness related to the cash flow hedges in 2001 and 2002 was immaterial. In March 2002, we repaid all of its then outstanding variable rate debt with the issuance of the $8^{7}/_{8}$% Senior Subordinated Notes, fixed rate debt. The hedge designation was removed. Subsequent changes in the fair value of the interest rate swap contracts are recognized as adjustments to loss on change in fair values of interest rate swaps in the accompanying statements of income in the period in which they occur. Accordingly, we have recorded a non-cash pre-tax loss of $5.8 million, or $.09 per diluted share after tax, for the year ended December 31, 2002. Amounts previously recognized in other comprehensive income will be reclassified to income over the remaining term of the swap as we incur interest expense on the replacement debt. Over the next twelve months, approximately $2.4 million will be reclassified to income. On March 3, 2003, we terminated our $36 million notional amount interest rate swap originally scheduled to expire in June 2004. We paid $1.9 million to terminate the swap agreement.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Certified Public Accountants

Board of Directors
Penn National Gaming, Inc. and subsidiaries
Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Penn National Gaming, Inc. and subsidiaries at December 31, 2001 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

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

/s/ BDO SEIDMAN, LLP

BDO Seidman, LLP

Philadelphia, Pennsylvania
January 30, 2003, except for Note 15,
which is as of March 14, 2003

Consolidated Balance Sheets

(In thousands, except share and per share data)

December 31,	2001	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 38,378	$ 55,121
Receivables	19,367	19,418
Prepaid income taxes	—	6,415
Prepaid expenses and other current assets	7,751	9,080
Deferred income taxes	4,610	4,405
Total current assets	70,106	94,439
Net property and equipment, at cost	389,919	450,886
Other assets:		
Investment in and advances to unconsolidated affiliate	14,187	16,152
Excess of cost over fair market value of net assets acquired	160,210	160,506
Management service contract (net of accumulated amortization of $1,695 and $4,206, respectively)	24,050	21,539
Deferred financing costs, net	14,090	10,463
Miscellaneous	6,815	11,495
Total other assets	219,352	220,155
	$ 679,377	$ 765,480
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 15,141	$ 18
Accounts payable	18,975	19,450
Accrued liabilities:		
Expenses	19,623	21,973
Interest	14,263	18,041
Salaries and wages	13,533	17,351
Gaming, pari-mutuel, property and other taxes	5,272	9,282
Income taxes payable	180	—
Other current liabilities	5,108	6,867
Total current liabilities	92,095	92,982
Long-term liabilities:		
Long-term debt, net of current maturities	443,768	375,000
Deferred income taxes	40,249	50,498
Total long-term liabilities	484,017	425,498
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, $.01 par value; 200,000,000 shares authorized; shares issued 31,866,850 and 40,033,684, respectively	160	403
Treasury stock, at cost 849,400 shares	(2,379)	(2,379)
Additional paid-in capital	43,605	154,049
Retained earnings	65,721	96,584
Accumulated other comprehensive loss	(3,842)	(1,657)
Total shareholders' equity	103,265	247,000
	$ 679,377	$ 765,480

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Income

(In thousands, except per share data)

Year ended December 31,	2000	2001	2002
Revenues:			
Gaming	$ 159,589	$ 364,139	$ 494,271
Racing	113,230	112,087	115,167
Management service fee	—	8,297	11,479
Food, beverage and other revenue	27,788	57,193	64,342
Gross revenues	300,607	541,716	685,259
Less: Promotional allowances	(8,806)	(24,579)	(27,713)
Net revenues	291,801	517,137	657,546
Operating expenses:			
Gaming	94,087	206,633	278,807
Racing	77,063	78,110	84,002
Food, beverage and other expenses	18,776	31,407	42,194
General and administrative	44,677	92,003	113,964
Depreciation and amortization	12,039	32,093	36,456
Total operating expenses	246,642	440,246	555,423
Income from operations	45,159	76,891	102,123
Other income (expense):			
Interest expense	(20,644)	(46,096)	(42,104)
Interest income	1,875	3,040	1,553
Earnings from joint venture	2,322	2,531	1,965
Loss on change in fair values of interest rate swaps	—	—	(5,819)
Total other expense	(16,447)	(40,525)	(44,405)
Income before income taxes and extraordinary item	28,712	36,366	57,718
Taxes on income	10,137	12,608	21,704
Income before extraordinary item	18,575	23,758	36,014
Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of $4,615, $-0- and $2,773, respectively	(6,583)	—	(5,151)
Net income	$ 11,992	$ 23,758	$ 30,863
Per share data:			
Basic			
Income before extraordinary item	$ .62	$ .78	$ .95
Extraordinary item	(.22)	—	(.13)
Net income	$ .40	$ .78	$ .82
Diluted			
Income before extraordinary item	$ .60	$ .75	$ .92
Extraordinary item	(.21)	—	(.13)
Net income	$ .39	$ .75	$ .79
Weighted average shares outstanding:			
Basic	29,936	30,653	37,775
Diluted	30,886	31,837	39,094

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except share data)

	Common Stock							
	Shares	Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Comprehensive Income
Balance, December 31, 1999	30,628,350	$ 153	$ (2,379)	$ 38,527	$ 29,971	$ —	$ 66,272	$ —
Exercise of stock options including tax benefit of $265	290,000	2	—	955	—	—	957	—
Net income	—	—	—	—	11,992	—	11,992	—
Balance, December 31, 2000	30,918,350	155	(2,379)	39,482	41,963	—	79,221	$ —
Exercise of stock options including tax benefit of $1,196	948,500	5	—	4,123	—	—	4,128	$ —
Change in fair value of interest rate swap contracts, net of income tax benefit of $2,043	—	—	—	—	—	(3,794)	(3,794)	(3,794)
Foreign currency translation adjustment	—	—	—	—	—	(48)	(48)	(48)
Net income		—	—	—	23,758	—	23,758	23,758
Balance, December 31, 2001	31,866,850	160	(2,379)	43,605	65,721	(3,842)	103,265	$ 19,916
Exercise of stock options including tax benefit of $3,528	1,466,834	15	—	14,161	—	—	14,176	$ —
Issuance of common stock	6,700,000	68	—	96,009	—	—	96,077	
Accelerated vesting of stock options	—	—	—	434	—	—	434	—
Change in fair value of interest rate swap contracts, net of income taxes of $495	—	—	—	—	—	918	918	918
Amortization of unrealized loss on interest rate swap contracts, net of income taxes of $676	—	—	—	—	—	1,257	1,257	—
Stock split	—	160	—	(160)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	10	10	10
Net income	—	—	—	—	30,863	—	30,863	30,863
Balance, December 31, 2002	40,033,684	$ 403	$ (2,379)	$ 154,049	$ 96,584	$ (1,657)	$ 247,000	$ 31,791

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	2000	2001	2002
Cash flows from operating activities:			
Net income	$ 11,992	$ 23,758	$ 30,863
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,039	32,093	36,456
Amortization of deferred financing costs charged to interest expense	1,555	2,444	2,036
Amortization of the unrealized loss on interest rate swap contracts charged to interest expense net of income tax benefit.	—	—	1,257
Loss on sale of fixed assets	—	809	735
Earnings from joint venture	(2,322)	(2,531)	(1,965)
Extraordinary item, before income tax benefit	11,198	—	5,906
Deferred income taxes	3,278	6,959	10,454
Accelerated vesting of stock options			434
Tax benefit from stock options exercised	265	1,196	3,528
Loss on change in fair value of interest rate swap contracts	—	—	5,819
Decrease (increase), net of businesses acquired, in Receivables	(5,562)	2,226	1,160
Prepaid income taxes	(817)	1,905	(6,415)
Prepaid expenses and other current assets	(3,663)	(546)	(1,045)
Miscellaneous other assets	(2,025)	(1,149)	(1,813)
Increase (decrease), net of businesses acquired, in Accounts payable and accrued liabilities	14,326	15,414	8,176
Gaming, pari-mutuel, property and other taxes	1,325	2,456	3,689

Income taxes payable	—	180	(180)
Other current liabilities	224	619	1,759
Net cash provided by operating activities	41,813	85,833	100,854
Cash flows from investing activities:			
Expenditures for property and equipment	(27,295)	(41,511)	(88,902)
Net payments under interest rate swaps	—	—	(3,830)
Proceeds from sale of property and equipment	151	299	369
Distributions from joint venture	511	2,928	—
Acquisition of businesses, net of cash acquired	(203,030)	(182,658)	(7,114)
Costs incurred with Hollywood Acquisition	—	—	(2,456)
(Increase) decrease in cash in escrow	(107)	4,607	(500)
Net cash used in investing activities	(229,770)	(216,335)	(102,433)
Cash flows from financing activities:			
Proceeds from exercise of options and warrants	692	2,932	10,646
Proceeds from sale of common stock	—	—	96,077
Proceeds from issuance of long-term debt	323,395	211,000	173,752
Principal payments on long-term debt	(105,185)	(61,389)	(258,891)
Increase in deferred financing cost	(10,407)	(6,950)	(3,272)
Payment of tender fees to retire notes	(6,685)	—	—
Net cash provided by financing activities	201,810	145,593	18,312
Effect of exchange rate fluctuations on cash	—	—	10
Net increase in cash and cash equivalents	13,853	15,091	16,743
Cash and cash equivalents at beginning of year	9,434	23,287	38,378
Cash and cash equivalents at end of year	$ 23,287	$ 38,378	$ 55,121

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Business

Penn National Gaming, Inc. ("Penn") and subsidiaries (collectively, the "Company") is a diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties. Penn is the successor to several businesses that have operated as Penn National Race Course since 1972. Penn was incorporated in Pennsylvania in 1982 as PNRC Corp. and adopted its current name in 1994. In 1997, the Company began its transition from a pari-mutuel company to a diversified gaming company with the acquisition of Charles Town property and the introduction of video lottery terminals in West Virginia. From 2000 to 2002, the Company acquired five other gaming properties through its Mississippi, CRC, and Bullwhackers acquisitions. The transition continues with the acquisition of Hollywood Casino Corporation on March 3, 2003 (see Note 15).

The consolidated financial statements include the accounts of Penn and its wholly owned subsidiaries. The Company owns and operates, through its subsidiaries, five gaming properties in Charles Town, West Virginia; Bay St. Louis, and Biloxi, Mississippi; Baton Rouge, Louisiana; and Black Hawk, Colorado. The Company also owns Penn National Race Course, a thoroughbred racetrack in Grantville, Pennsylvania, Pocono Downs, a harness racetrack in Wilkes Barre, Pennsylvania and eleven off-track wagering ("OTW") facilities located throughout Pennsylvania. The Company has a 50% interest in Pennwood Racing, Inc., which owns and operates Freehold Raceway in New Jersey. In addition, the Company has a management service contract and receives a management service fee for operating a gaming facility in Orillia, Ontario, Canada ("Casino Rama").

Principles of Consolidation

The consolidated financial statements include the accounts of Penn and its subsidiaries. Investment in and advances to an unconsolidated affiliate that is 50% owned is accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents and accounts receivable.

The Company's policy is to limit the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. At times,

the Company has bank deposits and overnight repurchase agreements that exceed federally insured limits.

Concentration of credit risk, with respect to receivables, is limited through the Company's credit evaluation process. The Company does not require collateral on its receivables. The Company's receivables consist principally of amounts due from other racetracks and their OTWs and $9.4 million due from Casino Rama for management service fees of $1.0 million and reimbursement of $8.4 million of expenses to be paid on behalf of Casino Rama as of December 31, 2002. The payable on behalf of Casino Rama is included in accrued salaries in the accompanying consolidated balance sheet at December 31, 2002. Historically, the Company has not incurred any significant credit-related losses.

Fair Value of Financial Instruments

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

Cash and Cash Equivalents: The carrying amount approximates the fair value due to the short maturity of the cash equivalents.

Long-term Debt: The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Property, Equipment and Management Service Contract

Property and equipment are stated at cost. Maintenance and repairs that do not add materially to the value of the asset nor appreciably prolong its useful life are charged to expense as incurred. Gains or losses on the disposal of property and equipment are included in the determination of income.

Depreciation of property and equipment and amortization of leasehold improvements are provided using the straight-line method over the following estimated useful lives:

Land improvements	5 to 15 years
Building and improvements	31 years
Furniture, fixtures, and equipment	3 to 7 years
Transportation equipment	5 years
Leasehold Improvements	10 to 20 years

Amortization of the management service contract for Casino Rama is computed by the straight-line method through July 2011, the expiration date of the agreement.

The Company reviews the carrying values of its long-lived and identifiable intangible assets, other than goodwill, for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable based on undiscounted estimated future operating cash flows. As of December 31, 2002, the Company has determined that no impairment has occurred.

Excess of Cost Over Fair Market Value of Net Assets Acquired (Goodwill)

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 establishes standards for the accounting of intangible assets that are acquired individually or with a group of other assets and the accounting for goodwill and other intangible assets after they have been initially recognized in the financial statements. Under SFAS No. 142, amortization of goodwill and intangible assets with an indefinite useful life is discontinued and additional financial statement disclosure for goodwill and other intangibles is required. After a transitional impairment test, goodwill and intangible assets are tested at least annually for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized. The provisions of SFAS 142 were required to be applied starting with fiscal years beginning after December 15, 2001. The Company adopted SFAS 142 on January 1, 2002.

Because the Company's goodwill is no longer being amortized, the reported amounts of goodwill will not decrease in the same manner as under previous accounting pronouncements. There may be more volatility in reported income than under previous accounting pronouncements because impairment losses, if any, are likely to occur irregularly and in varying amounts. At June 18, 2002, an independent valuation consulting firm completed the transitional impairment test, which did not indicate impairment of goodwill under the provisions of the new standard as of January 1, 2002. As of October 1, 2002, the Company completed its annual impairment test as required under the provisions of SFAS 142. As of December 31, 2002, no impairment charges were required as a result of the impairment test.

Deferred Financing Costs

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

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Accounting for Derivatives and Hedging Activities

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), which requires that all derivative instruments be recorded on the balance sheet at fair value. The adoption of SFAS 133 did not have a material impact on the results of operations. The cumulative effect of the accounting change was immaterial to the Company's consolidated financial statements as of December 31, 2002.

The Company uses fixed and variable rate-debt to finance its operations. Variable rate debt obligations expose the Company to variability in interest payments due to changes in interest rates. The

Company continuously monitors changes in interest rate exposures and evaluates hedging opportunities. The Company's risk management policy permits the Company to use any combination of interest rate swaps, futures, options, caps and similar instruments. The Company's objective is to limit the impact of interest rate changes on earnings and cash flows. The Company currently achieves this by entering into interest rate swap agreements to convert a percentage of its debt from variable to fixed rates. Under interest rate swap contracts, the Company agrees to pay an amount equal to a specified fixed-rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable-rate of interest times a notional amount. Net settlements are made quarterly. If the contracts are terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of the termination and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the term of the contract. The Company accounts for these swaps as cash flow hedges. Generally, the Company does not issue or hold derivative contracts for speculative purposes.

The Company is exposed to credit losses in the event of non-performance by counterparties to these interest rate swap agreements, but it does not expect any of the counterparties to fail to meet their obligations. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined Company guidelines, and monitors the market position with each counterparty.

The fair value of derivatives is included in the balance sheets as an asset or liability. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in the future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions, such as future variable rate interest payments); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not

occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings. For purposes of the cash flows statement, cash flows from derivative instruments designated and qualifying as hedges are classified with the cash flows from the hedged item. Cash flows from derivatives held for speculative purposes are classified as investing cash flows.

Revenue Recognition

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

	Year ended December 31,		
	2000	2001	2002
	(In thousands)		

Rooms	$ 435	$ 1,468	$ 1,721
Food and beverage	8,105	22,405	23,416
Other	266	706	2,576
Total promotional allowances	$ 8,806	$ 24,579	$ 27,713

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

	Year ended December 31,		
	2000	2001	2002
	(In thousands)		
Rooms	$ 308	$ 952	$ 1,108
Food and beverage	5,017	13,681	13,308
Other	210	523	1,570
Total cost of complimentary services	$ 5,535	$ 15,156	$ 15,986

Racing revenues include the Company's share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, and the Company's share of wagering from import and export simulcasting, as well as its share of wagering from its OTWs.

Revenues from the Management Service Contract for Casino Rama (see Note 2) are based upon contracted terms and are recognized when services are performed.

Earnings Per Common Share

Basic earnings per share ("EPS") is computed by dividing net income applicable to common stock by the weighted average common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially dilutive securities such as stock options.

Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants using the intrinsic-value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations. Under the intrinsic-value method, because the exercise price of the Company's employee stock options is more than or equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. See Note 10 for the proforma effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of FASB Statement 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

Certain Risks and Uncertainties

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

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

Reclassification

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

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" ("Interpretation No. 45"). This Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation No. 46"), that clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the

entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to January 31, 2003, the provisions of Interpretation No. 46 are applicable no later than July 1, 2003. The Company does not expect this Interpretation to have an effect on the consolidated financial statements.

In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS 143 requires entities to record the fair value of the liability for an asset retirement obligation in the period in which it is incurred and is effective for the Company's 2003 fiscal year. The adoption of SFAS 143 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This new pronouncement also amends Accounting Research Bulletin (ARB) No. 51 "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired and also broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Adoption of SFAS 144 on January 1, 2002, did not have any impact on the Company's financial position, cash flows or results of operations for the year ended December 31, 2002.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). The rescission of FASB No. 4, "Reporting Gains and Losses from Extinguishment of Debt" applies to the Company. FASB No. 4 required that gains and losses from extinguishment of debt that were included in the determination of net income be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. SFAS 145 is effective for the Company's fiscal year beginning January 1, 2003. The Company had losses on early extinguishment of debt, net of income taxes of $6.6 million and $5.2 million for the years ended December 31, 2000 and 2002, respectively. These losses reflect the write-off of deferred finance fees and pre-payment fees associated with bank debt that was repaid with the proceeds of new financing. Effective January 1, 2003, pursuant to SFAS 145, the losses on early extinguishment of debt will be included in "Other expenses" in the Company's consolidated Statements of Income.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), which addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" which previously governed the

accounting treatment for restructuring activities. SFAS 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144. Those costs include, but are not limited to, the following: (1) termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or individual deferred-compensation contract, (2) costs to terminate a contract that is not a capital lease, and (3) costs to consolidate facilities or relocate employees. SFAS 146 does not apply to costs associated with the retirement of long-lived assets covered by SFAS 143. SFAS 146 will be applied prospectively and is effective for exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", an amendment of FASB Statement No. 123 ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends Accounting Principles Board ("APB") Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002. The Company will continue to account for stock-based employee compensation using the intrinsic value method of APB Opinion No. 25, "Accounting for Stock Issued to Employees," but has adopted the enhanced disclosure requirements of SFAS 148 (See Note 10).

2. Acquisitions

Acquisition Accounting

The Company has accounted for its acquisitions subsequent to June 30, 2001 under SFAS No.141, "Business Combinations." For purchase acquisitions completed prior to June 30, 2001, the Company accounted for acquisitions in accordance with APB Opinion No. 16. The results of operations of acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

Hollywood Casino Corporation

See Subsequent Events—Note 15.

Bullwhackers Casinos

On April 25, 2002, the Company acquired all of the assets of the Bullwhackers Casino operations, in Black Hawk, Colorado, from Colorado Gaming and Entertainment Co., a subsidiary of Hilton Group plc, for $6.5 million in cash. The acquisition was accounted for as a purchase in accordance with SFAS 141 and accordingly the results of operations are included from the date of acquisition. There was no goodwill recognized for this transaction. The Bullwhackers assets consist of the Bullwhackers Casino, the adjoining Bullpen Sports Casino, the Silver Hawk Saloon and Casino, an administrative building and a 475-car parking area, all located in the Black Hawk, Colorado gaming jurisdiction. The

Company also incurred an additional $.6 million in pre-acquisition costs related to audit, legal and licensing expenses required to complete the purchase.

CRC Acquisition

On April 27, 2001, the Company completed its acquisitions of (i) CRC Holdings, Inc. ("CRC") from the shareholders of CRC and (ii) the minority interest in Louisiana Casino Cruises, Inc. ("LCCI") not owned by CRC from certain shareholders (together, the "CRC Acquisition"). The CRC Acquisition was accomplished pursuant to the terms of Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc. and certain shareholders of CRC Holdings, Inc., dated as of July 31, 2000 (the "Merger Agreement"), and a Stock Purchase Agreement by and among Penn National Gaming, Inc. and certain shareholders of LCCI, dated as of July 31, 2000. Under the Merger Agreement, CRC merged with Casino Holdings, Inc., a wholly owned subsidiary of the Company (the "Merger"). The aggregate consideration paid by the Company for the CRC Acquisition was approximately $182 million, including the repayment of existing debt of CRC and its subsidiaries. The purchase price of the CRC Acquisition was funded by the proceeds of the Company's offering of senior subordinated notes, which was completed in March 2001.

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

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

3. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2001	2002
Land and improvements	$ 82,981	$ 88,885
Building and improvements	226,478	289,782
Furniture, fixtures, and equipment	104,215	143,760
Transportation equipment	1,175	1,127
Leasehold improvements	11,795	14,657
Construction in progress	21,338	3,880
Total property and equipment	447,982	542,091
Less: accumulated depreciation and amortization	58,063	91,205
Property and equipment, net	$ 389,919	$ 450,886

Interest capitalized in connection with major construction projects was $.2 million, $.5 million, and $1.6 million in 2000, 2001 and 2002, respectively. Depreciation and amortization expense, for property and equipment, totaled $10.8 million, $26.9 million, and $34.0 million in 2000, 2001, and 2002, respectively.

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

For the years ended December 31, 2000 and 2001, the Company recorded amortization of goodwill of $1.2 million and $3.5 million, respectively. Excluding amortization of goodwill, pro forma net income and diluted net income per share for the year ended December 31, 2000 would have been $12.7 million and $.41 per share, respectively, and for the year ended December 31, 2001 would have been $26.2 million and $.82 per share, respectively.

As part of the CRC Holdings, Inc. ("CRC") acquisition in April 2001, the Company acquired the management service contract (the "Contract") for Casino Rama. This intangible asset is being amortized over its contractual life on the straight-line method through July 31, 2011, the expiration date of the Contract. The gross carrying amount of the Contract is $25.7 million and the accumulated amortization is $4.2 million as of December 31, 2002. The average annual amortization expense for the remaining life of the Contract is approximately $2.5 million. Amortization expense for the Contract totaled $1.7 million and $2.5 million in 2001 and 2002, respectively.

5. Long-term Debt

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

	December 31,	
	2001	2002
$200 million 11 1/8% senior subordinated notes. These notes are general unsecured obligations of the Company.	$ 200,000	$ 200,000
$175 million 8 7/8% senior subordinated notes. These notes are general unsecured obligations of the Company	—	175,000

$350 million senior secured credit facility. This credit facility was secured by substantially all of the assets of the Company	258,875	—
Other notes payable	34	18
	458,909	375,018
Less current maturities	15,141	18
	$ 443,768	$ 375,000

Maturities of long-term debt outstanding at December 31, 2002 are as follows: $200 million in 2008 and $175 million in 2010. At December 31, 2002, the Company was contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating $4.0 million.

$11^{1}/_{8}$% Senior Subordinated Notes due 2008

On March 12, 2001, the Company completed an offering of $200 million of its $11^{1}/_{8}$% Senior Subordinated Notes due 2008. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2001. These notes mature on March 1, 2008. The proceeds from these notes were used to finance the CRC Acquisition.

The Company may redeem all or part of the notes on or after March 1, 2005 at certain specified redemption prices. Prior to March 1, 2004, the Company may redeem up to 35% of the notes from proceeds of certain sales of its equity securities. The notes are also subject to redemption requirements imposed by state and local gaming laws and regulations.

The notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of the Company's current and future wholly owned domestic subsidiaries. The notes rank equally with the Company's future senior subordinated debt and junior to its senior debt, including debt under the Company's senior credit facility. In addition, the notes will be effectively junior to any indebtedness of our non-U.S. subsidiaries or subsidiaries that do not guarantee the notes ("Unrestricted Subsidiaries").

The notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). On July 30, 2001, the Company completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act having substantially identical terms.

$8^{7}/_{8}$% Senior Subordinated Notes due 2010

On February 28, 2002, the Company completed an offering of $175,000,000 of its $8^{7}/_{8}$% senior subordinated notes due 2010. Interest on the $8^{7}/_{8}$% notes is payable on March 15 and September 15 of each year, beginning September 15, 2002. The $8^{7}/_{8}$% notes mature on March 15, 2010. The Company used the net proceeds from the offering, totaling approximately $170.0 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under its existing senior secured credit facility.

The Company may redeem all or part of the $8^{7}/_{8}$% notes on or after March 15, 2006 at certain specified redemption prices. Prior to March 15, 2005, the Company may redeem up to 35% of the $8^{7}/_{8}$% notes from proceeds of certain sales of its equity securities. The $8^{7}/_{8}$% notes also are subject to redemption requirements imposed by state and local gaming laws and regulations.

The $8^{7}/_{8}$% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of the Company's current and future wholly owned domestic subsidiaries. The $8^{7}/_{8}$% notes rank equally with the Company's future senior subordinated debt and the $11^{1}/_{8}$% senior subordinated notes, and junior to its senior debt, including debt under the Company's senior credit facility. In addition, the $8^{7}/_{8}$% notes will be effectively junior to any indebtedness of our non-U.S. subsidiaries or Unrestricted Subsidiaries, none of which have guaranteed the $8^{7}/_{8}$% notes.

$350 Million Senior Secured Credit Facility

The credit facility is comprised of a $75.0 million revolving credit facility maturing on August 8, 2005, a $75.0 million Tranche A term loan maturing on August 8, 2005 and a $200 million Tranche B term loan maturing on August 8, 2006. Up to $10.0 million of the revolving credit facility may be used for the issuance of standby letters of credit. In addition, up to $10.0 million of the revolving credit facility also may be used for short-term credit to be provided to the Company on a same-day basis, which must be repaid within five days. In connection with the Company's equity and debt financing transactions in February 2002, it repaid the entire then-outstanding balances under the Tranche A and Tranche B term loans. These term loans are not available for future reborrowing. As of December 31, 2002, there was no outstanding balance on the revolving credit facility and $71.0 million was available for reborrowing (after giving effect to outstanding letters of credit of $4.0 million). (See Note 15).

At the Company's option, the revolving credit facility may bear interest at (1) the highest of $^{1}/_{2}$ of 1% in excess of the federal funds effective rate or the rate that the bank group announces from time to

time as its prime lending rate plus an applicable margin of up to 2.25%, or (2) a rate tied to a eurodollar rate, as defined, plus applicable margin up to 3.25%, in either case with the applicable rate based on the Company's total leverage.

The terms of the senior secured credit facility require the Company to satisfy certain financial covenants such as leverage and fixed charge coverage ratios, minimum EBITDA, as defined, and net worth and limit capital expenditures. During 2002, the Company was in compliance with all required financial covenants.

As a result of the prepayment of the Company's term loan, the Company charged to operations deferred financing costs of $5.9 million related to the repayment of existing outstanding debt. In addition, the Company paid a prepayment penalty of $2.0 million. The total, $7.9 million, has been reflected as an extraordinary item, net of income tax benefit of $2.8 million, in the consolidated statement of income for the year ended December 31, 2002.

As a result of the Company's 2000 refinancing of its senior secured credit facilities, the Company charged to operations deferred financing costs of $4.5 million related to the repayment of existing outstanding debt. In addition, the Company paid a tender premium of $6.7 million. The total, $11.2 million, has been reflected as an extraordinary item, net of an income tax benefit of $4.6 million in the consolidated statements of income for the year ended December 31, 2000.

Interest Rate Swap Contracts

On December 20, 2000, the Company entered into an interest rate swap with a notional amount of $100 million and a termination date of December 22, 2003. Under this agreement, the Company pays a fixed rate of 5.835% against a variable interest rate based on the 90-day LIBOR rate. On August 3, 2001, the Company entered into an interest rate swap with a notional amount of $36 million with a termination date of June 30, 2004. Under this agreement, the Company pays a fixed rate of 4.8125% against a variable interest rate based on the 90-day LIBOR rate. At December 31, 2002, the 90-day LIBOR rate was 1.4%. The Company entered into these interest rates swap agreements due to the requirements of the senior secured credit facility and to reduce the impact of future variable interest payments related to the Company's senior secured credit facility.

In 2001, the Company accounted for the effective interest rate swap agreements as cash flow hedges. The changes in the fair values of effective interest rate swaps were recorded as adjustments to accrued interest in the accompanying consolidated balance sheet with the offset recorded in accumulated other comprehensive loss, which as of December 31, 2001 amounted to $3.8 million, net of an income tax benefit of $2.0 million. The amount of ineffectiveness related to the cash flow hedges in 2001 and 2002 was immaterial. In March 2002, the Company repaid all of its then outstanding variable rate debt with the issuance of the $8^{7}/_{8}$% Senior Subordinated Notes, fixed rate debt. The hedge designation was removed. Subsequent changes in the fair value of the interest rate swap contracts are recognized as adjustments to loss on change in fair values of interest rate swaps in the accompanying statements of income in the period in which they occur. Accordingly, the Company has recorded a non-cash pre-tax loss of $5.8 million, or $.09 per diluted share after tax, for the year ended December 31, 2002. Amounts previously recognized in other comprehensive income will be reclassified to income over the remaining term of the swap as the Company incurs interest expense on the replacement debt. Over the next twelve months, approximately $2.4 million will be reclassified to income.

6. Commitments and Contingencies

Litigation

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

The following proceedings could result in costs, settlements or damages that materially impact the Company's consolidated financial condition or operating results. In each instance, the Company believes that it has meritorious defenses and/or counter-claims and intends to vigorously defend itself.

In August 2002, the lessor of the property on which Casino Rouge conducts a significant portion of its dockside operations filed a lawsuit against the Company in the 19th Judicial District Court for the Parish of East Baton Rouge, LA seeking a declaratory judgment that the plaintiff is entitled to terminate the lease and/or void the Company's option to renew the lease due to certain alleged defaults by the Company or its predecessors-in-interest. The current term of the Company's lease expires in January 2004. Discovery has not yet commenced and no trial date has been set.

In October 2002, in response to the Company's plans to relocate the river barge underlying the Boomtown Casino to an adjacent property, the lessor of the property on which the Boomtown Casino conducts a portion of its dockside operations, filed a lawsuit against the Company in the U.S. District Court for the Southern District of Mississippi seeking a declaratory judgment that (i) the Company must use the leased premises for a gaming use or, in the alternative, (ii) after the move, the Company will remain obligated to make the revenue based rent payments to plaintiff set forth in the lease. The plaintiff filed this suit immediately after the Mississippi Gaming Commission approved the Company's request to relocate the barge. Since such approval, the Company and the U.S. Army Corps of Engineers have also approved our plan to relocate the barge. The case is in the discovery phase at this time. A trial date has not yet been set.

Operating Leases

The Company is liable under numerous operating leases for automobiles, other equipment and buildings, which expire through 2010. Total rental expense under these agreements was $2.1 million, $4.0 million, and $5.2 million for the years ended December 31, 2000, 2001, and 2002, respectively.

The future lease commitments relating to noncancelable operating leases as of December 31, 2002 are as follows (in thousands):

Year ending December 31,	
2003	$ 5,119
2004	4,223

2005	3,130
2006	2,803
2007	2,245
Thereafter	20,443
	$ 37,963

The Company leases land for use by Boomtown Biloxi. The lease term is 99 years and is cancelable upon one year's notice. The lease called for an initial deposit by the Company of $2.0 million and for annual base lease rent payments of $2.0 million and percentage rent equal to 5.0% of adjusted gaming win (as defined in the lease) over $25.0 million and 6.0% of the amount by which the adjusted gaming win exceeds $50.0 million. During the period from August 8, 2000 to December 31, 2000 and for the years ended December 31, 2001 and 2002 the Company paid lease rent under this agreement of $1.3 million, $3.6 million, and $4.2 million respectively.

The Company leases land for use by Bullwhackers Casinos in Black Hawk, Colorado. There are five leases with terms of one to 30 years. The leases consist of annual base lease rent payments, which are included in the above table, plus a percentage rent based on a percent of adjusted gaming win as described in the leases. The annual base lease rent payments were $1.2 million for the period April 28, 2002 to December 31, 2002. Total lease payments for the period were $1.9 million. In October 2002, the Company signed an agreement to purchase a portion of the leased land for a total of $6.0 million.

Commitments

As of December 31, 2002, the Company is contractually committed to spend approximately $24.9 million in capital expenditures for 2003 projects.

Employee Benefit Plans

The Company has profit sharing plans under the provisions of Section 401(k) of the Internal Revenue Code that cover all eligible employees who are not members of a bargaining unit. The plans enable employees choosing to participate to defer a portion of their salary in a retirement fund to be administered by the Company. The Company's contributions to the plans are set at 50% of employees' elective salary deferrals up to a maximum of 6% of employee compensation. The Company also has a defined contribution plan, the Charles Town Races Future Service Retirement Plan, covering substantially all of its union employees at the Charles Town Entertainment Complex. The Company makes monthly contributions equal to the amount accrued for retirement expense, which is calculated as .25% of the daily mutual handle and .5% of the net video lottery revenues. Total contributions to the plans for the years ended December 31, 2000, 2001 and 2002 were $1.1 million, $1.8 million and $2.5 million, respectively.

The Company maintains a non-qualified defined contribution deferred compensation plan that covers most management and other highly compensated employees. This plan was effective March 1, 2001. The plan allows the participants to defer, on a pre-tax basis, a portion of their base annual salary and bonus and earn tax-deferred earnings on these deferrals. The plan also provides for matching Company contributions that vest over a five-year period. The Company has established a Trust and transfers to the Trust, on an annual basis, an amount necessary to provide on a present value basis for its respective future liabilities with respect to participant deferral and Company contribution amounts. Company contributions in 2001 and 2002 were $.5 million and $.3 million.

Agreements with Horsemen and Pari-Mutuel Clerks

The Company has agreements with the horsemen at each of the racetracks. The continuation of these agreements is required to allow the Company to conduct live racing and export and import simulcasting. In addition, the simulcasting agreements are subject to the horsemen's approval.

On March 23, 1999, the Company entered into a new four-year, nine-month purse agreement with the Horsemen's Benevolent and Protection Association, which represents the horsemen at the Company's Penn National Race Course facility in Grantville, Pennsylvania. The initial term of the agreement ends on January 1, 2004 and automatically renews for another two-year period, without change, unless notice is given by either party at least ninety days prior to the end of the initial term.

On December 17, 1999, the Company entered into a new three-year purse agreement with the Pennsylvania Harness Horsemen's Association, Inc., which represents the owners, trainers, and drivers at Pocono Downs in Wilkes-Barre, Pennsylvania. The contract term began on January 16, 2000 and ended January 15, 2003. The Company signed a new agreement that ends on January 15, 2004. The Company also has an agreement with the Charles Town Horsemen that expired on December 31, 2002. The Charles Town agreement has been extended until September 30, 2003.

In addition to the horsemen agreements, in order to operate gaming machines in West Virginia, the Company is required to enter into written agreements regarding the proceeds of the gaming machines at the Charles Town Entertainment Complex with the pari-mutuel clerks at Charles Town. The agreement with the pari-mutuel clerks at Charles Town expires on December 31, 2004.

New Jersey Joint Venture

On January 28, 1999, the Company, along with its Joint Venture partner, Greenwood New Jersey, Inc. purchased certain assets and assumed certain liabilities of Freehold Racing Association, Garden State Racetrack and related entities, in a transaction accounted for as a purchase (the "New Jersey Acquisition").

Upon completion of the New Jersey Acquisition, the Company entered into a lease agreement for real property and equipment at Garden State Park (the leased premises). In December 2000, the leased premises were sold. In accordance with the lease, the agreement terminated 180 days after the closing of the sale. As a result, the Joint Venture's operations at Garden State Park ceased during May 2001.

The Company made an $11.3 million loan to the Joint Venture and an equity investment of $.3 million. The loan is evidenced by a subordinated secured note, which has been included in investment in and advances to an unconsolidated affiliate in the consolidated financial statements. The note bears interest at prime plus 2.25% or a minimum of 10% (as of December 31, 2002 the interest

rate was 10%). The Company has recorded interest income in the accompanying consolidated financial statements of $1.3 million, $1.2 million, and $1.1 million for the years ended December 31, 2000, 2001 and 2002, respectively.

The Company entered into a Debt Service Maintenance Agreement with a bank to guarantee 50% of a $23.0 million term loan to the Joint Venture. As of December 31, 2002, the Company's obligation under its guarantee of the term loan was limited to approximately $9.6 million. The Company's investment in the Joint Venture is accounted for under the equity method. The original investment was recorded at cost and has been adjusted by the Company's share of income of the Joint Venture and distributions received. The Company's 50% share of the income of the Joint Venture is included in other income (expense) in the accompanying consolidated statements of income.

7. Income Taxes

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

	December 31,	
	2001	2002
Deferred tax assets:		
Accrued expenses	$ 2,214	$ 1,356
State net operating losses	4,428	7,443
Other comprehensive income	2,043	872
Gross deferred tax assets	8,685	9,671
Less Valuation Allowance	(3,068)	(6,096)
Net Deferred Tax Asset	5,617	3,575
Deferred tax liabilities:		
Property, plant and equipment	(41,256)	(49,668)
Net deferred taxes	$ (35,639)	$ (46,093)

	2001	2002
Reflected on consolidated balance sheets:		
Current deferred tax asset, net	$ 4,610	$ 4,405
Noncurrent deferred tax liabilities, net	(40,249)	(50,498)
Net deferred taxes	$ (35,639)	$ (46,093)

The valuation allowance represents the income tax effect of state net operating loss carryforwards of the Company, which are not presently expected to be utilized.

The provision for income taxes charged to operations was as follows (in thousands):

	Year ended December 31,		
	2000	2001	2002
Current tax expense			
Federal	$ 6,199	$ 5,542	$ 12,436
State	660	107	740
Total current	6,859	5,649	13,176
Deferred tax expense (benefit)			
Federal	3,447	7,159	8,452
State	(169)	(200)	76
Total deferred	3,278	6,959	8,528
Total provision	$ 10,137	$ 12,608	$ 21,704

The following is a reconciliation of the statutory federal income tax rate to the actual effective income tax rate for the following periods:

	Year ended December 31,		
	2000	2001	2002
Percent of pretax income			
Federal tax rate	34.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	1.1	(.2)	1.0
Permanent differences, including amortization of management contract	.1	.3	1.6
Other miscellaneous items	.1	(.4)	—
	35.3%	34.7%	37.6%

For income tax reporting, the Company has net operating loss carryforwards aggregating approximately $114.8 million available to reduce future state income taxes primarily for the Commonwealth of Pennsylvania as of December 31, 2002. If not used, substantially all the carryforwards will expire at various dates from December 31, 2006 to December 31, 2022.

8. Supplemental Disclosures of Cash Flow Information

	Years ended		
	2000	2001	2002
	(in thousands)		
Cash payments of interest	$ 18,426	$ 36,709	$ 39,886
Cash payments of income taxes	3,799	3,480	12,752
Acquisitions:			
Cash paid	195,000	182,000	7,114
Fair value of assets acquired	207,631	250,388	7,504
Fair value of liabilities assumed	5,847	211,662	1,495

9. Shareholder's Equity

Equity Offering

On February 20, 2002, the Company completed a public offering of 9,200,000 shares of its common stock at a public offering price of $15.25 per share. Of the common stock sold in the offering, the Company sold 6,700,000 shares and The Carlino Family Trust, a related party, sold 2,500,000 shares. The Company used its net proceeds from the offering, totaling approximately $96.1 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under its existing senior secured credit facility. The Company did not receive any proceeds from the offering by The Carlino Family Trust.

Stock Split

The Board of Directors authorized a two-for-one stock split of the Company's common stock on May 22, 2002 to shareholders of record on June 4, 2002. The stock split was effective on June 25, 2002. All references in the financial statements to number of shares and net income per share amounts of the Company's common stock have been retroactively restated to reflect the increased number of common stock shares outstanding.

Shareholder Rights Plan

On May 20, 1998, the Board of Directors of the Company authorized and declared a dividend distribution of one Preferred Stock purchase right (the "Rights") for each outstanding share of the Company's common stock, par value $.01 per share (the "Common Shares"), payable to shareholders of record at the close of business on March 19, 1999. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction"), or a combination of securities and assets of equivalent value, at a purchase price of $20.00 per Preferred Stock Fraction (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999 between the Company and Continental Stock Transfer and Trust Company as Rights Agent. All terms not otherwise defined herein are used as defined in the Rights Agreement.

The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock (the "Stock Acquisition Date"), announces a tender or exchange offer that will result in such person or group acquiring 20% or more of the outstanding common stock or is a beneficial owner of a substantial amount of Common Shares (at least 10%) whose ownership may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company will be entitled to redeem the Rights at a price of $.01 per Right (payable in cash or stock) at any time until 10 days following the Stock Acquisition Date or the date on which a person has been determined to be an Adverse Person. If the Company is involved in certain transactions after the Rights become exercisable, a Holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding common stock or is determined to be an Adverse Person, which Rights become void) is entitled to buy a number of the acquiring company's Common Shares or the Company's common stock, as the case may be, having a market value of twice the exercise price of each Right. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised, the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable

until the Distribution Date and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.

10. Stock Based Compensation

In April 1994, the Company's Board of Directors and shareholders adopted and approved the Stock Option Plan (the "Plan"). The Plan permits the grant of options to purchase up to 6,000,000 shares of Common Stock, subject to antidilution adjustments, at a price per share no less than 100% of the fair market value of the Common Stock on the date an option is granted with respect to incentive stock options only. The price would be no less than 110% of fair market value in the case of an incentive stock option granted to any individual who owns more than 10% of the total combined voting power of all classes of outstanding stock. The Plan provides for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, and nonqualified stock options, which do not so qualify. At December 31, 2002, there were 735,000 options available for future grants under the Plan. Unless the Plan is terminated earlier by the Board of Directors, the Plan will terminate in April 2004.

Stock options that expire between March 3, 2003 and January 2, 2012 have been granted to officers and directors to purchase Common Stock at prices ranging from $1.67 to $20.39 per share. All options were granted at market prices at date of grant. The following table contains information on stock options issued under the Plan for the three-year period ended December 31, 2002:

	Option Shares	Average Exercise Price
Outstanding at January 1, 2000	2,550,500	$ 3.64
Granted	589,000	4.83
Exercised	(290,000)	2.39
Canceled	(22,000)	5.18
Outstanding at December 31, 2000	2,827,500	4.01
Granted	1,070,392	6.00
Exercised	(948,500)	3.10
Canceled	(46,000)	2.39
Outstanding at December 31, 2001	2,903,392	5.08
Granted	1,035,500	15.85
Exercised	(867,334)	6.22
Canceled	(138,392)	5.00
Outstanding at December 31, 2002	2,933,166	8.55

In addition, 600,000 Common Stock options were issued to the Company's Chairman outside the Plan on October 23, 1996. These options were issued at $8.82 per share and are exercisable through October 23, 2006. During the year 2002 all of these options were exercised.

Exercisable at year-end:

	Option Shares	Weighted Average Exercise Price
2000	2,457,584	$ 4.86
2001	1,820,836	5.73
2002	917,875	3.53

The following table summarizes information about stock options outstanding at December 31, 2002:

	Exercise Price Range			Total
	$1.67 to $5.16	$5.31 to $14.84	$15.47 to $20.39	$1.67 to $20.39
Outstanding options				
Number outstanding	1,360,916	1,171,250	401,000	2,933,166
Weighted average remaining contractual life (years)	4.25	6.00	6.64	5.28
Weighted average exercise price	$ 3.56	$ 11.09	$ 18.04	$ 8.55
Exercisable options				
Number outstanding	807,000	96,500	14,375	917,875
Weighted average exercise Price	$ 2.80	$ 7.57	$ 17.46	$ 3.53

The Company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25 and related Interpretations. No stock-based employee compensation cost is reflected in net income for options granted since all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. However, there are situations that may occur, such as the accelerated vesting of options, that require a current charge to income. The following table illustrates the effect on net income and earnings per share if the Company had applied

the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Year ended December 31,		
	2000	2001	2002
	(in thousands)		
Net income, as reported	$ 11,992	$ 23,758	$ 30,863
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—	270
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(290)	(773)	(1,971)
Pro forma net income	$ 11,702	$ 22,985	$ 29,162
Earnings per share:			
Basic—as reported	$ .40	$ .78	$ .82
Basic—pro forma	$ .39	$ .75	$ .77
Diluted—as reported	$ ..39	$ ..75	$ ..79
Diluted—pro forma	$ .38	$ .72	$ .75

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2000, 2001 and 2002:

	2000	2001	2002
Risk-free interest rate	6.0%	6.0%	3.0%
Volatility	35.0%	75.8%	50.0%
Dividend yield	0.0%	0.0%	0.0%
Expected life (years)	5	5	5

The effects of applying SFAS 123 in the above pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995. Additional awards in future years are anticipated.

11. Segment Information

The Company has determined that it currently operates in two segments: (1) gaming and (2) racing. The accounting policies for each segment are the same as those described in the "Summary of Significant Accounting Policies." The Company and the gaming industry use earnings before interest, taxes, depreciation and amortization, loss on change in fair value of interest rate swaps and gain/loss on sale of assets and inclusive of earnings from joint venture ("EBITDA"), as a means to evaluate performance. EBITDA is not a measure of performance or liquidity calculated in accordance with generally accepted accounting principles. EBITDA information is presented solely as a supplemental disclosure because management believes that it is a widely used measure of operating performance in the gaming industry. EBITDA should not be construed as an alternative to operating income, as an

indicator of the Company's operating performance, or as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure of performance determined in accordance with generally accepted accounting principles. The Company has significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in EBITDA. It should also be noted that other gaming companies that report EBITDA information may calculate EBITDA in a different manner than the Company.

The table below presents information about reported segments (in thousands):

Year ended December 31, 2000	Gaming(1)	Racing	Eliminations	Total
Revenue	$ 191,495	$ 101,937	$ (1,631)(2)	$ 291,801
EBITDA(3)	38,988	20,493		59,481
Total Assets	673,682	91,756	(325,538)(4)	439,900
Depreciation and Amortization	8,153	3,886		12,039
Capital Expenditures	24,191	3,104		27,295
Year ended December 31, 2001				
Revenue	$ 420,199	$ 98,713	$ (1,775)(2)	$ 517,137
EBITDA(3)	95,100	17,236		112,336
Total Assets	1,092,400	90,014	(503,037)(4)	679,377
Depreciation and Amortization	28,072	4,022		32,094

Capital Expenditures	38,856	2,655		41,511

Year ended December 31, 2002

Revenue	$ 556,809	$ 102,516	$ (1,779)(2)	$ 657,546
EBITDA(3)	126,246	15,113		141,359
Total Assets	1,198,009	98,358	(530,887)(4)	765,480
Depreciation and Amortization	33,012	3,444		36,456
Capital Expenditures	87,792	1,110		88,902

(1) Reflects results of the Mississippi properties since the August 8, 2000 acquisition, the CRC acquisition since April 28, 2001, and the Bullwhackers acquisition since the April 25, 2002.

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

(3) EBITDA consists of earnings before interest, taxes, depreciation and amortization, loss on change in fair value of interest rate swaps and gain/loss on sale of assets and inclusive of earnings from joint venture.

(4) Primarily reflects elimination of intercompany investments, receivables and payable.

12. Summarized Quarterly Data (Unaudited)

Following is a summary of the quarterly results of operations for the years ended December 31, 2001 and 2002:

	Fiscal Quarter			
	First	Second	Third	Fourth
	(In thousands, except per share data)			
2001				
Net revenues	$ 104,386	$ 131,973	$ 145,006	$ 135,772
Income from operations	14,775	21,240	23,301	17,575
Net income	4,616	6,488	7,713	4,941
Basic net income per share	.16	.21	.25	.16
Diluted net income per share	.16	.20	.24	.15
2002				
Net revenues	$ 153,596	$ 165,029	$ 175,399	$ 163,522
Income from operations	24,696	27,197	28,403	21,827
Income from extraordinary item	9,282	9,162	9,944	7,626
Net income	4,131	9,162	9,944	7,626
Basic income per share before extraordinary item	.25	.24	.25	.21
Basic net income per share	.12	.24	.25	.21
Diluted income per share before extraordinary item	.25	.23	.25	.19
Diluted net income per share	.12	.23	.25	.19

13. Earnings per Share

Options to purchase 1,181,000, 156,000, and 337,500 shares of common stock were outstanding during the years ended December 31, 2000, 2001 and 2002, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore the effect would be antidilutive. The following represents a reconciliation from basic earnings per share to diluted earnings per share.

	Year ended December 31,		
	2000	2001	2002
	(in thousands)		
Determination of shares:			
Weighted average common shares outstanding	29,936	30,653	37,775
Assumed conversion of dilutive stock options	950	1,184	1,319
Diluted weighted average common shares outstanding	30,886	31,837	39,094

14. Related Party Transactions

Life Insurance Policies

The Company paid premiums on life insurance policies (the "Policies") on behalf of certain irrevocable trusts (the "Trusts") created by the Company's Chief Executive Officer ("CEO"). The

policies cover the CEO's life and that of his spouse. The Trusts are the owners and beneficiaries of the policies and are obligated to reimburse the Company for all premiums paid when the insurance matures or upon death. As of December 31, 2002, the Company has recorded receivables from such trusts in the amount of $1,418,000. The Company paid premiums of $238,000, $238,000, and $227,000 in 2000, 2001, and 2002, respectively. No premium payments were made after September 2002.

Executive Office Lease

The Company leases two executive office facilities from an affiliate of its Chief Executive Officer. Rent expense for the years ended December 31, 2000, 2001 and 2002 amounted to $105,000, $105,000, and $154,000. These leases expire in March 2005 and June 2012 and provide for minimum annual future payments of $238,000.

Airplane Lease

For each of the three years in the period ended December 31, 2002, the Company leased an aircraft from a company owned by an outside Director of the Company. The lease provides for monthly payments of $27,775.

15. Subsequent Events

Hollywood Casino Corporation

On March 3, 2003, the Company completed its acquisition of Hollywood Casino Corporation (HWD:AMEX) ("Hollywood Casino") and acquired 100 percent of its outstanding common stock for approximately $774.3 million in cash, including related acquisition costs and the repayment of existing debt of Hollywood Casino. The results of operations for Hollywood Casino will be included in the consolidated financial statements from such date. Hollywood Casino owns and operates distinctively themed casino entertainment facilities in major gaming markets in Aurora, Illinois, Tunica, Mississippi and Shreveport, Louisiana. As a result of the acquisition, the Company believes it will become the seventh largest gaming company in the United States (based on gaming revenues). The acquisition will expand the Company's customer base and provide increased geographic diversity, allowing the Company to be less dependent on one property (Charles Town) for financial growth. Under the terms of the purchase agreement, a wholly-owned subsidiary of the Company merged with and into Hollywood Casino, and Hollywood Casino stockholders received cash in the amount of $12.75 per share at closing or $328.1 million and holders of Hollywood Casino stock options received $19.0 million (representing the aggregate difference between $12.75 per share and their option exercise prices).

Litigation of Hollywood Casino Corporation

On March 3, 2003, the Company acquired Hollywood Casino. Since this acquisition was consummated through the merger of one of the Company's wholly-owned subsidiaries into Hollywood Casino, the consolidated financial condition and results of operations may now be affected by the final outcome of any pending legal or administrative proceedings against Hollywood Casino or its subsidiaries. At present, the Company does not believe that the final outcome of these matters will have a material adverse effect on its consolidated financial position or results of operations. However, the Company has only recently begun to integrate Hollywood and its properties into its operations and is still developing a first-hand understanding of its operations.

$800 Million Senior Secured Credit Facility

On March 3, 2003, the Company entered into an $800 million senior secured credit facility with a syndicate of lenders that replaced the Company's $350 million credit facility.

The credit facility is comprised of a $100.0 million revolving credit facility maturing on September 1, 2007, a $100.0 million Term A facility loan maturing on September 1, 2007 and a $600 million Term B Facility loan maturing on September 1, 2007. The maturity dates will be extended to the fifth anniversary dates for the revolving and Term A loans and the sixth anniversary date for the Term B loan if the Company's outstanding $11\frac{1}{8}\%$ Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after March 3, 2003. Up to $20.0 million of the revolving credit facility may be used for the issuance of standby letters of credit. In addition, up to $20 million of the revolving credit facility also may be used for short-term credit to be provided to the Company on a same-day basis. On March 3, 2003 the Company borrowed the entire Term A and Term B term loans to complete the purchase of Hollywood Casino and to call their $360 million Senior Secured Notes.

At the Company's option, the revolving and the Term A credit facilities may bear interest at (1) the highest of $\frac{1}{2}$ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 2.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 3.25%, in either case, with the applicable rate based on the Company's total leverage. The Term B credit facility may bear interest at (1) the highest of $\frac{1}{2}$ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 3.00%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 4.00%, in either case, with the applicable rate based on the Company's total leverage.

The terms of the Company's $800 million senior secured credit facility require the Company to satisfy certain financial covenants, such as leverage and fixed charge coverage ratios, and limitations on indebtedness, liens, investments and capital expenditures.

Hollywood Shreveport Notes

Hollywood Casino Shreveport and Shreveport Capital Corporation are co-issuers of $150 million aggregate principal amount of 13% senior secured notes due 2006 and $39 million aggregate principal amount of 13% first mortgage notes due 2006 (the "Hollywood Shreveport Notes"). Hollywood Casino Shreveport is a general partnership that owns and operates the Hollywood Shreveport casino. Shreveport Capital Corporation is a wholly owned subsidiary of Hollywood Casino Shreveport formed solely for the purpose of being a co-issuer of the Hollywood Shreveport Notes.

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

The indentures governing the Hollywood Shreveport Notes require the issuers to make an offer to purchase the Hollywood Shreveport Notes at 101% of the principal amount thereof within 10 days of the occurrence of a "Change of Control" as defined in the indentures. A "Change of Control" was

deemed to have occurred under the indentures on March 3, 2003 as a result of the consummation of the merger of Penn's wholly owned subsidiary with and into Hollywood Casino Corporation. Hollywood Casino Shreveport determined that it does not have the liquidity to repurchase the Hollywood Shreveport Notes at 101% of their principal amount and, accordingly, could not make an offer to purchase the Hollywood Shreveport Notes as required under the indentures.

On March 14, 2003, Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Shreveport Notes that they have 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Shreveport Notes or an "Event of Default" will have occurred under the indentures. There can be no assurance that an "Event of Default" will not occur and that the holders of the Hollywood Shreveport Notes will not pursue all rights and remedies that they may have under the indentures as a result. Further, any action on the part of the noteholders may require the Shreveport Entities to seek the protection of the bankruptcy laws or other similar remedies.

Termination of Interest Rate Swap Agreement

Effective March 3, 2003, the Company terminated its $36 million notional amount interest rate swap originally scheduled to expire in June 2004. The Company paid $1.9 million to terminate the swap agreement.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item concerning directors is hereby incorporated by reference to our definitive proxy statement for our 2003 Annual Meeting of Shareholders, or our 2003 Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. Information required by this item concerning executive officers is included in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for in this item is hereby incorporated by reference to our 2003 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information called for in this item is hereby incorporated by reference to our 2003 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for in this item is hereby incorporated by reference to our 2003 Proxy Statement.

ITEM 14. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 18, 2003, we completed an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief

executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls

There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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

(a) 1 and 2. Financial Statements and Financial Statement Schedules. The following is a list of our Consolidated Financial Statements and supplementary data filed as part of Item 8 hereof:

Report of Independent Certified Public Accountants

Consolidated Balance Sheets as of December 31, 2001 and 2002

Consolidated Statements of Income for the years ended December 31, 2000, 2001 and 2002

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2000, 2001 and 2002

Consolidated Statements of Cash Flows for the years ended December 31, 2000, 2001 and 2002

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits, Including Those Incorporated by Reference.

The exhibits to this Report are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K.

We did not file any reports on Form 8-K during the fourth quarter 2002.

SIGNATURES

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

PENN NATIONAL GAMING, INC.

Dated: March 27, 2003

By: /s/ PETER M. CARLINO

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Each person whose signature appears below in so signing also makes, constitutes and appoints Robert S. Ippolito his true and lawful attorney-in-fact, in his name, place and stead to execute and cause to be filed with the Securities and Exchange Commission any or all amendments to this report.

Signature	Title	Date
/s/ PETER M. CARLINO Peter M. Carlino	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 27, 2003
/s/ KEVIN DESANCTIS Kevin DeSanctis	President and Chief Operating Officer	March 27, 2003
/s/ WILLIAM J. CLIFFORD	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)	March 27, 2003

William J. Clifford /s/ ROBERT S. IPPOLITO Robert S. Ippolito	Vice President, Secretary and Treasurer (Principal Accounting Officer)	March 27, 2003
/s/ HAROLD CRAMER Harold Cramer	Director	March 27, 2003
/s/ DAVID A. HANDLER David A. Handler	Director	March 27, 2003
/s/ ROBERT P. LEVY Robert P. Levy	Director	March 27, 2003
/s/ JOHN M. JACQUEMIN John M. Jacquemin	Director	March 27, 2003

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934

I, Peter M. Carlino, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 27, 2003

/s/ PETER M. CARLINO

Peter M. Carlino
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934

I, William J. Clifford, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 27, 2003

/s/ WILLIAM J. CLIFFORD

William J. Clifford
Senior Vice President-Finance and Chief
Financial Officer

EXHIBIT INDEX

Exhibit	Description of Exhibit
2.1	First Amendment to Asset Purchase Agreement dated as of January 28, 1999 by and between among Greenwood New Jersey, Inc., International Thoroughbred Breeders, Inc., Garden State Race Track, Inc., Freehold Racing Association, Atlantic City Harness Inc., Circa 1850, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated February 12, 1999).
2.2	Asset Purchase Agreement dated as of December 9, 1999 between BSL, Inc. and Casino Magic Corp. (Incorporated by reference to the Company's current report on Form 8-K, filed December 20, 1999).
2.3	First Amendment to Asset Purchase Agreement dated as of December 17, 1999 between BSL, Inc. and Casino Magic Corp. (Incorporated by reference to the Company's current report on Form 8-K, filed December 20, 1999).
2.4	Second Amendment to Asset Purchase Agreement dated as of August 1, 2000 between BSL, Inc. and Casino Magic Corp. (Incorporated by reference to the Company's current report on Form 8-K, filed August 23, 2000).
2.5	Asset Purchase Agreement dated as of December 9, 1999 between BTN, Inc. and Boomtown Inc. (Incorporated by reference to the Company's current report on Form 8-K, filed December 20, 1999).
2.6	First Amendment to Asset Purchase Agreement dated as of December 17, 1999 between BTN, Inc. and Boomtown Inc. (Incorporated by reference to the Company's current report on Form 8-K, filed December 20, 1999).
2.7	Second Amendment to Asset Purchase Agreement dated as of August 1, 2000 between BTN, Inc. and Boomtown Inc. (Incorporated by reference to the Company's current report on Form 8-K, filed August 23, 2000).
2.8	Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc., Sherwood Weiser and Donald E. Lefton, dated as of July 31, 2000. (Incorporated by reference to the Company's current report on Form 8-K, filed August 8, 2000).
2.9	Stock Purchase Agreement by and among Penn National Gaming, Inc., Dan S. Meadows, Thomas L. Meehan and Jerry L. Bayles, dated as of July 31, 2000. (Incorporated by reference to the Company's current report on Form 8-K, filed August 8, 2000).
2.10	Agreement and Plan of Merger, dated as of August 7, 2002, by and among Hollywood Casino Corporation, Penn National Gaming, Inc. and P Acquisition Corp. (Incorporated by reference to the Company's current

	report on Form 8-K, dated August 7, 2002).
3.1	Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on October 15, 1996. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on November 13, 1996. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.3	Statement with respect to shares of Series A Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on March 16, 1999. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).

3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 23, 2001. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
3.5	Bylaws of Penn National Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
4.1	Rights Agreement dated as of March 2, 1999, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to the Company's current report on Form 8-K, dated March 17, 1999).
4.2	Indenture dated as of March 12, 2001 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the Series A and Series B $11^{1}/_{8}$% Senior Subordinated Notes due 2008. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2001).
4.3	Form of Penn National Gaming, Inc. Series A $11^{1}/_{8}$% Senior Subordinated Note due 2008. (Included as Exhibit A to Exhibit 4.2).
4.4	Form of Penn National Gaming, Inc. Series B $11^{1}/_{8}$% Senior Subordinated Note due 2008. (Included as Exhibit A to Exhibit 4.2).
4.5	Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the $11^{1}/_{8}$% Senior Subordinated Notes due 2008. (Included as Exhibit F to Exhibit 4.2).
4.6*	Supplemental Indenture dated as of December 20, 2002 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the $11^{1}/_{8}$% Senior Subordinated Notes due 2008.
4.7	Indenture dated as of February 28, 2002 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the $8^{7}/_{8}$% Senior Subordinated Notes due 2010. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
4.8	Form of Penn National Gaming, Inc. $8^{7}/_{8}$% Senior Subordinated Note due 2010. (Included as Exhibit A to Exhibit 4.7).
4.9	Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the $8^{7}/_{8}$% Senior Subordinated Notes due 2010. (Included as Exhibit F to Exhibit 4.7).
4.10*	Supplemental Indenture dated as of December 20, 2002 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the $8^{7}/_{8}$% Senior Subordinated Notes due 2010.
4.11	Registration Rights Agreement dated as of March 12, 2001 by and among Penn National Gaming, Inc., certain of its subsidiaries, and Lehman Brothers Inc. and CIBC World Markets Corp. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2001).
9.1	Form of Trust Agreement of Peter D. Carlino, Peter M. Carlino, Richard J. Carlino, David E. Carlino, Susan F. Harrington, Anne de Lourdes Irwin, Robert M. Carlino, Stephen P. Carlino and Rosina E. Carlino Gilbert. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.1#	1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.2#	Employment Agreement dated April 12, 1994 between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).

10.3#	Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.4#	Employment Agreement dated April 12, 1994 between Penn National Gaming, Inc. and Robert S. Ippolito. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.5#	Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Robert S. Ippolito. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.6#	Employment Agreement dated February 2001 between Penn National Gaming, Inc. and Kevin DeSanctis. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).

10.7#	Employment Agreement dated July 30, 2001 between Penn National Gaming, Inc. and William Clifford. (Incorporated by referenced to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
10.8#*	Employment Agreement dated September 3, 2002 between Penn National Gaming, Inc. and Jordan B. Savitch.
10.9	Lease dated March 7, 1991 between Shelbourne Associated and PNRC Limited Partnership. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.10	Lease dated June 30, 1993 between John E. Kyner, Jr. and Sandra R. Kyner, and PNRC Chambersburg, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.11	Consulting Agreement dated August 29, 1994, between Penn National Gaming, Inc. and Peter D. Carlino. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1994).
10.12	Lease dated July 7, 1994, between North Mall Associates and Penn National Gaming, Inc. for the York OTW. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1994).
10.13	Lease dated March 31, 1995 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc. for the Wyomissing Corporate Office. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1995).
10.14	Lease dated July 17, 1995 between E. Lampeter Associates and Pennsylvania National Turf Club, Inc. for the Lancaster OTW, as amended. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1995).
10.15#	Agreement dated September 1, 1995 between Mountainview Thoroughbred racing Association and Pennsylvania National Turf Club, Inc. and Sports Arena Employees' Union Local 137 (non-primary location). (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1995).
10.16	Agreement dated December 27, 1995 between Pennsylvania National Turf Club, Inc. and Teleview Racing Patrols, Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1995).
10.17	Amended and Restated Option Agreement dated as of February 17, 1995 between the PNGI Charles Town Gaming Limited Liability Company (The Joint Venture) and Charles Town Racing Limited Partnership and Charles Town Races, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 1996).

10.18	Agreement dated January 1, 2001 by and between PNGI Charles Town Gaming Limited Liability Company, or its successors, and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL-CIO. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2000).
10.19	Agreement dated October 2, 1996 between Pennsylvania National Turf Club, Inc., Mountainview Racing Association and Sports Arena Employees' Union Local No. 137 (Primary Location). (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1997).
10.20	Lease dated July 1, 1997 between Laurel Mall Associated and the Downs Off-Track Wagering, Inc. (Incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 1997).
10.21	Totalisator Agreement dated November 19, 1997, between Penn National Gaming, Inc. and AutoTote Systems, Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1997).
10.22	Purchase Agreement dated July 7, 1998, between Ladbroke Racing Management—Pennsylvania and Mountainview Thoroughbred Racing Association. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1998).
10.23	Lease Agreement between Penn National Gaming, Inc. and Eagle Valley Realty dated July 14, 1998 relating to the Johnstown OTW. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 1998).
10.24	Joint Venture Agreement dated October 30, 1998 between Penn National Gaming, Inc. and Greenwood New Jersey, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 1998).
10.25	Amendment dated November 2, 1998 to Joint Venture Agreement between Penn National Gaming, Inc. and Greenwood New Jersey, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 1998).
10.26	First Amendment to Joint Venture Agreement dated as of January 28, 1999, by and between Greenwood New Jersey, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K filed February 12, 1999).
10.27	Second Amendment to Joint Venture Agreement dated as of July 29, 1999, between Penn National Gaming, Inc. and Greenwood Racing, Inc., as successor in interest to Greenwood New Jersey, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.28	Shareholder's Agreement dated July 29, 1999, between Penn National Holding Company and Greenwood Racing, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.29	Amended and Restated Limited Partnership Agreement dated July 29, 1999, between FR Park Racing, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.30	Amended and Restated Limited Partnership Agreement dated July 29, 1999, between FR Park Services, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).

10.31	Amended and Restated Limited Partnership Agreement dated July 29, 1999, between GS Park Racing, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.32	Amended and Restated Limited Partnership Agreement dated July 29, 1999, between GS Park Services, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.33	Subordination and Intercreditor Agreement dated July 29, 1999, between Penn National Gaming, Inc., FR Park Racing, L.P., and Commerce Bank, N.A. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.34	Debt Service Maintenance Agreement dated July 29, 1999, between Penn National Gaming, Inc. and Commerce Bank, N.A. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 1999).
10.35	Guaranty of Penn National Gaming, Inc. to Casino Magic Corp. dated December 9, 1999. (Incorporated by reference to the Company's current report on Form 8-K filed December 20, 1999).
10.36	Guaranty of Hollywood Park, Inc. to BSL, Inc. dated December 9, 1999. (Incorporated by reference to the Company's current report on Form 8-K filed December 20, 1999).
10.37	Assignment and Assumption of Lease Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and Ladbroke Racing Management-Pennsylvania. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1998).
10.38	Subordination, Non-Disturbance and Attornment Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and CRIIMI MAE Services Limited Partnership. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1998).
10.39	Live Racing Agreement dated March 23, 1999 between Pennsylvania National Turf Club, Inc. and Mountainview Thoroughbred Racing Association and Pennsylvania Horsemen's Benevolent and Protection Association, Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1998).
10.40	Guaranty of Penn National Gaming, Inc. to Boomtown, Inc. dated December 9, 1999. (Incorporated by reference to the Company's current report on Form 8-K filed December 20, 1999).
10.41	Guaranty of Hollywood Park, Inc. to BTN, Inc. dated December 9, 1999. (Incorporated by reference to the Company's current report on Form 8-K filed December 20, 1999).
10.42*	Harness Horsemen agreement effective January 16, 2003 between The Downs Racing, Inc. and the the Pennsylvania Harness Horsemen's Association, Inc.
10.43*	Agreement dated May 7, 1997 between PNGI Charles Town Gaming, LLC and Charles Town H.B.P.A., Inc.
10.44	Thoroughbred horsemen letter dated February 24, 2000 between PNGI Charles Town Gaming, LLC and the Charles Town thoroughbred horsemen. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1999).
10.45*	Amendment dated December 20, 2002 to the Agreement between PNGI Charles Town Gaming, LLC and Charlestown H.B.P.A., Inc.
10.46	Agreement dated March 7, 2000 between Penn National Gaming, Inc. and Trackpower, Inc. and eBet Limited, Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1999).

10.47	Purchase Agreement dated March 15, 2000, between PNGI Charles Town Gaming, LLC and BDC Group. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2000).
10.48	Credit Agreement among Penn National Gaming, Inc., as Borrower, the Several Lenders from time to time parties hereto, Lehman Brothers Inc., as Lead Arranger and Book- Running Manager, CIBC World Markets Corp., as Co-Lead Arranger and Co-Book Running Manager, Lehman Commercial Paper Inc., as Syndication Agent, Canadian Imperial Bank of Commerce, as Administrative Agent, and The CIT Group/Equipment Financing, Inc., First Union National Bank and Wells Fargo Bank, N.A., as Documentation Agents, dated as of August 8, 2000. (Incorporated by reference to the Company's Form 8-K filed August 23, 2000).
10.49	Amendment No. 1 dated as of October 4, 2000 to Credit Agreement among Penn National Gaming, Inc., as Borrower, the Lenders under the Credit Agreement, Lehman Commercial Paper Inc., as syndication agent for the Lenders, and Canadian Imperial Bank of Commerce, as administrative agent for the Lenders. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2001).
10.50	Amendment No. 2 dated as of April 5, 2001 to Credit Agreement among Penn National Gaming, Inc., as Borrower, the Lenders under the Credit Agreement, Lehman Commercial Paper Inc., as syndication agent for the Lenders, and Canadian Imperial Bank of Commerce, as administrative agent for the Lenders. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2001).
10.51	Amendment No. 3 dated as of February 22, 2002 to Credit Agreement among Penn National Gaming, Inc., as Borrower, the Lenders under the Credit Agreement, Lehman Commercial Paper Inc., as syndication agent for the Lenders, and Canadian Imperial Bank of Commerce, as administrative agent for the Lenders. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2002).
10.52	Amendment No. 4 dated as of April 25, 2002 to Credit Agreement among Penn National Gaming, Inc., as Borrower, the Lenders under the Credit Agreement, Lehman Commercial Paper Inc., as syndication agent for the Lenders, and Canadian Imperial Bank of Commerce, as administrative agent for the Lenders. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2002).
10.53	Amendment No. 5 dated as of November 13, 2002 to Credit Agreement among Penn National Gaming, Inc., as Borrower, the Lenders under the Credit Agreement, Lehman Commercial Paper Inc., as syndication agent for the Lenders, and Canadian Imperial Bank of Commerce, as administrative agent for the Lenders. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2002).
10.54	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and Edward T. Pratt, Jr. (Incorporated by reference to the Company's current report on

	Form 8-K filed August 9, 2002).
10.55	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and Lisa Pratt and Edward T. Pratt, III. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.56	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and Aileen Pratt and Jack E. Pratt, Sr. (Incorporated by reference to the Company's current report on Form 8-K, filed August 9, 2002).

10.57	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and William D. Pratt. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.58	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and Maria A. Pratt. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.59	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and Sharon Pratt Naftel. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.60	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and Diana Pratt Wyatt. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.61	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc. Hollywood Casino Corporation and Carolyn Pratt Hickey. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.62	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc. Hollywood Casino Corporation and Michael Shannon Pratt. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.63	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and Jill Pratt LaFerney. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.64	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and John R. Pratt. (Incorporated by reference to the Company's current report on Form 8-K, filed August 9, 2002).
10.65	Stockholder Agreement, dated as of August 7, 2002, by and among Penn National Gaming, Inc., Hollywood Casino Corporation and William D. Pratt Jr. (Incorporated by reference to the Company's current report on Form 8-K filed August 9, 2002).
10.66*	Credit Agreement, dated March 3, 2003, among Penn National Gaming, Inc., Bear Stearns & Co., Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear Stearns Corporate Lending Inc., Socìete Generale, Credit Lyonnais New York Branch and the lenders party thereto.
21*	Subsidiaries of the Registrant.
23.1*	Consent of BDO Seidman, LLP.
24.1*	Power of attorney (included on the signature page to this Form 10-K report).
99.1*	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
99.2*	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

Compensation plans and arrangements for executives and others.

* Filed herewith.

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Exhibit 4.6

THIRD SUPPLEMENTAL INDENTURE

THIRD SUPPLEMENTAL INDENTURE (this "*Supplemental Indenture*"), dated as of December 20, 2002, among Penn National Gaming, Inc., a Pennsylvania corporation (the "*Company*"), the Guarantors (as defined in the Indenture referred to herein) and State Street Bank and Trust Company, as trustee under the Indenture referred to below (the "*Trustee*").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "*Original Indenture*"), dated as of March 12, 2001 providing for the issuance of an aggregate principal amount of up to $200 million of 11 1/8% Senior Subordinated Notes due 2008 (the "*Notes*"), a First Supplemental Indenture dated as of May 25, 2001 and a Second Supplemental Indenture dated as of June 4, 2002 (together with the Original Indenture, the *"Indenture*"):

WHEREAS, Section 9.01 of the Indenture provides that the Company, the Guarantors and the Trustee may amend or supplement the Indenture without the consent of any holders of the Notes to cure any ambiguity, defect or inconsistency;

WHEREAS, it has been determined by the Company that ambiguities, defects and/or inconsistencies exist by reason of the inadvertent failure of the Original Indenture to conform to the offering memorandum and prospectus pursuant to which the Notes were originally offered and sold, and the respective Boards of Directors of the Company and of the Guarantors have authorized this Supplemental Indenture to cure such ambiguities, defects and/or inconsistencies; and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, each Guarantor and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENTS TO INDENTURE. The Original Indenture shall be amended as follows:

(a) by removing Section 6.01(f) in its entirety and replacing it with the following provision:

"(f) a final judgment or final judgments for the payment of money are entered by a court or courts of competent jurisdiction against the Company or any of its Restricted Subsidiaries and such judgment or judgments remain undischarged for a period (during which execution shall not be effectively stayed) of 60 days; *provided* that the aggregate of all such undischarged judgments exceeds $5 million;"

(b) by removing Sections 6.01(h) and (i) in their entirety and replacing them with the following provisions:

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

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(i) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (1) is for relief against the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, in an involuntary case; (2) appoints a custodian of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary or for all or substantially all of the property of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary; or (3) orders the liquidation of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary; and the order or decree remains unstayed and in effect for 60 consecutive days."

(c) by removing the first paragraph of Section 6.02 in its entirety and replacing it with the following paragraph:

"If any Event of Default (other than an Event of Default specified in clause (h) or (i) of Section 6.01 hereof with respect to the Company, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. Upon any such declaration, the Notes shall become due and payable immediately. Notwithstanding the foregoing, if an Event of Default specified in clause (h) or (i) of Section 6.01 hereof occurs with respect to the Company, any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, all outstanding Notes shall be due and payable immediately without further action or notice. The Holders of a majority in aggregate principal amount of the then outstanding Notes by written notice to the Trustee may on

behalf of all of the Holders rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if the Trustee shall have received an Officers' Certificate that all existing Events of Default (except nonpayment of principal, interest or premium that has become due solely because of the acceleration) have been cured or waived."

3. The Company, the Guarantors and the Trustee hereby agree that in all respects not amended, the Indenture is hereby ratified and affirmed and remains in full force and effect.

4. NEW YORK LAW TO GOVERN. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

5. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Company and each Guarantor.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

Name: Peter M. Carlino
Title: Chief Executive Officer

MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENNSYLVANIA NATIONAL TURF CLUB, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL SPEEDWAY, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary

STERLING AVIATION INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL HOLDING COMPANY

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

EBETUSA.COM, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PNGI POCONO, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

TENNESSEE DOWNS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL GSFR, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

BSL, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

BTN, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY
By: Penn National Gaming of West Virginia, Inc.,
Managing Member

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

THE DOWNS RACING, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

WILKES BARRE DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

BACKSIDE, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Assistant Secretary

MILL CREEK LAND, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

NORTHEAST CONCESSIONS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer/Vice President

PNGI CHARLES TOWN FOOD &
BEVERAGE LIMITED LIABILITY COMPANY

By: PNGI Charles Town Gaming Limited Liability Company, Member

By: Penn National Gaming of West Virginia, Inc., Managing Member

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

CRC HOLDINGS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

LOUISIANA CASINO CRUISES, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
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CHC CASINOS CORP.

By: /s/ ROBERT S. IPPOLITO

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PENN BULLPEN, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
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PENN BULLWHACKERS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
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PENN MILLSITE, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN SILVER HAWK, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

STATE STREET BANK AND TRUST
COMPANY, as Trustee

By: /s/ PHILIP G. KANE, JR.

Philip G. Kane, Jr.
Vice President

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Exhibit 4.10

SECOND SUPPLEMENTAL INDENTURE

SECOND SUPPLEMENTAL INDENTURE (this "*Supplemental Indenture*"), dated as of December 20, 2002, among Penn National Gaming, Inc., a Pennsylvania corporation (the "*Company*"), the Guarantors (as defined in the Indenture referred to herein) and State Street Bank and Trust Company, as trustee under the Indenture referred to below (the "*Trustee*").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "*Original Indenture*"), dated as of February 28, 2002 providing for the issuance of an aggregate principal amount of up to $175 million of 8$^{7}/_{8}$% Senior Subordinated Notes due 2010 (the "*Notes*") and a First Supplemental Indenture dated as of June 4, 2002 (together with the Original Indenture, the "*Indenture*"):

WHEREAS, Section 9.01 of the Indenture provides that the Company, the Guarantors and the Trustee may amend or supplement the Indenture without the consent of any holders of the Notes to cure any ambiguity, defect or inconsistency;

WHEREAS, it has been determined by the Company that ambiguities, defects and/or inconsistencies exist by reason of the inadvertent failure of the Original Indenture to conform to the prospectus pursuant to which the Notes were originally offered and sold, and the respective Boards of Directors of the Company and of the Guarantors have authorized this Supplemental Indenture to cure such ambiguities, defects and/or inconsistencies; and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, each Guarantor and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENTS TO INDENTURE. The Original Indenture shall be amended as follows:

(a) by removing the definitions of "Existing Indebtedness" and "Guarantor" set forth in Section 1.01 in their entirety and replacing them with the following definitions:

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

'*Guarantor*' means each of (1) all Subsidiaries of the Company on the date of this Indenture that are guarantors under the Company's indenture dated March 12, 2001 with respect to the Company's 11$^{1}/_{8}$% senior subordinated notes due 2008 and listed on Schedule I hereto; and (2) any other Subsidiary that executes a Subsidiary Guarantee in accordance with the provisions of this Indenture; and their respective successors and assigns."

(b) by removing clause (15) of the definition of "Permitted Investments" set forth in Section 1.01 in its entirety and replacing it with the following clause:

"(15) the Notes, Indebtedness under the Senior Credit Facilities and the Company's 11$^{1}/_{8}$% senior subordinated notes due 2008 and guarantees related thereto;"

(c) by adding the following sentence to Section 2.14:

"All Notes issued under this Indenture will rank *pari passu* in right of payment with the Company's 11$^{1}/_{8}$% senior subordinated notes due 2008 in the aggregate principal amount of $200,000,000."

(d) by removing Section 4.07(c) in its entirety and replacing it with the following:

"(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Company and its Restricted Subsidiaries after the date of this Indenture (excluding Restricted Payments permitted by clauses (ii), (iii) and (iv) of the next succeeding paragraph), is less than the sum, without duplication, of: (i) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing on April 1, 2001 to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), *plus* (ii) 100% of the aggregate net cash proceeds received by the Company since March 12, 2001 as a contribution to its common equity capital or from the issue or sale of Equity Interests of the Company (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of the Company that have been converted into or exchanged for such Equity Interests (other than Equity Interests

(or Disqualified Stock or debt securities) sold to a Subsidiary of the Company), *plus* (iii) to the extent that any Restricted Investment that was made after March 12, 2001 is sold for cash or otherwise liquidated or repaid for cash, the lesser of (A) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (B) the initial amount of such Restricted Investment, *plus* (iv) to the extent that any Unrestricted Subsidiary of the Company is redesignated as a Restricted Subsidiary in compliance with Section 4.18 hereof after the Issue Date, the lesser of (A) the fair market value of the Company's Investment in such Subsidiary as of the date of such redesignation or (B) such fair market value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary."

(e) by removing Section 6.01(f) in its entirety and replacing it with the following provision:

"(f) a final judgment or final judgments for the payment of money are entered by a court or courts of competent jurisdiction against the Company or any of its Restricted Subsidiaries and such judgment or judgments remain undischarged for a period (during which execution shall not be effectively stayed) of 60 days; *provided* that the aggregate of all such undischarged judgments exceeds $5 million;"

(f) by removing Sections 6.01 (h) and (i) in their entirety and replacing them with the following provisions:

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

(i) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (1) is for relief against the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, in an involuntary case; (2) appoints a custodian of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary or for all or substantially all of the property of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary; or (3) orders the liquidation of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary; and the order or decree remains unstayed and in effect for 60 consecutive days."

(g) by removing the first paragraph of Section 6.02 in its entirety and replacing it with the following paragraph:

"If any Event of Default (other than an Event of Default specified in clause (h) or (i) of Section 6.01 hereof with respect to the Company, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. Upon any such declaration, the Notes shall become due and payable immediately. Notwithstanding the foregoing, if an Event of Default specified in clause (h) or (i) of Section 6.01 hereof occurs with respect to the Company, any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, all outstanding Notes shall be due and payable immediately without further action or notice. The Holders of a majority in aggregate principal amount of the then outstanding Notes by written notice to the Trustee may on behalf of all of the Holders rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if the Trustee shall have received an Officers' Certificate that all existing Events of Default (except nonpayment of principal, interest or premium that has become due solely because of the acceleration) have been cured or waived."

(h) by removing the first clause of Section 10.03(a) (ii) and replacing it with the following clause:

"any other default on Designated Senior Debt occurs and is continuing that then permits holders of the Designated Senior Debt to accelerate its maturity and the Trustee receives a notice of the default (a "*Payment Blockage Notice*") from the Credit Agent, the Company or any holder of any Designated Senior Debt."

(i) by removing the first sentence of Section 4 of Exhibit A—Form of Note and replacing it with the following sentence:

"The Company issued the Notes under an Indenture dated as of February 28, 2002 ("*Indenture*") between the Company, the Guarantors and the Trustee."

(j) by adding the following to the end of each of clauses (i) and (ii) of Section 12 of Exhibit A—Form of Note:

", without regard to the subordination provisions of Article X of the Indenture,"

(k) by deleting Section 17 of Exhibit A—Form of Note (which shall result in Section 18 being renumbered as Section 17), and

(l) by adding the following as Section 18 to Exhibit A (Form of Note):

"18. *RANKING*. This Note ranks *pari passu* in right of payment with the Company's $11^1/8\%$ senior subordinated notes due 2008 in the aggregate principal amount of $200,000,000 and will rank *pari passu* in right of payment with any Additional Notes."

3. The Company, the Guarantors and the Trustee hereby agree that in all respects not amended, the Indenture is hereby ratified and affirmed and remains in full force and effect.

4. NEW YORK LAW TO GOVERN. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

5. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Company and each Guarantor.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

Name: Peter M. Carlino
Title: Chief Executive Officer

MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENNSYLVANIA NATIONAL TURF CLUB, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL SPEEDWAY, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary

STERLING AVIATION INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL HOLDING COMPANY

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

EBETUSA.COM, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PNGI POCONO, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

TENNESSEE DOWNS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN NATIONAL GSFR, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

BSL, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

BTN, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY
BY: Penn National Gaming of West Virginia, Inc.,
Managing Member

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

THE DOWNS RACING, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

WILKES BARRE DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

BACKSIDE, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Assistant Secretary

MILL CREEK LAND, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

NORTHEAST CONCESSIONS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer/Vice President

PNGI CHARLES TOWN FOOD &
BEVERAGE LIMITED LIABILITY COMPANY

BY: PNGI Charles Town Gaming Limited Liability Company, Member

BY: Penn National Gaming of West Virginia, Inc., Managing Member

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

CRC HOLDINGS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

LOUISIANA CASINO CRUISES, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

CHC CASINOS CORP.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN BULLPEN, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN BULLWHACKERS, INC.

/s/ ROBERT S. IPPOLITO

By: _____
Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN MILLSITE, INC.

By: /s/ ROBERT S. IPPOLITO
Name: Robert S. Ippolito
Title: Secretary/Treasurer

PENN SILVER HAWK, INC.

By: /s/ ROBERT S. IPPOLITO
Name: Robert S. Ippolito
Title: Secretary/Treasurer

STATE STREET BANK AND TRUST
COMPANY, as Trustee

By: /s/ PHILIP G. KANE, JR.
Philip G. Kane, Jr.
Vice President

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EXHIBIT 10.8

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of September 3, 2002, by and between PENN NATIONAL GAMING, INC., a Pennsylvania corporation (the "Company"), and JORDAN SAVITCH ("Executive"), an individual residing in Pennsylvania.

WHEREAS, Executive desires to become employed by the Company, and the Company desires to employ Executive upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. *Employment.* The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1 *Duties and Responsibilities.* Commencing on September 3, 2002 (the "Commencement Date"), Executive shall serve as the Senior Vice President and General Counsel of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Company's Chief Executive Officer or by the Board of Directors (the "Board").

1.2 *Term.* The term of this Agreement shall begin on the date hereof and shall terminate on the second anniversary of the Commencement Date (the "Initial Term") unless earlier terminated in accordance with Section 3 hereof. This Agreement shall automatically renew for additional one-year periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") unless either party has delivered written notice of non-renewal at least 90 days prior to the start of a Renewal Term or unless earlier terminated in accordance with Section 3 hereof.

1.3 *Extent of Service.* Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from engaging in other business activities, provided that Executive agrees not to become engaged in any other business activity which, in the reasonable judgment of the Board, is likely to interfere with Executive's ability to discharge Executive's duties and responsibilities to the Company.

2. *Compensation.* For all services rendered by Executive hereunder, the Company shall compensate the Executive as set forth below.

2.1 *Base Salary.* The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of $275,000, payable in installments at such times as the Company customarily pays its other senior level executives. Executive's Base Salary shall be reviewed annually for appropriate increases, but not decreases, by the Company pursuant to the Company's performance review policies for senior level executives.

2.2 *Cash Bonus.* Executive shall be eligible for an annual cash bonus determined in accordance with the Senior Management Incentive Compensation Plan provided that the maximum bonus percentage may, in the discretion of the Board, be limited to 50% of the Base Salary. Executive may also be eligible to receive such other cash bonuses as the Board or the Chief Executive Officer may elect, in their sole discretion, to grant to Executive to award meritorious performance or such other criteria as the Board or the Chief Executive Officer may, from time to time, establish.

2.3 *Other Benefits.* Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to the Company's senior level executives as a group (excluding the Company's Chief Executive Officer) ("Peer Executives"), as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit

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plans or programs from time to time, as the Company deems appropriate. Company shall maintain life insurance on the Executive in the amount of two times initial annual Base Salary, to the extent it can be issued at standard rates, and Executive may name the beneficiary of such policy. Some or all of such coverage may be maintained pursuant to the Company's group-term life insurance policy.

2.4 *Vacation, Sick Leave and Holidays.* Executive shall be entitled in each calendar year to four weeks of paid vacation time, prorated for 2002. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.5 *Reimbursement of Expenses.* Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that which may be authorized from time to time for Peer Executives.

2.6 *Relocation Expenses.* Company will pay or reimburse the Executive, for reasonable relocation expenses (net of taxes, if any) related to his and his immediate family's relocation closer to corporate headquarters. Such payment/reimbursement will be based upon the Company's relocation policy.

2.7 *Incentive Compensation.*

(a) *Initial Equity Compensation.* The Company shall grant to Executive a non-qualified stock option (the "Initial Option"), substantially in the form of Exhibit A hereto, to purchase 115,000 shares of common stock of the Company at a price per share of $17.46. The terms of the Initial Option shall be governed by the Penn National Gaming, Inc. 1994 Stock Option Plan and, provided that Executive remains employed by the Company as of the relevant vesting date, shall vest in equal quarterly installments over four years, with the first installment vesting on September 3, 2002, and with each subsequent installment vesting on the same date of the third month immediately following the prior installment.

(b) *Subsequent Equity Compensation.* Executive shall be entitled to receive subsequent equity compensation grants on substantially the same terms and conditions as equity compensation grants provided to Peer Executives taking into account Executive's position as the Senior Vice President and General Counsel and the Board's assessment of Executive's performance.

(c) *Other Incentive Compensation.* Executive shall be entitled to participate in any short-term and long-term incentive programs established by the Company for Peer Executives, at levels commensurate with the benefits provided to Peer Executives taking into account his position as the Senior Vice President and General Counsel.

2.8 *Change of Control.* In the event that a change in control of the Company occurs, Executive shall be entitled to any payments and/or benefits that may become payable as a result of such event on substantially the same terms and conditions as any payments and/or benefits provided to Peer Executives taking into account Executive's position as the Senior Vice President and General Counsel.

3. *Termination.* Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1 *Termination by the Company.*

(a) *Without Cause.* The Company may terminate Executive at any time without Cause (as defined in subsection (b) below) effective upon not less than 60 days' prior written notice to Executive; provided, however, that, in the event that such notice is given, Executive shall be under no obligation to render any additional services to the Company and shall be allowed to seek other

employment (in which case Executive shall notify the Company in writing as to the effective date of termination).

(b) *With Cause.* The Company may terminate Executive at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony;

(ii) Executive is found disqualified or not suitable to hold a casino or gaming license by a gaming authority in any such jurisdiction where the Executive is required to be found qualified, suitable or licensed, as the case may be;

(iii) Executive materially breaches any Company policy and fails to cure such breach within 30 days after receipt of written notice thereof to Executive from the Company or Executive materially breaches the terms of Sections 4 or 5 this Agreement (regarding Confidentiality and Non-Competition); or

(iv) Executive misappropriates corporate funds or commits other acts of dishonesty.

3.2 *Termination by the Executive.*

(a) *Voluntary Termination.* Executive may voluntarily terminate his employment for any reason effective upon 60 days' prior written notice to the Company, unless such notice requirement is waived by the Company (in which case the Company shall notify Executive in writing as to the effective date of termination).

(b) *For Good Reason.* Executive may terminate his employment for Good Reason (as defined below) effective immediately upon delivery of written notice to the Company provided such notice is delivered within 60 days of Executive's actual knowledge of the occurrence of all circumstances or events constituting Good Reason. As used herein, the term "Good Reason" shall mean the Company hiring or otherwise designating another employee to serve as chief legal officer of the Company or the Company's election not to renew this Agreement. Notwithstanding anything herein to the contrary, the Company's reliance on or use of outside legal counsel or other independent contractors shall not under any circumstances constitute Good Reason.

3.3 *Termination for Death or Disability.* In the event of the death or total disability of Executive, this Agreement shall terminate effective as of the date of Executive's death or total disability. The term "total disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4 *Payments Due Upon Termination.*

(a) *Generally.* Upon any termination described in Sections 3.1, 3.2 or 3.3 above, Executive shall be entitled to receive any amounts due for Base Salary earned or expenses incurred through the effective date of termination and any benefits accrued or earned in accordance with the terms of any applicable benefit plans and programs. Executive shall also be entitled to receive such amounts as may be due under the Company's then current severance pay plan, if any, for Peer Executives ("Standard Severance") provided the circumstances of Executive's termination have not otherwise disqualified him under the terms of such plan.

(b) *Without Cause; For Good Reason.* In the event employment is terminated by the Company without Cause under Section 3.1(a) or by Executive for Good Reason under Section 3.2(b) and subject to Executive executing a mutual release in a form reasonably acceptable

to the Company and Executive, Executive shall be entitled to receive the following in lieu of any Standard Severance:

(i) Executive shall receive a cash payment equal to the Executive's monthly Base Salary at the rate in effect on the effective date of termination multiplied by the greater of (x) the number of months remaining in the Employment Term or (y) twelve months (the "Severance

Period").

(ii) Executive shall continue to receive the health benefits coverage in effect on the effective date of termination (or as the same may be changed from time to time for Peer Executives) for himself and, if any, his spouse and dependents for the Severance Period. In the event such coverage can not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the coverage is provided), the Company may elect to pay Executive cash in lieu of such coverage in an amount equal to Executive's after-tax cost of obtaining generally comparable coverage.

(c) *Payments.* All payments due under this Section 3.4 shall be made within 15 days of the effective date of termination. Except as otherwise provided in this Section 3.4, no other payments or benefits shall be due under this Agreement to Executive.

3.5 *Options.* Except as otherwise provided in the relevant option plan or option agreement, all Options granted under this Agreement shall cease vesting upon termination of Executive's employment for any reason.

3.6 *Notice of Termination.* Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. *Confidentiality.* The Executive recognizes and acknowledges that he will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, marketing plans, customer lists, and other business related information for the Company's customers). The Executive agrees that he will not, for any reason or purpose whatsoever, during or after the term of his employment, disclose any of such confidential information to any party, and that he will keep inviolate and secret all confidential information or knowledge which he has access to by virtue of his employment hereunder, except as necessary in the ordinary course of performing his duties hereunder.

5. *Non-Competition.*

(a) During his employment by the Company and for a period of one year thereafter (provided that the benefits to which Executive is entitled under Section 3.4 have been paid in full or continue to be paid), Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit his name to be used in connection with, any business or enterprise which is primarily in the business of owning and operating gaming establishments or in any other business in which the Company is primarily engaged at the time of Executive's termination of employment.

(b) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than three percent of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange

Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

6. *Non-Solicitation.* During his employment by the Company and for the period of one year thereafter, Executive will not, except with the prior written consent of the Company, directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an employee of the Company for any position as an employee, independent contractor, consultant or otherwise.

7. *Document Surrender.* Executive, at the expiration of his employment for any reason whatsoever, shall surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that come into Executive's possession by any means whatsoever, during the course of employment.

8. *Governing Law.* This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

9. *Notices.* All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Attention: President
Fax: 610-373-4966

With a required copy to:

Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921

Attention: Joseph Ronan, Esquire
Fax: 215-963-5299

If to Executive, to:

Jordan Savitch
60 Garlor Drive
Havertown, PA 19083
Fax: 801-838-5712

With a required copy to:

Andrew J. Rudolph, Esq.
Pepper Hamilton LLP
2 Logan Square
Philadelphia, PA 19103
Fax: 215-981-4750

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

10. *Contents of Amendment; Amendment and Assignment.*

(a) This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

(b) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Executive under this Agreement are of a personal nature and shall not be assignable or delegatable in whole or in part by Executive. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, within 15 days of such succession, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had taken place

11. *Severability.* If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

12. *Remedies Cumulative; No Waiver.* No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

13. *Beneficiaries/References.* Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

14. *Withholding.* All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all

expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

15. *Regulatory Compliance.* The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

Peter M. Carlino
Chairman and CEO

By: /s/ JORDAN SAVITCH

Jordan Savitch

Exhibit A

STOCK OPTION AGREEMENT

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EXHIBIT 10.8

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Exhibit 10.42

AGREEMENT BETWEEN THE DOWNS RACING, INC. AND PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION, INC.

THIS AGREEMENT is made and entered into on the 27 day of February, 2003, by and between The Downs Racing, Inc situated at RT 315, Wilkes-Barre, Pa., (hereinafter called "The Downs") and The Pennsylvania Harness Horsemen's Association, Inc., a Pennsylvania Corporation (hereinafter called "PHHA") and,

WITNESSETH THAT: WHEREAS, The Downs is licensed to conduct and is engaged in the business of conducting harness racing meetings, simulcasting and account wagering of races to and from other locations, at, to and from The Downs, and

WHEREAS, PHHA's membership consists of owners, trainers, and drivers of harness horses participating in harness race meetings at The Downs and elsewhere in the United States and Canada, and PHHA has been organized and exists for the purpose of promoting the sport of harness racing; improving the lot of owners, trainers, drivers, breeders and grooms of harness racing horses participating in race meetings; establishing health, welfare and insurance programs for drivers, trainers and grooms of harness racing horses; negotiating with harness racing tracks on behalf of owners, trainers, drivers and grooms of harness racing horses; and generally rendering assistance to them whenever and wherever possible, and

WHEREAS, the parties hereto believe that the amount of pari-mutuel wagering at The Downs is the best basis upon which to fix the financial arrangements between the parties, and

WHEREAS, the parties have agreed that all existing agreements shall remain in full force and effect until the effective date of this agreement (January 16, 2003 - 12:01 AM).

NOW, THEREFORE, in consideration of the promises and covenants contained herein, it is agreed as follows:

1. TERM OF AGREEMENT

The provisions of this Agreement shall apply to and govern every harness racing meeting, and all simulcasting, and account wagering conducted at, from or to The Downs from 12:00 AM on January 16, 2003 (Effective Date) through 12:00 AM January 15, 2004.

2. PURSE DISTRIBUTION

A. The parties hereto have agreed that The Downs shall pay to the PHHA horsemen's account a fixed percentage of 4.3% (for the term through January 15, 2003 through January 15, 2004) of total system handle. Total system handle shall mean all wagering conducted at the primary location, all non-primary locations and all telephone wagering.

(1) Interactive Wagering—All interactive wagering conducted via an authorized personal computer connection to The Downs (eBetUSA or its equivalent) will be handled separately from the formula for total system handle. The parties hereto agree that net commissions for this purpose will also be less host fees paid to other tracks or trade organizations and less any service charges from an interactive company. For this section only, The Downs agrees to pay PHHA purses equal to the following percentages of the net commissions for this product $33^{1}/_{3}$%.

B. AGREEMENT FOR PHHA EXPENSES AND PERCENTAGES

(1) During the Term of this Agreement, The Downs shall pay to the PHHA the sum of Four Hundred Twenty Thousand Dollars ($420,000) to be used for the purposes described in Paragraph 5 below.

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(2) Each Contract Year, the balance of the amounts determined under paragraph 2A, after deducting the amounts payable under (1) above, shall be paid in racing purses.

(3) The amount due to the PHHA annually shall be accrued at the rate of Thirty Five Thousand Dollars ($35,000) per month every Contract Year. Payment shall be made in equal monthly payments to the PHHA to be used for purposes described in Paragraph 5 below. At the written request of the PHHA, The Downs shall make direct payments for insurance or for other purposes allowed under Paragraph 5 below, or shall make direct payment to the PHHA up to any amount payable to the PHHA. However, the total amount paid out in any Contract Year to or on behalf of the PHHA for purposes described in Paragraph 5 below may EXCEED Four Hundred Twenty Thousand Dollars ($420,000).

(4) A maximum of three percent (3%) of the total overnight purse payments in each Contract Year may be paid out in racing purses for early and late closing events and stake event. Stake events requiring funding exceeding the three percent (3%) limit herein may be scheduled if agreed to by both parties.

C.

INTERSTATE SIMULCASTING

(1) In addition to the amounts otherwise provided for in this Agreement, The Downs shall distribute in racing purses of total handle during each Contract Year throughout the Term of this Agreement, 1% of the first Twelve Million Dollars ($12,000,000.00) in fees earned by The Downs for live programs simulcast to wagering locations outside Pennsylvania (export signal) and 50% of any amount over Twelve Million Dollars ($12,000,000).

(2) It is also specifically understood and agreed that if the host track (e.g. the track from which the live racing is being broadcast) requires written agreement or permission from PHHA for receipt of a simulcast for any race(s), then PHHA will automatically and immediately provide its written agreement and/or permission (whichever is required) on the forms required. The PHHA's granting of such agreement or permission or its prompt execution of the forms supplied to it, as referenced above, will not be unreasonably withheld or delayed. If The Downs believes that PHHA has unreasonably withheld or delayed such agreement or permission or execution, then it shall have the right to initiate an immediate expedited arbitration to resolve such dispute.

D. INTRASTATE SIMULCASTING

In addition to the amount(s) otherwise provided for in Paragraph 2, The Downs shall distribute in racing purses the following amounts based upon handle on racing conducted within Pennsylvania and simulcast to Primary Locations within Pennsylvania.

(1) Two and one-half ($2^1/_2$%) percent of the total handle on The Downs live races simulcast to the Primary Location of another Pennsylvania Racetrack shall be distributed, throughout the entire Term of this Agreement.

E. NON-PRIMARY LOCATIONS

The percentage to be applied to the purses from wagering at other Pennsylvania Horse Racing Association Non-Primary Locations is as provided by applicable Pennsylvania statute. All revenue from section 2A, 2A1, C1, Dl, and E shall be paid to the horsemen's purse account on a daily basis.

3. MINIMUM PURSES/MAXIMUM PURSES

A. During the Term of this Agreement the minimum purse payable by The Downs for any pari-mutuel betting race shall be One Thousand Two Hundred Dollars ($l,200.00) unless circumstances warrant a change which shall be mutually agreeable to both parties.

B. During the Term of this Agreement, the maximum purse payable by The Downs for any overnight pari-mutuel race from the purse account created by this Agreement shall be Ten Thousand Dollars ($10,000.00) unless circumstances warrant a change which shall be mutually agreeable to both parties.

4. RACING SCHEDULE

A. The Downs will schedule a minimum of one hundred twenty-five (125) race days and one thousand three hundred fifty (1,350) live overnight races at The Downs during each race season during the Term of this Agreement, subject however to conditions beyond its control. Additional race days beyond one hundred twenty five (125) may be allowed only with the consent of the PHHA or by request made to the PHHA.

B. The Downs management will prepare a weekly schedule showing the number of live races and simulcast races to be presented each day during a given week. That schedule will be presented to the PHHA at least two weeks prior to the first racing day of the scheduled week. If the live overnight races do not fill, then his will be considered a condition beyond the control of The Downs and the minimum number of one thousand three hundred fifty (1,350) live overnight races will be reduced by the number of races not filled.

5. ARRANGEMENTS WITH PHHA

A. As per Paragraph 2(B)(3) of this Agreement said amounts shall be used for:

(1) To defray PHHA's operating expenses;

(2) To pay PHHA's dues to any national organization of horsemen to which it belongs;

(3)

To pay premiums for a group health and medical insurance policy for drivers, trainers and grooms;

(4) To pay premiums for any accident and disability insurance policy which covers trainers and drivers that are involved in accidents while training or racing;

(5) To cover the cost for marketing and promotional items.

B. The Downs shall provide an office for the use of the PHHA representative on its racing grounds.

C. Representatives of The Downs and PHHA will be available to consult with each other at reasonable convenient times concerning any matters pertaining to the operation of race meetings of The Downs or the provisions of this Agreement. Specifically, representatives of The Downs and PHHA shall meet before each racing season and throughout the same on a bi-weekly basis whenever possible to discuss and agree on racing dates, purse structures and races offered on the condition sheet and qualifying standards.

6. STALL ASSIGNMENTS

Nothing in this Agreement shall be deemed to limit or restrict in any manner the absolute discretion of The Downs to assign stalls to owners and trainers whether or not members of PHHA, except that stall space shall not be denied by reason of membership in, or activity on

behalf of, PHHA or duly constituted horsemen's committees, or as otherwise prohibited or restricted by law.

7. RACING APPLICATION

Each owner and/or trainer having horses racing at The Downs shall be required to complete a racing application that details the complete inventory of horses in that owner's or trainer's racing stable. Such form may be required to be updated on a monthly basis.

8. PENNSYLVANIA-OWNED AND /OR SIRED RACES OR HORSES WHO HAVE RACED A NUMBER OF TIMES AT THE MEET

A. At the request of PHHA, The Downs shall offer on each weekly condition sheet 10 Pennsylvania-Owned and/or Sired Races or races for horses that have started a certain number of times at the meet per live race week during the Term of this Agreement. The number of those races will be determined by the PHHA. "Pennsylvania-Owned Races" when used above means races restricted to horses which are (a) wholly owned and declared by Pennsylvania resident(s) or (b) wholly owned by Pennsylvania resident(s) and declared by a Pennsylvania resident lessee of the horse. Pennsylvania Harness Racing Commission Regulations/definitions shall govern the term "Pennsylvania-Sired Races". "Pennsylvania Residence" shall be established by presentation, on request of The Downs and/or PHHA representative, (a) a valid Pennsylvania Vehicle Registration and a valid Pennsylvania Driver's License or (b) Pennsylvania State Income Tax Return showing permanent domicile in Pennsylvania for the previous two (2) years.

9. PHHA INSURANCE PROGRAM

A. PHHA hereby agrees to provide, at its expense, on track insurance to cover trainers and drivers participating in training and racing activities at The Downs. The coverage will be $200,000 accident medical, $25,000 accidental death and dismemberment, and $250 weekly disability with a maximum of 104 weeks.

10. CONTROLLING LAW AND REGULATIONS; ARBITRATION

A. The interpretation of the provision of this Agreement shall be governed by the laws of Pennsylvania.

B. The performance and operation of this Agreement, during the entire term hereof, shall be subject in all respects to the provisions of the Pennsylvania Race Horse Industry Reform Act, all the Commonwealth's rules and regulations, and subject to the approval of the Pennsylvania State Harness Racing Commission.

C. This is the entire agreement between the parties. Any modification or amendment to this Agreement must be in writing and signed by the parties or their duly authorized representatives.

D. Any and all disputes between the parties hereto arising out of or relating to this Agreement or any breach thereof shall be resolved by arbitration to be held in Wilkes-Barre, Pennsylvania, in accordance with the Rules of the American Arbitration Association then in effect. Any award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The costs of such arbitration shall be borne equally by the parties hereof.

11. ASSIGNMENT, TRANSFER, ADOPTION OF AGREEMENT

Any assignment of all the rights and obligations of The Downs or transfer or adoption of this Agreement shall require PHHA's consent and upon such assignment, transfer or adoption, such assignee of transferee shall be substituted as a party to this Agreement.

12. NINE HORSE FIELDS

Nine horse or larger fields may be permitted in any overnight, early or late closer, or stake race only with the permission of the PHHA. There will be no nine horse fields for maidens or non-winners of two (2) pari-mutuel races life, unless approved by the PHHA. All two year olds will be limited to eight in a field unless approved by the PHHA.

13. NEW INCOME SOURCES

If The Downs becomes aware of a new source of wagering or simulcasting income not addressed in this Agreement, The Downs will notify the PHHA of such income source and PHHA will enter negotiations concerning such income. In the event legislation is passed to allow slot machines at the Pennsylvania Race tracks and exercising its rights under Paragraph 6 above, The Downs shall take into consideration when assigning stalls the history of each applicant in racing at The Downs. In exercising such considerations all things being approximately equal, The Downs shall use best efforts to assign stalls to allow applicants to continue with the number of stalls substantially consistent with the average over the previous three (3) years.

The parties will negotiate in good faith and mutually agree to establish a formula concerning the assignment of stalls.

IN WITNESS WHEREOF, with the intentions of being legally bound, the parties by their respective chief officers who are authorized and empowered to bind the respective parties, have caused this Agreement to be duly executed as of this day of February 2003.

THE DOWNS, INC.	PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION, INC.
BY: /s/ RICHARD ORBANN	BY: /s/ EARL E. BEAL, JR.
	PRESIDENT
BY:	BY: /s/ LYNN B. FRY
SECRETARY	SECRETARY
(CORPORATE SEAL)	(CORPORATE SEAL)
ATTEST:	ATTEST: /s/ RONALD P. BATTONI

QuickLinks

Exhibit 10.42

AGREEMENT BETWEEN THE DOWNS RACING, INC. AND PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION, INC.

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Exhibit 10.43

AGREEMENT

THIS AGREEMENT, by and between PNGI Charles Town Gaming Limited Liability Company, a West Virginia Limited Liability Company (hereinafter "Charles Town Races") and the Charles Town H.B.P.A., Inc., a West Virginia not-for-profit corporation (hereinafter the "HBPA").

WHEREAS, Charles Town Races has purchased, is developing, renovating and improving, and will operate in Jefferson County, West Virginia the live thoroughbred racing facility known as Charles Town Races ("the Racetrack"); and

WHEREAS, the HBPA is an Association composed of owners, trainers, and owner-trainers (the "members") of thoroughbred racing horses; and

WHEREAS, the HBPA provides benevolent programs and other services for its members and their employees who are engaged in live thoroughbred racing at the Racetrack;

WHEREAS, Charles Town Races will be issued licenses to conduct live thoroughbred horse racing with pari-mutuel wagering by the West Virginia Racing Commission (hereinafter referred to as "the Commission") and pursuant thereto will conduct live thoroughbred Race Meetings at the Racetrack; and

WHEREAS, the parties desire to reaffirm their devotion to the preservation and enhancement of live thoroughbred racing at the Racetrack; and

WHEREAS, the parties hereto reaffirm their unequivocable support for quality live thoroughbred racing activities and reaffirm their desire to avoid injury or damage to such activities in the State of Virginia; and

WHEREAS, Charles Town Races acknowledges that the HBPA is the exclusive bargaining agent and representative of its members, as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representative of the Horsemen as certified by the West Virginia Racing Commission during the term of this Agreement and any amendment thereto or Agreement which shall supersede this Agreement for the provisions of services in connection with live thoroughbred racing activities, safety and back stretch conditions; and

WHEREAS, the parties acknowledges their willingness to support appropriate legislative efforts in West Virginia to preserve and benefit live thoroughbred racing as a viable and competitive West Virginia industry; and

WHEREAS, the parties acknowledge that there is presently one (1) Race Meeting held at the Racetrack each calendar year; and

WHEREAS, the parties hereto desire to memorialize and set forth in writing the contractual agreements by and between Charles Town Races and the HBPA concerning live thoroughbred racing at the Racetrack.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties desire to be legally bound, do agree as follows:

1. *TERM OF AGREEMENT.* This Agreement shall become effective on the date of the final execution by both Charles Town Races and the HBPA and shall remain in full force and effect until December 31, 2000 (hereinafter the "Initial Term"). At the end of the Initial Term, the term of this Agreement shall automatically be extended under the same terms and conditions for a period of one (1) year (hereinafter the "First Extension Term"), unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2000. At the end of the First Extension Term, the term of the Agreement shall automatically be extended under the same terms and conditions for a period of an additional one (1) year (hereinafter the "Second

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Extension Term"), unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2001.

2. *SCOPE OF AGREEMENT.* As specifically set forth herein, this Agreement shall apply to all live thoroughbred horse Race Meetings and all forms of wagering at the Racetrack, including, but not limited to, the one (1) live Race Meeting presently held per year, merged pool simulcasting, off-track wagering, inter-track wagering, any future forms of alternative wagering, any other form of pari-mutuel wagering at the Racetrack, and any and all matters affecting the conduct of live thoroughbred horse Race Meetings, including, but not limited to, the allocation and payment of purse revenues, purse schedule and condition books, minimum daily purses, purse overpayments and underpayments, stakes races schedules, the West Virginia accredited race program. Racetrack Facilities as that term is defined in Paragraph 9.B. of this Agreement, the Horsemen's Account, the Horsemen's Account contribution to the HBPA, HBPA Office Facilities, HBPA Fire and Hazard Insurance, HBPA representation of its members before the Racetrack Stewards and the West Virginia Racing Commission, Proprietary Rights, the Racing Commission, track vendors, the track kitchen, backstretch concessions, backstretch rules and regulations, and rules and regulations promulgated for the purpose of promoting safety and security at the Racetrack during the term of this Agreement.

3. *EXCLUSIVE REPRESENTATION.* The HBPA is currently recognized by the West Virginia Racing Commission to be the duly qualified and exclusive representative of the owners, trainers, and owner-trainers of live thoroughbred horses racing at the Racetrack as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representative of the Horsemen as certified by the West Virginia Racing Commission. Any negotiation or discussion of the terms and provisions of this Agreement, or any amendment thereto, or any Agreement that shall supersede the terms and provisions of this Agreement with any person, entity or representative of any entity that is not the exclusive bargaining agent and representative of the Horsemen as certified by the West Virginia Racing Commission shall constitute a breach of this Agreement.

Charles Town Races does agree that it shall negotiate with and conduct any and all business which the subject of this Agreement and any matters reasonably related to any provision of this Agreement with the duly elected officers of the HBPA or their duly designated representatives.

The HBPA does agree that it shall provide to Charles Town Races, in writing, on an annual basis, the name and address of each and every duly elected member of the Board of Directors, the name and address of each duly elected Officer of the HBPA who shall have the authority to negotiate with Charles Town

Races, and the name and address of each representative duly designated by the Board of Directors of the HBPA to negotiate on its behalf.

4. *ALLOCATION AND PAYMENT OF PURSE REVENUES.*

A. *Live Thoroughbred Wagering.*

Charles Town Races agrees to pay the Horsemen for purses from live thoroughbred racing at the Racetrack: (i) 50% of Charles Town Races' share of commissions received from the pari-mutuel handle provided pursuant to the provisions of Article 23, Section 19 of the Code of West Virginia, including any future Telephone Account or Other Electronic Media Wagering handle set forth in Paragraph 4.D. of this Agreement, if any; (ii) 50% of the total of Charles Town Races' (presently 50%) and the Horsemen's (presently 50%) share of the breakage received from pari-mutuel handle provided pursuant to the provisions of Article 23, Section 19 of the Code of West Virginia; (iii) that amount, if any, set forth by statute under West Virginia law received from any off-track wagering (OTW) revenues; and (iv) that amount, if any, set forth under West Virginia law received from any and all forms of alternative wagering revenues at the Racetrack. Provided, however, if there shall be no provision under West Virginia law for the allocation of

off-track-wagering or alternative wagering revenues, the parties shall reach an agreement on the allocation of such revenues in writing prior to the date of commencement of any such off-track-wagering or alternative wagering. Such agreement shall not be unreasonably withheld by either party.

B. *Simulcast Wagering.*

In addition to the purse monies paid pursuant to Paragraph 4.A. of this Agreement, Charles Town Races shall apply the following amounts (the "Simulcast Purse Monies") to purses for Horsemen at the Racetrack provided pursuant to the provisions of Article 23, Section 19 of the Code of West Virginia:

(1) *Interstate Simulcast Wagering.*

During the term of this Agreement the HBPA, as authorized representative of the Horsemen for interstate simulcasting purposes, consents to the negotiation by Charles Town Races of any merged pool simulcast contract, pursuant to the provisions of the Interstate Horse Racing Act of 1978, P.L. 95-515. Charles Town Races will use its best efforts to promote the interest of live thoroughbred horse racing when negotiating any simulcast contract.

To the extent required by law, interstate simulcast racing for all of Charles Town Races' races shall be subject to the consent of the HBPA, which consent shall not be unreasonably withheld. In the event consent is withheld, the HBPA shall set forth its reasons for withholding such consent in writing within a reasonable time in advance of the intended simulcast not to exceed thirty (30) days from the intended simulcast.

If Charles Town Races shall receive any net revenues from wagering on live thoroughbred horse racing, live standardbred horse races, or live greyhound races run at a Racetrack located in a jurisdiction outside of the State of West Virginia, then Charles Town Races shall pay to the Horsemen as simulcast purse monies such amount as shall be provided pursuant to the provisions of Section 19-23-12(b) of the Code of West Virginia, authorizing such interstate simulcast wagering, or, if no such statute is then in effect, the parties shall reach an agreement on the allocation of such amount prior to the first date of payment of any such amounts. Such agreement shall not be unreasonably withheld by either party.

If Charles Town Races shall receive any net revenues from wagering at jurisdictions outside of the State of West Virginia on live thoroughbred races run at the Racetrack, then Charles Town Races shall pay the Horsemen as simulcast purse monies such amounts as shall be provided pursuant to the provisions of Section 19-23-12(c) of the Code of West Virginia authorizing such out-of-state wagering or if no such statute is then in effect, 50% of such net revenues shall be paid to the Horsemen. The right to transmit signals of Charles Town Races live races to out-of-state facilities shall be subject to the provisions of said Section 19-23-12(c) of the Code of West Virginia and the provisions of the Interstate Horse Racing Act of 1978, P.L. 95-515.

The parties agree that they shall reach in agreement to define "net revenues" derived from such forms of wagering, as well as the percentage of such net revenues which shall be dedicated to supplement purses, all in a manner that is consistent with the objective of preserving and enhancing live thoroughbred racing at the Racetrack.

(2) *Intrastate Simulcast Wagering.*

If Charles Town Races shall contract with another racing association conducting live thoroughbred horse or dog racing in the State of West Virginia, either for the purpose of accepting pari-mutuel wagers on a live thoroughbred horse races run at the Racetrack, or for the purpose of Charles Town Races accepting pari-mutuel wagers on live thoroughbred horse

or dog races at that racing association's Racetrack within the State of West Virginia, then, in such event, Charles Town Races shall pay to the Horsemen as simulcast purse monies such amount as may be provided for in the West Virginia Code pursuant to the provisions of Sections 19-23-12(a) and 19-23-12(c) then in effect authorizing pari-mutuel wagering on intrastate horse and dog racing, or if a statutory amount is not provided, the parties shall reach an agreement on the allocation of such amount in writing prior to the payment of any such amount. Such agreement shall not be unreasonably withheld by either party.

C. *Off-Track Wagering.*

If Charles Town Races shall either be authorized to conduct off-track wagering at one or more locations within the State of West Virginia or shall contract with any legal wagering entity authorized to conduct off-track wagering within the State of West Virginia for the purpose of accepting wagers on live thoroughbred horse races run at or broadcast to the Racetrack, then, in such event, Charles Town Races shall pay to the Horsemen as off-track wagering monies such amounts as may be provided for by statute in the State of West Virginia then in effect authorizing such off-track wagering, or if no statutory amount is provided, the parties shall reach an agreement on the allocation of such amount prior to the first date of any such payment on such amounts. Such agreement shall not be unreasonably withheld by either party.

D. *Telephone Account or Other Electronic Media Wagering.*

For purposes of determining the amount of purse monies to be paid under this Paragraph 4.D., a telephone account wager or other electronic media wagering system if authorized by West Virginia law, or, if not prohibited by law, as shall be authorized by the West Virginia Racing Commission, shall be deemed to be made at the Racetrack. The portion of the revenues received therefrom to be allocated and paid to the Horsemen as purses shall be determined in the manner prescribed in Paragraph 4.A. of this Agreement.

E. *Other Legalized Wagering.*

In the event that any new or alternative form or forms of wagering are authorized by West Virginia law, other than currently authorized forms of pari-mutuel wagering on live thoroughbred horse and dog races, and currently authorized Video Lottery Terminal wagering at the Racetrack (including, but not limited to the sale of lottery tickets and/or participation in other wagering enterprises on Charles Town Races premises), and a portion of the proceeds are provided for live thoroughbred racing, the parties shall be bound by the allocations set forth under West Virginia law. In the event the allocation of revenues are not addressed by statute in West Virginia, the parties shall reach an agreement on the allocation of the revenues to be received therefrom by Charles Town Races and the Horsemen prior to the first date of payment of any such legalized wagering. Such agreement shall not be unreasonably withheld by either party.

F. *Proprietary Right.*

The Horsemen have certain proprietary rights in the broadcasting of races as horses owned by Horsemen are involved. Charles Town Races hereby agrees that they will not enter into any contract or agreement to broadcast any races on national network television or elsewhere without the prior written agreement of the HBPA. Notwithstanding anything to the contrary, the HBPA acknowledges the live telecasting of the thoroughbred racing races in connection with off-track wagering, telephone account wagering, or other electronic media wagering which serves to increase the Commission's shared in by the Horsemen and Charles Town Races, and agrees that in light of the provisions contained in Sections 4.C. and 4.D. of this Agreement, neither the Horsemen or the HBPA should have any right to approve or comment on any agreement entered into by and between Charles Town Races in connection therewith. However, the HBPA and the Horsemen

shall retain their right to comment on any such contracts at the time that the same are submitted to the West Virginia Racing Commission for review and approval.

5. *PURSE SCHEDULE AND CONDITION BOOK.*

A. *Minimum Number of Live Racing Dates/Minimum Daily Purses.*

By mutual agreement of Charles Town Races and the HBPA, Charles Town Races has applied for 159 days of live thoroughbred racing for calendar year 1997 with the West Virginia Racing Commission. With the exception of its application with the West Virginia Racing Commission for live thoroughbred racing for the 1997 calendar year, Charles Town Races agrees to apply for not less than the minimum number of racing days required under law in West Virginia during each calendar year of this Agreement to provide for the maximum benefit of live thoroughbred horse racing and consistent with Section 19-23-12(b) of the Code of West Virginia. Charles Town Races shall provide a copy of its Annual License Application filed with the West Virginia Racing Commission to the HBPA within three (3) days of the date of its filing.

B. *Minimum Daily Purses.*

No live thoroughbred races shall be run by Charles Town Races at the Racetrack during the term of this Agreement with daily purses less than the minimum daily purses established pursuant to the Rules and Regulations of The West Virginia Racing Commission as in effect on the date of execution of this Agreement, or as hereinafter amended.

C. *Schedule and Condition Book.*

It is the intent of Charles Town Races and the HBPA in order to promote competitive live thoroughbred horse racing at the Racetrack: (i) to avoid any underpayment or overpayment of purses (except seasonal adjustments) and (ii) assure the payment, so far as shall be practical and reasonable under the existing circumstances, of consistent purses throughout the contract year. For these purposes, the Charles Town Races and HBPA shall within thirty (30) days prior the commencement of the starting date of the Race Meeting of each year during the term hereof, and each year thereafter that this Agreement shall remain in full force and effect, meet and use their best efforts to establish a competitive purse level for each calendar year.

The actual pari-mutuel handles from the current year for the comparable dates will be used as a guide in projecting the approximate handle for the ensuing year. Charles Town Races shall use its best efforts and judgment to estimate all purse revenues sources, and after consultation with the HBPA, a purse formula mutually agreeable to Charles Town Races and the HBPA shall be applied to establish an average purse per day for a beginning guideline. Charles Town Races shall send to the HBPA, not later than ten (10) days prior to the first day of each Race Meeting, its First Condition Book and its proposed Purse Schedule for that Race Meeting.

D. *Purse Overpayment and Underpayment.*

Charles Town Races shall exercise reasonable care to avoid significant underpayments or overpayments for purses at all Race Meetings. Should a purse overpayment or underpayment develop in excess of $100,000.00, plus a seasonable adjustment to be agreed upon prior to the first day of each Race Meeting, Charles Town Races shall meet promptly with the HBPA's Purse and Condition Book Committee to realign the pattern and mix of various races in the next Condition Book for the purpose of bringing the average daily purse payments into alignment with the probable daily purse revenues, and to reduce the then existing accumulated purse overpayment or underpayment.

If, in the opinion of Charles Town Races, the agreed adjustment in the Condition Book does not alleviate overpaid purse conditions, Charles Town Races shall have the right to make

immediate decreases in purses of 5% for any change which shall increase the overpayment by $100,000 or more unless otherwise mutually agreed upon by Charles Town Races and the HBPA, to eliminate purse overpayment. Charles Town Races, without prejudice, shall have the right to not exercise this right, should it so desire.

If, in the opinion of the HBPA's Purse and Condition Book Committee, the agreed adjustment in the Condition Book does not alleviate the underpaid purse condition, the HBPA shall have the right to require Charles Town Races to make immediate increases in the purses of 5% for any change which shall increase the underpayment by $100,000 or more unless otherwise mutually agreed upon by Charles Town Races and the HBPA to eliminate the purse underpayment. The HBPA, without prejudice, shall have the right to waive this right, should it so desire.

The parties agree that the provisions of this Paragraph 5.D. for the adjustment of purse overpayments and underpayments shall not go into effect until such date that the purse balance is at zero, unless the parties mutually agree to the contrary. The parties do further mutually agree that there shall be a stop loss for purse overpayments to alleviate overpaid purse conditions upon such date or at such dollar amount as the parties shall mutually agree, after which date or above which amount, as the case may be, there shall be no further adjustment to alleviate overpaid purse conditions, until the purse overpayment amount returns to such amount as shall be agreed upon by the parties.

E. *Stakes Schedule.*

The HBPA and Charles Town Races agree to the following percentage of monies to be allocated for Stakes Race Purses if the previous year's average daily purse distribution does not fall below the benchmarks indicated below.

Average Purses Earned Daily	Allocated for Stakes
$35,000.00	2%
$40,000.00	3%
$50,000.00	3%
$55,000.00	4%
$60,000.00	5%
$65,000.00	6%
$70,000.00	7%
$75,000.00	8%
$80,00.00 — up	9%

It is understood by both Charles Town Races and the HBPA that overnight purses will have first priority in purse increases, followed by stake races. Any initial increase in stake monies must be preceded by at least three (3) consecutive months during which the average daily purses earned are above the benchmark levels.

Average monthly purses will be calculated by dividing all purse monies received from all purse revenue sources (including but not limited to, pari-mutuel wagering on live thoroughbred horse racing, video lottery terminal wagering, off-track wagering, merged pool simulcast wagering, telephone account or other electronic media wagering, or any other form or forms of legalized wagering) by the total number of live Charles Town Races racing days. Purse amounts, conditions, distances and dates for all stake races shall be subject to HBPA approval, which approval shall not be unreasonably withheld. Charles Town Races shall send to the HBPA, not later than ten (10) days prior to the first day of each Race Meeting its proposed Stakes Race Schedule for that Race Meeting.

F. *West Virginia Accredited Races.*

Charles Town Races shall include in its Conditions Book a minimum of one (1) race per every three (3) racing days devoted exclusively for West Virginia accredited horses unless sufficient horses are not available therefore, in accordance with the requirements of the regulations of the West Virginia Racing Commission pursuant to the provisions of Section 19-23-13(b) of the Code of West Virginia. Races devoted exclusively for West Virginia accredited horses shall be run if no less than six (6) betting interests have been entered therein. In all overnight races, West Virginia accredited horses shall be granted preference with regard to entry procedure.

6. *HORSEMEN'S ACCOUNT.*

Charles Town Races shall maintain a separate bank account denominated "Horsemen's Account". The monies paid to Horsemen as purses under this Agreement shall be deposited into such account not less often than weekly. The appropriate portions of purse monies shall be made available to the earners thereof within seventy-two (72) hours (dark days and Sundays excluded) after the result of the race in which such money was earned and declared official;

provided, however, that the event of any dispute as to the result of a race due to a drug test or other regulatory inquiry, the purse money shall not be made available to the earners thereof until there has been a final resolution thereof by the Racetrack Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction, as the case may be. No portion of such monies payable as purses to any earner thereof (other than jockey and lead fees and amounts owed for nomination, starting, entry and similar fees) shall be deducted by Charles Town Races unless requested in writing by the person, persons or entities to whom such monies are payable to his, her or its duly authorized representative, or as required by order of the Racetrack Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction. The Horsemen's Account and the investment or deposit schedule of Charles Town Races with respect so such account during any Race Meeting shall be subject to examination by the President of the HBPA or his duly designated representative at the offices of Charles Town Races at such reasonable time or times as shall be determined upon the mutual agreement of Charles Town Races and the HBPA. Such consent shall not be unreasonably withheld.

The interest earned on deposits made by Charles Town Races to the Horsemen's Account for Purse Underpayments due and owing to Horsemen during any Race Meeting shall be paid over and be added to the funds available for distributions for purses.

The interest earned on deposits made by Charles Town Races to the Horsemen's Account for Purses Monies earned and due and owing to Horsemen, but uncollected during any Race Meeting shall be paid over and be added to the funds available for distributions for purses.

7. *INACTIVE ACCOUNTS IN HORSEMEN'S BOOKKEEPER ACCOUNTS.*

A. Charles Town Races will furnish annually to the HBPA a list of all accounts in the Horsemen's Bookkeeper Account which have been inactive for a period of three (3) consecutive years, giving the name or names on such accounts, the amount thereof and the last known address of the account owner. This list will be rendered annually as of January 1 of each year, and received prior to January 15 of that year during each year of the term of this Agreement.

B. HBPA will advertise the inactive accounts which have been inactive for three (3) years or longer in a Horsemen's publication of general circulation. All inactive accounts which remain unclaimed for a period of one (1) year after the date that they are advertised, shall be paid to the extent of twenty-five percent (25%) to the Welfare Benefit Trust, and to the extent of the remaining seventy-five percent (75%) to the HBPA Administrative Account.

C. HBPA agrees to hold Charles Town Races harmless and to indemnify them as to any claim, liability, cost or expense (including reasonable attorneys fees) as a result of the payment of inactive accounts in the HBPA's Administrative and Welfare Benefit Trust Funds.

8. *CONTRIBUTION FROM HORSEMEN'S ACCOUNT TO HBPA.*

A. For services rendered to Horsemen, including, but not limited to, purse contract negotiations, representation before the Racetrack Stewards and the West Virginia Racing Commission, benevolent activities, legislative activities, and for the promotion of the well-being of HBPA members at the Racetrack, Charles Town Races is hereby authorized and directed by HBPA on behalf of itself, its members and the Horsemen, to disburse from the Horsemen's Account to HBPA an amount (referred to herein as "Horsemen's Contribution") equal to two percent (2%) of all purse monies paid, regardless of the source.

B. The HBPA agrees to indemnify, defend, and save harmless Charles Town Races from any and all loss, costs or expenses (including reasonable attorneys fees), arising out of any claim of a Horseman pertaining to the payment of such 2% amount to the HBPA. Payment shall be allocated in accordance with directions provided to Charles Town Races by the HBPA, in writing, as a result of a resolution adopted by the HBPA's Board of Directors between programs sponsored or endorsed by the HBPA, in such proportions or allocations as shall be identified by the HBPA.

C. Payment by Charles Town Races to the Horsemen and the HBPA, respectively, shall be made within ten (10) days after the end of each monthly period of each Race Meeting during the term of this Agreement. A 2% monthly interest penalty on any purse amount due and owing shall be paid by Charles Town Races for any late payment. A late payment penalty charge shall be paid by Charles Town Races if the monthly purse amount is not received by the Horsemen or the HBPA, respectively, within ten (10) days of the date that it shall become due and payable. A Final Accounting shall be made within thirty (30) days following each Race Meeting.

9. *STALLS AND RACETRACK FACILITIES.*

A. *Stalls.*

Charles Town Races shall make available a minimum of 1,148 stalls to Horsemen, each Race Meeting. Stalls shall be allocated and assigned to Horsemen on a fair and equitable basis, and the Stall Application Agreement shall provide that termination and revocation of Stall privileges shall require a showing of due cause and be the result of due process. Each Horseman accepting a stall at the Racetrack shall be required to use his or her best efforts to run his or her horses at the Racetrack during any Race Meeting in which the Horseman has stall privileges consistent with the horse's physical condition, fitness, and applicable race conditions.

Prior to each Race Meeting, Charles Town Races shall establish a cut-off date for Stall Applications. The terms and conditions for all Stall Applications shall be set forth in writing by Charles Town Races, and shall be subject to the approval of the West Virginia Racing Commission. Charles Town Races shall send to the HBPA, not later than ten (10) days prior to the first day of each Race Meeting, a copy of its current Stall Application Agreement.

B. *Racetrack Facilities.*

The racing strip, the barns, track kitchen facilities, and related backside facilities at the Racetrack (collectively known as the "backside facilities") necessary for training purposes shall be made available by Charles Town Races without charge to Horsemen who have horses training for the immediate upcoming live Race Meeting for at least thirty (30) days prior to the opening of this Race Meeting. The backside facilities shall also be made available by

Charles Town Races without charge to Horsemen who have raced at the Racetrack for at least thirty (30) days following the last day of each Race Meeting. During the aforesaid period, Charles Town Races will, at its own

expense, make water, hot water, tack room heating, and electricity available to each barn in use and keep the racing surfaces properly harrowed and watered.

The racing strip, barns, race track kitchen, tack rooms and all other facilities of the Race Track useful for training purposes, shall be made available for Horsemen approved by Charles Town Races, without charge. Charles Town Races agrees that these facilities shall be available to Horsemen during reasonable hours for training purposes, subject to weather conditions.

Charles Town Races shall provide to the Trainers and Owner-Trainers track training facilities upon such terms and conditions and at such times as shall be mutually agreeable to Charles Town Races and the HBPA for the training of horses to be run at the Racetrack. There is in existence upon the date of execution of this Agreement a separate Agreement by and between The Charles Town H.B.P.A, Inc. and Charles Town Races, Inc. for the continued use of Shenandoah Downs Racetrack as the track training facility for the Trainers and Owner-Trainers. The terms and provisions of such Agreement requiring Charles Town Races to maintain the racing strip in the Shenandoah plant on a year round basis as a training facility for all horses stabled in the Shenandoah Downs area are specifically incorporated herein by reference and shall remain in full force and effect and shall be binding upon the parties until such date as mutually agreeable, Track Training Agreement is executed by Charles Town Races, and the HBPA for the provision of track training facilities by Charles Town Races at the Racetrack to the Trainers and Owner-Trainers.

At least thirty (30) days written notice shall be given to the HBPA of any intended shut-down of the Racetrack. Included with such notice shall be the date of closing, the date of re-opening, and any plans concerning the availability of stalls in the stable area during the shutdown. The notice period shall be calculated from the last scheduled Race Meeting day of the then current Race Meeting.

C. *HBPA Office Facilities.*

At the election of the HBPA, Charles Town Races agrees to provide the HBPA with adequate office space in the area presently used as the "Track Kitchen" on the Charles Town Races premises, parking space, and restroom facilities, with structurally sound roofs, walls, and floors on a year round basis on the Racetrack premises at no charge to the HBPA. At a minimum, office space, parking space, and restroom facilities provided to the HBPA in the Charles Town Races stable area acceptable to the HBPA shall constitute adequate office space for purposes of this provision of this Agreement. Heating, air conditioning, cooling, plumbing and electrical services shall be maintained at the expense of Charles Town Races. Otherwise the facilities shall be provided to the HBPA by Charles Town Races in the present condition "as is". Provided, however, the parties agree that Charles Town Races shall not be required to spend in excess of $25,000 in total to make any repairs or improvements necessary to insure that the facility has structurally sound roofs, walls, and floors.

In the event that the costs to make repairs or improvements necessary to insure that the facility has structurally sound roofs, walls, and floors exceeds $25,000, at the election of the HBPA, the HBPA may accept the "Track Kitchen" facility with the repairs and improvements as made by Charlestown Races, or, in the alternative, Charles Town Races may rent to the HBPA for a nominal fee of $1.00 per year during the term of this Agreement, ground space for the HBPA to place a commercial office trailer, together with utilities required to operate said office trailer, or, in the alternative, the HBPA shall find and secure adequate office space acceptable for its intended purposes at its sole and absolute discretion.

The HBPA shall be responsible for cleaning and interior maintenance of its facilities. Structural maintenance of roofs, walls, floors, and restroom shall be the sole and absolute responsibility of Charles Town Races.

Charles Town Races and the HBPA agree to negotiate mutually acceptable agreements concerning bedding material and manure disposal, Stall and Performance Standards and Barn Area Rules and Regulations properly promulgated for the purpose of promoting safety and security on the Backstretch, which Agreements shall remain in full force and effect and shall be binding upon the parties pursuant to their own terms and provisions during the term or terms of these Agreements.

A six (6) seat Grandstand Box at the Racetrack shall be provided to the HBPA without charge on an annual basis for and during the term of this Agreement.

The HBPA shall encourage its members to conform with, but shall not be liable for any individual's members failure to comply with such rules.

10. *OTHER AGREEMENTS.*

The parties shall also use their best efforts to address and resolve in a timely and expeditious manner the following matters of mutual concern to the parties:

A. Rodent and pest control and eradication.

B. Uniform rules and regulations concerning the operation of all vending or concession enterprises in the Stable area.

C. Creation and continuing maintenance of a common fund for the payment of rewards for information leading to a conviction for theft, conversion, or malicious destruction of personal property belonging to Horsemen or their employees, the Racetrack or its employees, and the general public.

11. *RACING COMMITTEE.*

Charles Town Races and HBPA shall organize and maintain a joint committee (hereinafter the "Racing Committee") to address issues related to and associated with live thoroughbred racing at the Racetrack. HBPA and Charles Town Races shall each appoint not more than three (3) representatives to the Racing Committee. The Racing Committee shall meet not earlier than thirty (30) days nor later than fourteen (14) days prior to each Race Meeting, and shall meet otherwise at the written request at any two (2) members of the Racing Committee.

The issues to be addressed at the meeting of the Racing Committee shall include, but in no manner shall be limited to, such issues as tack rooms, track conditions (bad weather closings), race related programs, reserved seats and passes for Horseman, maintenance of stable areas and the backside area, number of races, purse schedules, track kitchen, pari-mutuel handle or the quality of tacking, health benefit programs, death benefit, drug and alcohol abuse programs, Racetrack chaplainry programs, and any and all other programs which will aid and assist the live thoroughbred racing industry in West Virginia to engage, retain, and care for its staff and personnel at the highest possible level.

12. *RACING OFFICIALS.*

Charles Town Races shall mail to the president of the HBPA a written list of the persons appointed by Charles Town Races to serve as racing officials during any Race Meeting on the same date that it submits said list to the West Virginia Racing Commission in accordance with the provisions of the West Virginia Regulations.

13. *TRACK KITCHEN.*

Charles Town Races shall provide a racetrack kitchen for use by the Horsemen with the terms, conditions and provisions thereof to be mutually agreed upon on an annual basis by the HBPA and Charles Town Races. Joint approval of Charles Town Races and the HBPA shall be required

concerning, but not limited to, management of the facility, cleanliness of the facility, palatability and cost of food, adequacy of hours of operation, and adequacy of premises insurance coverage.

14. *VENDORS.*

Charles Town Races shall not impose upon the Horsemen any exclusivity agreement concerning farrier, feedmen, tack supplies or any other suppliers or providers of services customarily used by owners and trainers. Charles Town Races shall not attempt to enter, seek, establish or impose upon the HBPA a monopoly concerning the use of such vendors during the term of this Agreement; provided, however, if Charles Town Races permits the use of bedding materials other than straw, it may require the use of an exclusive supplier in order to facilitate the removal of used material. Charles Town Races will use its best efforts to keep unlicensed persons in the aforesaid categories off the premises.

15. *HBPA FIRE AND HAZARD INSURANCE.*

Charles Town Races agree to pay to HBPA's national office on or before May 15th of each year during the term of this Agreement, its proportional share of the total annual premium as determined annually by the National HBPA for a national policy of fire and other hazards insurance covering horses and tack belonging to HBPA members stabled at the Racetrack or at locations covered by such HBPA policy. It is understood, however, by and between the parties, that the limits and types of coverage and the annual premium amount will not be increased without the prior written consent of Charles Town Races.

16. *REPRESENTATIONS AND WARRANTIES.*

A. *HBPA.* In addition to any other representations and warranties contained elsewhere in this Agreement, the HBPA warrants, represents and covenants during the term of this Agreement:

(1) this Agreement has been approved by a majority of the Board of the Directors of the HBPA;

(2) that so long as Charles Town Races substantially complies with the provisions of the Agreement, HBPA will use its best efforts to ensure that its Members not institute or instigate, promote, encourage or engage in any boycott, close-down, slow-down, work-stoppage or interference with any race meeting or race meetings of Charles Town Races at the Racetrack; and

(3) HBPA will use its best efforts to ensure that its members substantially comply with each of the terms and conditions of this Agreement, but shall not be liable for any individual member's failure to comply with this Agreement, notwithstanding its best interest; and

(4) that HBPA, its Officers and Directors, shall use its best efforts to respond to any request for consent and other approvals by Charles Town Races in a timely and business-like manner within not more than seventy-two (72) hours of the receipt of such request in writing, and shall give due consideration for the need of Charles Town Races to respond to issues quickly and decisively.

B. *CHARLES TOWN RACES.*

In addition to the representations and warranties contained in this Agreement, Charles Town Races warrants, represents and covenants to the HBPA that:

(1) this Agreement has been approved by a majority in interest of its Members; and

(2) this Agreement has been approved by a majority of the Board of Directors of the Corporation which is the Managing Member of the Limited Liability Company; and

(3) this Agreement is valid and enforceable against it according to its terms and conditions; and

(4) this Agreement shall be binding upon its successors and assigns; and

(5) this Agreement shall remain in full force and effect according to its terms.

17. *GOVERNMENTAL APPROVAL.*

Nothing contained in this Agreement shall be construed as requiring either party to perform any term when such performance is contrary to law or requires prior governmental approval; provided, however, both parties shall use their best efforts to obtain governmental approval if such is required and shall submit a copy of this Agreement to the West Virginia Racing Commission.

18. *RIGHT TO TERMINATE.*

Either party may terminate this agreement upon the other party's failure to substantially perform its duties and obligations as required under the terms and provisions of this Agreement, and such failure continues for thirty (30) days following the date in which written notice of default is mailed in accordance with Paragraph 22. *Notices*, of this Agreement. Such termination shall not constitute an election of remedy, nor shall constitute a waiver of a party's other remedies at law or in equity.

19. *INDEMNIFICATION.*

The HBPA shall indemnify and save harmless Charles Town Races, its agents, representatives, employees, officers, directors and shareholders, and their respective successors and assigns, and all persons acting by, through, under or in concert with any of them from and against any and all demands, liabilities, loss, cost, damages or expense or whatever nature or kind, including attorney's fees and all other expenses, cost or loss arising out of or in any way related to or occasioned by Charles Town Races' performance under Paragraph 8. of this Agreement relating to contributions to the HBPA.

20. *FURTHER ASSURANCES.*

The HBPA and Charles Town Races shall execute such instruments and documents, and give such further assurances as may be necessary to accomplish the purposes and intent of this Agreement.

21. *COUNTER-PART ORIGINALS.*

This Agreement may be executed in two or more counter-part originals, each which shall be deemed an original, but all of which shall constitute one and the same instrument.

22. *NOTICES.*

All notices, requests, demands, or other communications which may be required by this Agreement shall be in writing, and if mailed, shall be mailed by certified mail, return receipt requested, and shall be deemed to have been given when received by personal delivery or otherwise. A courtesy copy of such communication shall also be sent via telefax to the last known telefax number of the other party. Current addresses of the persons to whom communications are to be sent are as follows:

PNGI Charles Town Gaming: Limited Liability Company Address:	Jay Fortney, President U.S. Route 340 P.O. Box 551 Charles Town, WV 25414

Copy to:	William J. Bork, President c/o Penn National Gaming, Inc. Wyomissing Professional Center 825 Berkshire Blvd., Suite 203 Wyomissing, PA 19610
Copy to:	Robert P. Krauss, Esquire Mesirov, Gelman, Jaffe, Cramer & Jamieson 1735 Market Street Philadelphia, PA 19103-7598
Charles Town HBPA, Inc.: Address	Raymond J. Funkhouser, II, President c/o Charles Town H.B.P.A., Inc. P.O. Box 581 Charles Town, WV 25414
Copy to:	Clarence E. Martin, III, Esquire Martin & Seibert, L.C. 1164 Winchester Avenue Martinsburg, West Virginia 25402

23. *WAIVERS.*

No waiver of any breach of this Agreement or any term hereof shall be effective unless such waiver is claimed. No waiver of any breach shall be deemed a waiver of any other or subsequent breach.

24. *APPLICABLE LAW.*

This Agreement shall be executed and delivered by the parties hereto in the State of West Virginia and shall be interpreted, construed and enforced in accordance with the law of the State of West Virginia.

25. *SEVERABILITY.*

If any provision of this Agreement is declared invalid by any Court of Competent Jurisdiction, or becomes invalid or inoperative by the operation of law, the remaining provisions of this Agreement shall not be affected thereby and shall remain in full force and affect.

26. *ENTIRE AGREEMENT; MODIFICATION.*

This Agreement contains the entire agreement between the parties and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject hereof. No modification, variation or amendment of this Agreement shall be effective unless such modification, variation or amendment shall be in writing and has been signed by all parties to this Agreement.

27. *BINDING EFFECT.*

This Agreement shall be binding upon the parties, their successors and assigns.

WITNESS the following signatures and seals as of the day and date above first written.

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, a West Virginia Limited Liability Company

By: /s/ JAY FORTNEY

Pres.

PENN NATIONAL GAMING OF WEST VIRGINIA, INC., a West Virginia Corporation, its Managing Member

By: /s/ WILLIAM J. BORK

William J. Bork, its President

CHARLES TOWN H.B.P.A., INC., a West Virginia Corporation

By: /s/ RAYMOND J. FUNKHOUSER, II—PRES.

Raymond J. Funkhouser, II, its President

QuickLinks

Exhibit 10.43

AGREEMENT

Exhibit 10.45

notice shall be sent to:

PNGI Charles Town Gaming: Limited Liability Company Address:	James Buchanan, President P.O. Box 551 Charles Town, WV 25414
Copy to:	Kevin De Sanctis, President c/o Penn National Gaming, Inc. Wyomissing Professional Center 825 Berkshir0e Blvd., Suite 203 Wyomissing, PA 19610
Copy to:	Robert P. Krauss, Esquire Mesirov, Gelman, Jaffe, Cramer & Jamieson 1735 Market Street Philadelphia, PA 19103-7598
Charles Town HBPA, Inc.: Address	Richard C. Watson, President c/o Charles Town H.B.P.A., Inc. P.O. Box 581 Charles Town, WV 25414
Copy to:	Clarence E. Martin, III, Esquire Martin & Seibert, L.C. 1164 Winchester Avenue Martinsburg, West Virginia 25402

WHEREAS, the HBPA and Charles Town Races wish to extend that Agreement as amended herein as it relates to Paragraph 21. *Notices*, until the 30th day of September, 2003;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties do hereby agree to extend that Agreement dated the 7th day of May, 1997 until the 30th day of September, 2003.

WITNESS the following signatures and seals as of the day and date above first written.

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, a West Virginia Limited Liability Company

By: /s/ JAMES BUCHANAN

James Buchanan, its President

PENN NATIONAL GAMING OF WEST VIRGINIA, INC., a West Virginia Corporation, Managing Member of PNGI Charles Town Gaming Limited Liability Company

By: /s/ KEVIN DE SANCTIS

Kevin De Sanctis, its President

CHARLES TOWN H.B.P.A., INC., a West Virginia Corporation

By: /s/ RICHARD C. WATSON

Richard C. Watson, its President

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to-wit:

I, *Margaret A. Fineagan*, a notary public for the County/City and State aforesaid, certify that *Richard C. Watson*, whose name is signed to the foregoing as President of **THE CHARLES TOWN H.B.P.A., INC**., a West Virginia Corporation, dated the *20th* day of December, 2002 acknowledged the same on behalf of the Corporation before me in the County/City aforesaid.

Given under my hand and official seal this *20th* day of December, 2002.

Notary Public

My commission expires on *July 21, 2012*.

[OFFICIAL SEAL]

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to-wit:

I, *Margaret A. Fineagan*, a notary public for the County/City and State aforesaid, certify that *James Buchanan*, whose name is signed to the foregoing as President of **PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY**, a West Virginia Limited Liability Company, dated the *7th* day of January, 2003 acknowledged the same on behalf of the Limited Liability Company before me in the County/City aforesaid.

Given under my hand and official seal this 7th day of January, 2003.

Notary Public

My commission expires on *June 21, 2012*. [OFFICIAL SEAL]

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to-wit:

I, _____, a notary public for the County/City and State aforesaid, certify that _____, whose name is signed to the foregoing as President of **PENN NATIONAL GAMING OF WEST VIRGINIA, INC**., a West Virginia Corporation, Managing Partner of **PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY**, a West Virginia Corporation, a West Virginia Limited Liability Company, dated the ___ day of December, 2002 acknowledged the same on behalf of the Limited Liability Company before me in the County/City aforesaid.

Given under my hand and official seal this _____ day of December, 2002.

Notary Public

My commission expires on _____.

QuickLinks

Exhibit 10.45

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.66

EXECUTION COPY

PENN NATIONAL GAMING, INC.,
as Borrower,

and

THE SUBSIDIARY GUARANTORS PARTY HERETO

$1,000,000,000
CREDIT AGREEMENT

Dated as of March 3, 2003

BEAR, STEARNS & CO. INC. and
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
as Joint Lead Arrangers and Joint Bookrunners,

and

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
as Syndication Agent,

and

BEAR STEARNS CORPORATE LENDING INC.,
as Swingline Lender, Administrative Agent and Collateral Agent,

and

SOCIETE GENERALE and
CREDIT LYONNAIS NEW YORK BRANCH,
as Joint Documentation Agents,

and

THE LENDERS PARTY HERETO

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CREDIT AGREEMENT dated as of March 3, 2003, among **PENN NATIONAL GAMING, INC.** as **Borrower**; the **Subsidiary Guarantors** party hereto; the **Lenders** party hereto; **BEAR, STEARNS & CO. INC**. and **MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED**, as joint lead arrangers and joint bookrunners (in such capacities, together with their successors in such capacities, "**Lead Arrangers**"); **MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED**, as syndication agent (in such capacity, together with its successors in such capacity, "**Syndication Agent**"); **BEAR STEARNS CORPORATE LENDING INC.** as swingline lender ("**Swingline Lender**"), as administrative agent (in such capacity, together with its successors in such capacity, "**Administrative Agent**") and as collateral agent (in such capacity, together with its successors in such capacity, "**Collateral Agent**"); and

SOCIETE GENERALE and **CREDIT LYONNAIS NEW YORK BRANCH**, as joint documentation agents (in such capacities, together with their successors in such capacities, "**Documentation Agents**").

WHEREAS, Borrower and P Acquisition Corp., a corporation newly formed at the direction of Borrower **("Merger Sub"),** have entered into an agreement and plan of merger dated as of August 7, 2002 (as amended, the "**Acquisition Agreement**") with Hollywood Casino Corporation **("Target")** pursuant to which Borrower will acquire through merger (the "**Hollywood Acquisition**") all of the capital stock of Target for cash.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS, ACCOUNTING MATTERS AND RULES OF CONSTRUCTION

SECTION 1.01. Certain Defined Terms. As used herein, the following terms shall have the following meanings:

"**ABR Loans**" shall mean Loans that bear interest at rates based upon the Alternate Base Rate.

"**Acquisition**" shall mean, with respect to any person, any transaction or series of related transactions for the direct or indirect (a) acquisition of all or substantially all of the Property of any other person, or of any business or division of any other person, (b) acquisition of more than 50% of the Equity Interests of any other person, or otherwise causing any other person to become a Subsidiary of such person or (c) merger or consolidation or any other combination with any other person.

"**Acquisition Agreement**" see Recitals.

"**Adjusted Net Income**" shall mean, for any period, the net income or loss of Borrower and its Restricted Subsidiaries for such period, adjusted by excluding (to the extent taken into account in the calculation of such consolidated net income (loss)) the effect of (a) gains or losses for such period from Asset Sales not in the ordinary course of business and the net tax consequences thereof for such period, (b) any non-recurring or extraordinary items of income (other than the proceeds of business interruption insurance) or expense for such period and the net tax consequences thereof for such period (as determined in good faith by Borrower and reasonably acceptable to the Lead Arrangers), (c) transaction costs for the Transactions in an amount not to exceed $8.5 million, (d) non-recurring costs and expenses (including legal fees and fines) paid and payable in connection with lawsuits by and against Target and Jack E. Pratt, (e) non-cash valuation adjustments, (f) any expenses related to the repurchase of stock options to the extent not prohibited by this Agreement, (g) expenses related to the grant of stock options, stock appreciation rights or other equivalent or similar instruments, (h) income of any less than 50% owned entities unless such income is actually received in cash and (i) any non-cash loss or charges associated with the write-down or impairment of assets or intangibles not in the ordinary course of business (including any write-down of goodwill pursuant to FASB 142). Adjusted Net Income shall be calculated on a *pro forma* basis in accordance with Regulation S-X under the Securities Act to give effect to the Hollywood Acquisition and any other Acquisition and Asset Sales consummated during the Test Period of Borrower ended on the Test Date thereof as if each such Acquisition had been effected on the first day of such period and as if each such Asset Sale had been consummated on the day prior to the first day of such period.

"**Administrative Agent**" see the introduction hereto.

"**Administrative Agent's Fee Letter**" shall mean the fee letter dated February 3, 2003 between Borrower and Administrative Agent.

"**Administrative Questionnaire**" shall mean an Administrative Questionnaire in the form of *Exhibit S*, or such other form as may be supplied from time to time by Administrative Agent.

"**Advance Date**" see Section 4.06.

"**Affiliate**" shall mean, with respect to any person, any other person that directly or indirectly controls, or is under common control with, or is controlled by, such person. As used in this definition, "**control**" (including, with its correlative meanings, "**controlled by**" and "**under common control with**") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); *provided* that no Company shall be deemed to be an Affiliate of any other Company.

"**Agent**" shall mean any of Administrative Agent, Collateral Agent and/or Lead Arrangers, as applicable. All discretionary authority vested in Collateral Agent hereunder may be exercised in consultation with Lead Arrangers and/or counsel to the Agents.

"**Agent Related Parties**" see Section 12.01.

"**Agreement**" shall mean this Credit Agreement, as amended from time to time.

"**Alternate Base Rate**" shall mean for any day, the higher of (i) the corporate base rate of interest announced by Administrative Agent from time to time, changing effective on the date of announcement of said corporate base rate changes, and (ii) the Federal Funds Rate plus 0.50% *per annum.* The corporate base rate is not necessarily the lowest rate charged by Administrative Agent to its customers.

"**Alternate Target Subsidiary Bond Offers**" shall mean tender offers for either or both issues of Target Subsidiary Bonds at a blended price of greater than 101% and not more than 102% of the aggregate principal amount thereof, plus accrued and unpaid interest, and, in connection therewith, the obtaining of consents to the elimination of all significant covenants from the governing indenture in connection therewith (x) subject to a minimum condition that the holders of 51% of the aggregate principal amount outstanding of the particular issue of Target Subsidiary Bonds consent thereto and (y) the inclusion of equal and ratable Liens to secure the Credit Facilities with the collateral securing the Target Subsidiary Bonds subject to a minimum condition that 85% of the holders of a particular issue consent thereto.

"**Amortization Payment**" shall mean each scheduled installment of payments on the Term Loans as set forth in Section 3.01 (b).

"**Applicable Fee Percentage**" (i) prior to the Trigger Date (as defined below) with respect to any Unutilized R/C Commitments, Unutilized Second Term B Facility Commitments and Term C Facility Commitments shall be at Level II as set forth in *Annex B* attached hereto, *provided, however,* that if the Consolidated Total Leverage Ratio is greater than or equal to 5.0x, the Applicable Fee Percentage with respect to any Unutilized R/C Commitments, Unutilized Second Term B Facility Commitments and Term C Facility Commitments shall be at Level I as set forth in *Annex B* attached hereto and (ii) on and after the date (the "**Trigger Date**") that is the later of (A) the date that the Term C Facility Commitment is terminated or (B) on and after the date on which Borrower shall have delivered to the Lenders the financial statements and Interest Rate Certificate required by Sections 9.04(a) and (e), as applicable, demonstrating the then applicable Consolidated Total Leverage Ratio and Consolidated Senior Leverage Ratio for a fiscal quarter ended at least six months after the Closing Date, the Applicable Fee Percentage shall be the applicable percentage *per annum* set forth on Annex B attached

hereto set forth opposite the relevant Consolidated Total Leverage Ratio in such Annex as evidenced in the most recent Interest Rate Certificate delivered hereunder. After the Trigger Date, any change in the Consolidated Total Leverage Ratio shall be effective to adjust the Applicable Fee Percentage as of the date of receipt by Administrative Agent of the Interest Rate Certificate most recently delivered pursuant to Section 9.04(e). If Borrower fails to deliver the financial statements and Interest Rate Certificate within the times specified in Sections 9.04(a) and (e), as applicable, such ratio shall be deemed to be at Level I as set forth in *Annex B* from the date of any such failure to deliver until Borrower delivers such Interest Rate Certificate and financial statements.

"**Applicable Lending Office**" shall mean, for each Lender and for each Type of Loan, the "Lending Office" of such Lender (or of an Affiliate of such Lender) designated for such Type of Loan on *Annex A* hereof or such other office of such Lender (or of an Affiliate of such Lender) as such Lender may from time to time specify to Administrative Agent and Borrower as the office by which its Loans of such Type are to be made and maintained.

"**Applicable Margin**" (i) prior to the Trigger Date with respect to any Loans or Letters of Credit shall be at Level II as set forth in *Annex B* attached hereto, *provided, however,* that if prior to the Trigger Date the Consolidated Total Leverage Ratio is greater than or equal to 5.0x, the Applicable Margin with respect to any Loans or Letters of Credit shall be at Level I as set forth in *Annex B* attached hereto, and (ii) on or after the Trigger Date, the Applicable Margin shall be the applicable percentage *per annum* as set forth on *Annex B* attached hereto for such Type and Class of Loan set forth opposite the relevant Consolidated Total Leverage Ratio in such Annex as evidenced in the most recent Interest Rate Certificate delivered hereunder. Notwithstanding the foregoing, if at any time after the Closing Date (x) the Consolidated Senior Leverage Ratio falls below 2.50x (calculated on a *pro forma* basis giving effect to any prepayment of the Loans) and (y) the Second Term B and Term C Facilities are terminated, the Applicable Margin at each Level set forth on *Annex B* attached hereto with respect to the Revolving Loans and the Term A Facility Loans shall immediately be reduced by 0.25% and the Applicable Margin with respect to the Term B Facility Loans shall be reduced by 0.50%. After the Trigger Date, any change in the Consolidated Total Leverage Ratio shall be effective to adjust the Applicable Margin as of the date of receipt by Administrative Agent of the Interest Rate Certificate most recently delivered pursuant to Section 9.04(e); *provided* that in the event Borrower or any of its Restricted Subsidiaries issues Permitted Subordinated Indebtedness, any change in the Consolidated Senior Leverage Ratio resulting therefrom shall be effective to adjust the Applicable Margin immediately upon delivery of an Interest Rate Certificate evidencing such change (which may be delivered upon or after giving effect to such issuance notwithstanding anything herein to the contrary). If Borrower fails to deliver the financial statements or Interest Rate Certificate within the times specified in Sections 9.04(a) and (e), as applicable, such ratio shall be at Level I as set forth in *Annex B* attached hereto from the date of any such failure to deliver until Borrower delivers such Interest Rate Certificate and financial statements.

"**Approved Fund**" shall mean, with respect to any Lender that is a fund or commingled investment vehicle that invests in commercial loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"**Asset Sale**" shall mean (i) any conveyance, sale, lease, assignment, transfer or other disposition (including by way of merger or consolidation and including any sale and leaseback transaction) of any Property (including accounts receivable and Equity Interests of any person owned by Borrower or any of its Restricted Subsidiaries but not any Equity Issuance) (whether owned on the Closing Date or thereafter acquired) by Borrower or any of its Restricted Subsidiaries to any person (other than (a) with respect to any Credit Party, to any Credit Party and (b) with respect to any other Company, to any Company) to the extent that the aggregate value of such Property sold in any single transaction or

related series of transactions is greater than or equal to $250,000 and (ii) any issuance or sale by any Restricted Subsidiary of its Equity Interests to any person (other than any Company).

"**Aurora Casino**" shall mean the Gaming Facility known as "The Hollywood Casino Aurora" located in Aurora, Illinois.

"**Bankruptcy Code**" shall mean the United States Federal Bankruptcy Code of 1978, as amended or supplemented.

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

"**Boomtown Casino**" shall mean the Gaming Facility known as "The Boomtown Biloxi Casino," located in Biloxi, Mississippi.

"**Borrower**" shall mean Penn National Gaming, Inc., a Pennsylvania corporation.

"**Borrower Outstanding Bonds**" shall mean $175,000,000 aggregate principal amount of $8^{7}/_{8}$% Senior Subordinated Notes due 2010 of Borrower and $200,000,000 aggregate principal amount of $11^{1}/_{8}$% Senior Subordinated Notes due 2008 of Borrower.

"**Borrowing**" shall mean (a) Loans of the same Class and Type made, converted or continued on the same date and, in the case of LIBOR Loans, as to which a single Interest Period is in effect, or (b) a Swingline Loan.

"**Bullwhackers Casino**" shall mean the Gaming Facilities known as "Bullwhackers Casino," "Bullpenn Casino" and "Silver Hawk Casino" located in Blackhawk, Colorado.

"**Business Day**" shall mean any day, except a Saturday or Sunday, (a) on which commercial banks are not authorized or required to close in New York City and (b) if such day relates to a borrowing of, a payment or prepayment of principal of or interest on, a Continuation or Conversion of or into, or an Interest Period for, a LIBOR Loan or a notice by Borrower with respect to any such borrowing, payment, prepayment, Continuation, Conversion or Interest Period, that is also a day on which dealings in Dollar deposits are carried out in the London interbank market.

"**Capital Expenditures**" shall mean, for any period, with respect to any person, any expenditures of such person for the acquisition or leasing of fixed or capital assets (including, without limitation, expenditures for maintenance and repairs that should be capitalized in accordance with GAAP and Capital Lease Obligations) that should be capitalized in accordance with GAAP, excluding (i) expenditures in an amount not to exceed the sum of (x) the Net Available Proceeds of any Casualty Event to the extent such Net Available Proceeds are not required to be applied to the prepayment of the Loans in accordance with Section 2.10(a)(i) and (y) the amount of any applicable insurance deductibles with respect to such Casualty Event to the extent such Net Available Proceeds are applied as set forth in Section 2.10(a)(i) within the period specified therein, (ii) equipment or other property that is purchased simultaneously or substantially concurrently with the trade-in of existing equipment or property owned by such person to the extent of the trade-in credit with respect to the equipment or property being traded in, (iii) expenditures made using Net Available Proceeds as applied in accordance with Section 2.10(iv) and (iv) amounts to effect a Permitted Acquisition.

"**Capital Lease**" as applied to any person, shall mean any lease of any Property by that person as lessee that, in conformity with GAAP, is required to be classified and accounted for as a capital lease on the balance sheet of that person.

"**Capital Lease Obligations**" shall mean, for any person, all obligations of such person to pay rent or other amounts under a Capital Lease, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"**Cash Equivalents**" shall mean, for any person: (a) direct obligations of the United States of America, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States of America, or by any agency thereof, in either case maturing not more than one year from the date of acquisition thereof by such person; (b) time deposits, certificates of deposit or bankers' acceptances (including eurodollar deposits) issued by (i) any bank or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least $500.0 million that is assigned at least a "B" rating by Thomson Financial BankWatch or (ii) any Lender (in each case, at the time of acquisition); (c) commercial paper rated at least "A-1" or the equivalent thereof by S&P or at least "P-1" or the equivalent thereof by Moody's, respectively, maturing not more than nine months from the date of acquisition thereof by such person (in each case, at the time of acquisition); (d) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with a bank meeting the qualifications described in clause (b) above (in each case, at the time of acquisition); (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof or by any foreign government, and rated at least "A" by S&P or "A" by Moody's (in each case, at the time of acquisition); (f) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any Lender or any commercial bank satisfying the requirements of clause (b) above; or (g) money market mutual funds that invest primarily in the foregoing items.

"**Casino Magic**" shall mean the Gaming Facility known as "The Casino Magic Casino," located in Bay St. Louis, Mississippi.

"**Casino Rouge**" shall mean the Gaming Facility known as "Casino Rouge" located in Baton Rouge, Louisiana.

"**Casualty Event**" shall mean, with respect to any Property (including Real Property) of any person, any loss of title with respect to such Property or any loss of or damage to or destruction of, or any condemnation or other taking (including by any Governmental Authority) of, such Property for which such person or any of its Subsidiaries receives insurance proceeds or proceeds of a condemnation award or other compensation; *provided, however,* no such event shall constitute a Casualty Event if such proceeds or other compensation in respect thereof is less than $1,000,000. "Casualty Event" shall include, but not be limited to, any taking of all or any part of any Real Property of any Company or any part thereof, in or by condemnation or other eminent domain proceedings pursuant to any Law, or by reason of the temporary requisition of the use or occupancy of all or any part of any Real Property of any Company or any part thereof by any Governmental Authority, civil or military.

"**CERCLA**" shall mean the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. § 9601 *et seq.*

A "**Change of Control**" shall be deemed to have occurred if: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than Principal or a Related Party of Principal, is or becomes the Beneficial Owner, directly or indirectly, of Voting Stock representing more than 50% of the voting power of the total outstanding Voting Stock of Borrower; (b) at any time a change of control occurs under and as defined in any documentation relating to any material Indebtedness of Borrower; (c) Peter M. Carlino ceases to be the Chairman of the Board of Directors of Borrower for any reason other than his death or disability unless a replacement satisfactory to Lead Arrangers is appointed within 90 days; or (d) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Borrower (together with any new directors whose election to such Board of Directors or whose nomination for election was approved by a vote of a majority of the directors of Borrower then still in office who were either directors at the beginning of such period or whose election or nomination for election was

previously so approved) cease for any reason to constitute a majority of the Board of Directors of Borrower.

"**Change of Control Offers**" shall mean the change of control offers made pursuant to the terms of the Target Subsidiary Bonds.

"**Charles Town Facility**" shall mean the Gaming Facility known as "The Charles Town Races" located in Charles Town, West Virginia.

"**Class**" see Section 1.03.

"**Closing Date**" see Section 7.01.

"**Code**" shall mean the United States Internal Revenue Code of 1986, as amended.

"**Collateral**" shall mean all of the Pledged Collateral, the Mortgaged Real Property and any other property, whether now owned or hereafter acquired, upon which a Lien securing the Obligations is granted or purported to be granted under any Security Document.

"**Collateral Account**" shall have the meaning assigned to such term in the Security Agreement.

"**Collateral Agent**" shall mean Bear Stearns Corporate Lending Inc. in its capacity as collateral agent in accordance with the introduction hereto and in accordance with the terms of the Security Documents, as the case may be.

"**Commitment Letter**" shall mean the Credit Facilities Commitment Letter among Bear, Stearns & Co., Inc., Bear Stearns Corporate Lending Inc., Merrill Lynch Capital Corporation and Borrower dated August 5, 2002, together with Exhibit A thereto.

"**Commitments**" shall mean the Revolving Commitments, the Term Loan Commitments and the Swingline Commitment.

"**Companies**" shall mean Borrower and its Subsidiaries; and "**Company**" shall mean any one of them.

"**Confidential Information Memorandum**" shall mean that certain confidential information memorandum distributed in connection herewith dated as of January 2003.

"**Consolidated Companies**" shall mean Borrower and each Subsidiary of Borrower (whether now existing or hereafter created or acquired), the financial statements of which shall be (or should have been) consolidated with the financial statements of Borrower in accordance with GAAP.

"**Consolidated EBITDA**" shall mean, for any period, the sum (without duplication) of Adjusted Net Income for such period, *plus*, in each case to the extent deducted in calculating such Adjusted Net Income, (1) income tax expense, (2) Consolidated Interest Expense and non-cash interest expense, (3) depreciation and amortization expense, (4) any extraordinary non-cash items, (5) other non-cash items of expense, other than to the extent such non-cash items require an accrual or reserve for future cash expenses *(provided* that if such accrual or reserve is for contingent items, the outcome of which is subject to uncertainty, such non-cash items of expense will be added to Adjusted Net Income and deducted when and to the extent actually paid in cash), (6) any Pre-Opening Expenses, and (7) in any fiscal quarter during which a purchase of property subject to any Company's operating lease shall occur and during the three following fiscal quarters, an amount equal to the quarterly payment in respect of such lease times (a) 4 (in the case of the quarter in which such purchase occurs), (b) 3 (in the case of the quarter following such purchase),(c) 2 (in the case of the second quarter following such purchase) and (d) 1 (in the case of the third quarter following such purchase), all as determined on a consolidated basis for Borrower and its Restricted Subsidiaries; *provided, however,* for the first four Test Dates, Borrower may add to Consolidated EBITDA an amount equal to $7.0 million, $5.0 million, $3.0 million and $1.0 million, respectively, representing $7.0 million in the aggregate of add-backs

arising from synergies expected to be achieved in good faith by Borrower within twelve months of the consummation of the Transactions. Components of Consolidated EBITDA shall be calculated on a *pro forma* basis and otherwise in accordance with Regulation S-X under the Securities Act to give effect to the Hollywood Acquisition and any other Acquisition and Asset Sales consummated during the fiscal period of Borrower ended on the Test Date thereof as if each such Acquisition had been effected on the first day of such period and as if each such Asset Sale had been consummated on the day prior to the first day of such period. Consolidated EBITDA shall be further adjusted, in the event any Incremental Loans are advanced, to give pro forma effect to the anticipated Consolidated EBITDA expected to result from the use of the Incremental Loan proceeds, in a manner reasonably satisfactory to Borrower, Lead Arrangers and the Majority Lenders.

"**Consolidated Indebtedness**" shall mean, as at any date of determination, the aggregate amount of all Indebtedness (but including in any event the then outstanding principal amount of all Loans, all Notes, all Capital Lease Obligations and all L/C Liability) of Borrower and its Restricted Subsidiaries on a consolidated basis as determined in accordance with GAAP.

"**Consolidated Interest Expense**" shall mean, for any period, the sum of all cash interest expense of Borrower and its Restricted Subsidiaries for such period as determined on a consolidated basis for Borrower and its Restricted Subsidiaries in accordance with GAAP.

"**Consolidated Senior Leverage Ratio**" shall mean, for any Test Period, the ratio of (a) Consolidated Indebtedness as of the last day of such Test Period, *minus*, without duplication, all unsecured senior subordinated or subordinated Indebtedness of Borrower and its Restricted Subsidiaries as of such date, to (b) Consolidated EBITDA for such Test Period.

"**Consolidated Total Leverage Ratio**" shall mean, for any Test Period, the ratio of (a) Consolidated Indebtedness (other than $310,000,000 aggregate principal amount of $11^{1}/_{4}$% Senior Secured Notes due 2007 of Target and $50,000,000 aggregate principal amount of Floating Rate Senior Secured Notes due 2006 of Target) as of the last day of such Test Period to (b) Consolidated EBITDA for such Test Period.

"**Contested Collateral Lien Conditions**" shall mean, with respect to any Permitted Lien of the type described in clauses (a), (b) and (f) of Section 10.02, the following conditions:

(i) any proceeding instituted contesting such Lien shall operate to stay the sale or forfeiture of any portion of the Collateral on account of such Lien;

(ii) at the option and upon request of Administrative Agent, the appropriate Credit Party shall maintain cash reserves (or availability under the Revolving Facility) in an amount sufficient to pay and discharge such Lien and Administrative Agent's reasonable estimate of all interest and penalties related thereto; and

(iii) such Lien shall in all respects be subject and subordinate in priority to the Lien and security interest created and evidenced by the Security Documents, except if and to the extent that the law or regulation creating, permitting or authorizing such Lien provides that such Lien is or must be superior to the Lien and security interest created and evidenced by the Security Documents.

"**Contingent Obligation**" shall mean, as to any person, any obligation of such person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations **("primary obligations")** of any other person (the "**primary obligor**"**)** in any manner, whether directly or indirectly, including any obligation of such person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor; (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the

primary obligor; (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation; or (d) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; *provided, however,* that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business and any lease guarantees executed by any Company in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made (or, if less, the maximum amount of such primary obligation for which such person may be liable pursuant to the terms of the instrument evidencing such Contingent Obligation) or, if not stated or determinable, the maximum reasonably anticipated potential liability in respect thereof (assuming such person is required to perform thereunder) as determined by such person in good faith.

"**Continue,**" "**Continuation**" and "**Continued**" shall refer to the continuation pursuant to Section 2.09 of a LIBOR Loan from one Interest Period to the next Interest Period.

"**Contractual Obligation**" shall mean as to any person, any provision of any security issued by such person or of any mortgage, security agreement, pledge agreement, indenture, credit agreement, securities purchase agreement, debt instrument, contract, agreement, instrument or other undertaking to which such person is a party or by which it or any of its Property is bound or subject.

"**Controlled Account**" shall have the meaning assigned to such term in the Security Agreement.

"**Convert,**" "**Conversion**" and "**Converted**" shall refer to a conversion pursuant to Section 2.09 of one Type of Loan (other than Swingline Loans) into another Type of Loan, which may be accompanied by the transfer by a Lender (at its sole discretion) of a Loan from one Applicable Lending Office to another.

"**Covered Taxes**" see Section 5.06(a).

"**Credit Documents**" shall mean (i) this Agreement, (ii) the Notes, (iii) the L/C Documents, (iv) the Security Documents and (v) each other agreement entered into by any Credit Party with or certificate delivered to Administrative Agent and/or any Lender in connection herewith or therewith evidencing or governing the Obligations or delivered in connection herewith or therewith, all as amended from time to time.

"**Credit Facilities**" shall mean the Term Facilities and the Revolving Facility.

"**Credit Parties**" shall mean Borrower and the Subsidiary Guarantors.

"**Creditor**" shall mean each of (i) each Agent, (ii) each L/C Lender, (iii) each Lender, and (iv) each party to a Swap Contract relating to the Loans if at the date of entering into such Swap Contract such person was a Lender or an Affiliate of a Lender.

"**Debt Issuance**" shall mean the incurrence by Borrower or any Restricted Subsidiary of any Indebtedness after the Closing Date (other than as permitted by Section 10.01).

"**Debt Service Maintenance Agreement**" shall mean that certain Debt Service Maintenance Agreement among Borrower, Backside, Inc., The Downs Racing, Inc., Mill Creek Land, Inc., Mountainview Thoroughbred Association, Northeast Concessions, Inc., PNGI Pocono, Inc., Penn National Gaming of West Virginia, Inc., Penn National GSFR, Inc., Penn National Holding Company, Penn National Speedway, Inc., Pennsylvania National Turf Club, Inc., Sterling Aviation Inc., Tennessee Downs, Inc. and Wilkes Barre Downs, Inc. for the benefit of Commerce Bank, N.A., dated as of July 29, 1999, as amended or otherwise modified from time to time in accordance with this Agreement.

"**Default**" shall mean any event or condition that constitutes an Event of Default or that would become, with notice or lapse of time or both, an Event of Default.

"**Disqualified Capital Stock**" shall mean, with respect to any person, any Equity Interest of such person that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable or redeemable at the sole option of the holder thereof (other than solely for Qualified Capital Stock or upon a sale of assets or a change of control that constitutes an Asset Sale or a Change of Control and is subject to the prior payment in full of the Obligations or as a result of a redemption required by Gaming Law), pursuant to a sinking fund obligation or otherwise (other than solely for Qualified Capital Stock) or exchangeable or convertible into debt securities of the issuer thereof at the sole option of the holder thereof, in whole or in part, on or prior to the date that is 181 days after the later of (a) the Term B Final Maturity Date then in effect and (b) the Term C Final Maturity Date then if effect.

"**Dividend Payment**" shall mean dividends (in cash, Property or obligations) on, or other payments or distributions on account of, or the setting apart of money for a sinking or other analogous fund for, or the purchase, redemption, retirement or other acquisition of, any Equity Interests or Equity Rights of Borrower or any of its Restricted Subsidiaries, but excluding dividends paid through the issuance of additional shares of Qualified Capital Stock and any redemption or exchange of any Qualified Capital Stock of Borrower or such Restricted Subsidiary through the issuance of Qualified Capital Stock of Borrower or any of its Restricted Subsidiaries.

"**Documentation Agents**" see the introduction hereto.

"**Dollars**" and "**$**" shall mean lawful money of the United States of America.

"**Eligible Person**" shall mean (A) to the extent required under applicable Gaming Laws, a person registered or licensed with, approved, qualified or found suitable by, or not disapproved, denied a license, qualification or approval or found unsuitable (whichever may be required under applicable Gaming Law), and (B)(i) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least $100.0 million; (ii) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development (the "**OECD**"**),** or a political subdivision of any such country, and having a combined capital and surplus in a dollar equivalent amount of at least $100.0 million; *provided*, *however,* that such bank is acting through a branch or agency located in the country in which it is organized or another country that is also a member of the OECD; (iii) an insurance company, mutual fund or other entity which is regularly engaged in making, purchasing or investing in loans or securities; or any other financial institution organized under the laws of the United States, any state thereof, any other country that is a member of the OECD or a political subdivision of any such country with assets, or assets under management, in a dollar equivalent amount of at least $100.0 million; (iv) any Affiliate of a Lender or an Approved Fund of a Lender; (v) any other entity (other than a natural person) which is an "accredited investor" (as defined in Regulation D under the Securities Act) which extends credit or buys loans as one of its businesses or investing activities including, but not limited to, insurance companies, mutual funds and investment funds; and (vi) any other entity consented to by each Lead Arranger, Administrative Agent and Borrower. With respect to any Lender, any Approved Fund in respect thereof shall be treated as a single Eligible Person.

"**Employee Benefit Plan**" shall mean an employee benefit plan (as defined in Section 3(3) of ERISA) that is maintained or contributed to by any ERISA Entity.

"**Engagement Letter**" shall mean the Engagement Letter among Borrower and Lead Arrangers dated as of August 5, 2002.

"**Environment**" shall mean ambient air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, natural resources, the workplace or as otherwise defined in any Environmental Law.

"**Environmental Action**" shall mean (a) any notice, claim, demand or other written or, to the knowledge of Company, oral communication alleging liability for investigation, remediation, removal, cleanup, response, corrective action or other costs, damages to natural resources, personal injury, property damage, fines or penalties resulting from, related to or arising out of (i) the presence, Release or threatened Release in or into the Environment of Hazardous Material at any location or (ii) any violation of Environmental Law, and shall include, without limitation, any claim seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from, related to or arising out of the presence, Release or threatened Release of Hazardous Material or alleged injury or threat of injury to human health, safety or the Environment arising under Environmental Law and (b) any investigation, monitoring, removal or remedial activities undertaken by or on behalf of Borrower or any of its Subsidiaries, arising under Environmental Law whether or not such activities are carried out voluntarily.

"**Environmental Law**" shall mean any and all applicable treaties, laws, statutes, ordinances, regulations, rules, decrees, judgments, orders, consent orders, consent decrees and other binding legal requirements, and the common law, relating to protection of public health or the Environment, the Release or threatened Release of Hazardous Material, natural resources or natural resource damages, or occupational safety or health.

"**Equity Interests**" shall mean, with respect to any person, any and all shares, interests, participations or other equivalents, including membership interests (however designated, whether voting or non-voting), of capital of such person, including, if such person is a partnership, partnership interests (whether general or limited) and any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, such partnership, whether outstanding on the Closing Date or issued after the Closing Date.

"**Equity Issuance**" shall mean (a) any issuance or sale after the Closing Date by Borrower of any Equity Interests in any public offering or private placement (excluding any Equity Interests issued upon exercise of any Equity Rights) or any Equity Rights, or (b) the receipt by Borrower after the Closing Date of any capital contribution (whether or not evidenced by any Equity Interest issued by the recipient of such contribution). The issuance or sale of any debt instrument convertible into or exchangeable or exercisable for any Equity Interests shall be deemed a Debt Issuance and not an Equity Issuance for purposes of Section 2.10(a).

"**Equity Rights**" shall mean, with respect to any person, any then outstanding subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind (including any stockholders' or voting trust agreements) for the issuance, sale, registration or voting of, or outstanding securities convertible into, any additional Equity Interests of any class, or partnership or other ownership interests of any type in, such person.

"**ERISA**" shall mean the United States Employee Retirement Income Security Act of 1974, as amended.

"**ERISA Entity**" shall mean any member of an ERISA Group.

"**ERISA Event**" shall mean (a) any "reportable event," as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Pension Plan (other than an event for which the 30-day notice requirement is waived); (b) the existence with respect to any Pension Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived, the failure by any ERISA Entity to make by its due date a required installment under Section 412(m) of the Code with respect to any Pension Plan or the failure to make any required

contribution to a Multiemployer Plan; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Pension Plan; (d) the incurrence by any ERISA Entity of any liability under Title IV of ERISA with respect to the termination of any Pension Plan; (e) the receipt by any ERISA Entity from the PBGC or a plan administrator of any notice relating to the termination of any Pension Plan or the appointment of a trustee to administer any Pension Plan; (f) the occurrence of any event or condition which could constitute grounds under ERISA for the termination of or the appointment of a trustee to administer, any Pension Plan; (g) the incurrence by any ERISA Entity of any liability with respect to the withdrawal or partial withdrawal from any Pension Plan or Multiemployer Plan; (h) the receipt by an ERISA Entity of any notice, or the receipt by any

Multiemployer Plan from any ERISA Entity of any notice, concerning the imposition of Withdrawal Liability on any ERISA Entity or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; (i) the making of any amendment to any Pension Plan which would be reasonably likely to result in the imposition of a lien or the posting of a bond or other security; or (j) the occurrence of a nonexempt prohibited transaction (within the meaning of Section 4975 of the Code or Section 406 of ERISA) which would reasonably be expected to result in liability to any Company.

"**ERISA Group**" shall mean any Company and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with such Company, are treated as a single employer under Section 414(b) or (c) of the Code.

"**Estoppels**" shall mean those certain Lessor Consent and Estoppel Certificates executed by the applicable landlord under each of the Ground Leases, each of which shall be substantially in the form attached hereto as *Exhibit Q*.

"**Event of Default**" see Article XI.

"**Excess Cash Flow**" shall mean, for any Excess Cash Flow Period, the sum (without duplication) of:

(a) consolidated net income (or loss) of Borrower and its Restricted Subsidiaries for such Excess Cash Flow Period, adjusted to exclude any gains or losses attributable to prepayment of any Loans; *plus*

(b) depreciation and amortization deducted in determining such consolidated net income (or loss) for such Excess Cash Flow Period; *plus*

(c) other non-cash charges or losses (except for such non-cash charges or losses representing or requiring an accrual or reserve for future cash expenses, charges or losses) deducted in determining such consolidated net income (or loss) for such Excess Cash Flow Period; *plus*

(d) the sum of (i) the amount, if any, by which Working Capital decreased during such Excess Cash Flow Period *plus* (ii) the net amount, if any, by which the consolidated deferred revenues and other consolidated accrued long-term liability accounts of Borrower and its Restricted Subsidiaries increased during such Excess Cash Flow Period plus (iii) the net amount, if any, by which the consolidated accrued long-term asset accounts of Borrower and its Restricted Subsidiaries decreased during such Excess Cash Flow Period; *minus*

(e) the sum of (i) any non-cash gains included in determining such consolidated net income (or loss) for such Excess Cash Flow Period plus (ii) the amount, if any, by which Working Capital increased during such Excess Cash Flow Period *plus* (iii) the net amount, if any, by which the consolidated deferred revenues and other consolidated accrued long-term liability accounts of Borrower and its Restricted Subsidiaries decreased during such Excess Cash Flow Period *plus* (iv) the net amount, if any, by which the consolidated accrued long-term asset accounts of Borrower and its Restricted Subsidiaries increased during such Excess Cash Flow Period; *minus*

(f) the sum of (i) Capital Expenditures for such Excess Cash Flow Period (except to the extent attributable to the incurrence of Capital Lease Obligations or otherwise financed by incurring Indebtedness) *plus* (ii) cash consideration paid during such Excess Cash Flow Period to make Permitted Acquisitions (except to the extent financed by incurring Indebtedness) *plus* (iii) Investments permitted under Section 10.04(p); *minus*

(g) the proceeds realized from any Casualty Event (and any applicable insurance deductible in respect thereof) or Asset Sale (only deducted to the extent included the calculation of consolidated net income) during such Excess Cash Flow Period; *minus*

(h) the aggregate principal amount of Indebtedness repaid or prepaid by Borrower and its Restricted Subsidiaries during such Excess Cash Flow Period, excluding (i) Indebtedness in respect of Revolving Loans and Letters of Credit (unless the Revolving Commitments are reduced in connection therewith), (ii) Term Loans prepaid pursuant to Section 2.10 and (iii) repayments or prepayments of Indebtedness financed by incurring other Indebtedness.

"**Excess Cash Flow Measurement Date**" see Section 2.10(v).

"**Excess Cash Flow Period**" shall mean, in the fiscal year in which the Closing Date occurs, the period commencing on the Closing Date and ending on the last day of such fiscal year, and for any subsequent fiscal year, such fiscal year provided that in the fiscal year that the Closing Date occurs, notwithstanding the foregoing, in the event that the Term C Facility is outstanding on the 30th day following the completion of the first full fiscal quarter following the initial borrowing under the Term C Facility, then the Excess Cash Flow Period shall be monthly.

"**Exchange Act**" shall mean the United States Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"**Excluded Taxes**" shall mean any Tax (other than any Other Taxes) (i) imposed on or measured by the net income or net profits of a Lender pursuant to the laws of the jurisdiction in which it is organized or the jurisdiction in which the principal office or Applicable Lending Office of such Lender is located or any jurisdiction in which such Lender conducts business or any subdivision thereof or therein, (ii) imposed on any Lender in the nature of franchise taxes or other similar taxes imposed as a result of such Lender doing business in a particular jurisdiction, or (iii) any branch profits taxes imposed by the United States of America.

"**Existing Letters of Credit**" see Section 2.03.

"**Expansion Capital Expenditure**" shall mean any Capital Expenditure by Borrower or any of its Restricted Subsidiaries that is not properly characterized as a Maintenance Capital Expenditure, including, without limitation, expenditures with respect to the buy-out of real property leases.

"**fair market value**" shall mean, with respect to any Property, a price (after taking into account any liabilities relating to such Property), as determined in good faith by the board of directors of Borrower, that could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction.

"**FASB 142**" shall mean Statement of Financial Accounting Standards No. 142 issued on June 29, 2001 by the Financial Accounting Standards Board.

"**Federal Funds Rate**" shall mean, for any day, the rate *per annum* (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided*, *however*, that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding

Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the average rate quoted to Administrative Agent on such Business Day on such transactions by three federal funds brokers of recognized standing, as determined by Administrative Agent.

"**Fee Letter**" shall mean the Credit Facilities Fee Letter dated as of August 5, 2002, among Bear, Stearns & Co., Inc., Bear Stearns Corporate Lending Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Merrill Lynch Capital Corporation and Borrower.

"**Financial Maintenance Covenants**" shall mean the covenants set forth in Sections 10.08(a) through (d).

"**FIRREA**" shall mean the Financial Institutions Reform, Recovery and Enforcement Act.

"**First Mortgage**" shall mean an agreement, including, but not limited to, a mortgage, deed of trust or any other document, creating and evidencing a first Lien (subject only to the Liens permitted thereunder) in favor of Collateral Agent on behalf of the First Priority Secured Parties on a Mortgaged Real Property, which shall be in substantially in the form of *Exhibit J*, with such schedules and including such provisions as shall be necessary to conform such document to applicable or local law or as shall be customary under local law, as the same may at any time be amended in accordance with the terms thereof and hereof.

"**First Priority Lenders**" shall mean the Term A Facility Lenders, the Term B Facility Lenders, the L/C Lender, the Incremental Loan Lenders, the Revolving Lenders and the Swingline Lenders.

"**First Priority Loans**" shall mean the Term A Facility Loans, the Term B Facility Loans, the Incremental Loans, the Revolving Loans, the Letters of Credit and the Swingline Loans.

"**First Priority Secured Parties**" shall mean the Agents, the First Priority Lenders and each party to a Swap Contract relating to the First Priority Loans if at the date of entering into such Swap Contract such person was a First Priority Lender or an Affiliate of a First Priority Lender and such person executes and delivers to Collateral Agent a letter agreement in form and substance acceptable to Collateral Agent pursuant to which such person (x) appoints Collateral Agent as its agent under the applicable Credit Documents and (y) agrees to be bound by the provisions of Article IV hereof.

"**First Security Agreement**" shall mean a First Security Agreement substantially in the form of *Exhibit I* among the Credit Parties and Collateral Agent, as the same may be amended in accordance with the terms thereof and hereof, or such other agreements reasonably acceptable to Collateral Agent as shall be necessary to comply with applicable Requirements of Law and effective to grant to Collateral Agent on behalf of the First Priority Secured Parties a first priority (subject only to the Liens permitted thereunder) perfected security interest in the Pledged Collateral covered thereby.

"**First Security Documents**" shall mean the First Security Agreement, the First Mortgages, the First Ship Mortgages, the Perfection Certificate and each other security document or pledge agreement required by applicable local law to grant a valid, perfected security interest in any Property acquired or developed that is of the kind and nature that would constitute Collateral on the date hereof, and all UCC or other financing statements or instruments of perfection required by this Agreement, the First Security Agreement or any First Mortgage or First Ship Mortgage to be filed with respect to the security interests in Property and fixtures created pursuant to the First Security Agreement or any First Mortgage or First Ship Mortgage and any other document or instrument utilized to pledge as collateral for the Obligations any Property of whatever kind or nature.

"**First Ship Mortgage**" shall mean a First Ship Mortgage substantially in the form of *Exhibit K* among the applicable Credit Parties and Collateral Agent, as the same may be amended in accordance with the terms thereof and hereof, or such other agreements reasonably acceptable to Collateral Agent as shall be necessary to comply with applicable Requirements of Law and effective to grant to

Collateral Agent on behalf of the First Priority Secured Parties a first preferred mortgage on the Vessel covered thereby (subject only to the Liens permitted thereunder).

"**Fixed Charge Coverage Ratio**" shall mean, for any Test Date, the ratio of (x) Consolidated EBITDA for the four fiscal quarters ending on such Test Date *minus* Maintenance Capital Expenditures for such period to (y) Fixed Charges for the four fiscal quarters ending on such Test Date.

"**Fixed Charges**" shall mean, for any period, the sum of, without duplication, (i) Consolidated Interest Expense (other than interest expense with respect to the $310,000,000 aggregate principal amount of 11$^{1}/_{4}$% Senior Secured Notes due 2007 of Target and $50,000,000 aggregate principal amount of Floating Rate Senior Secured Notes due 2006 of Target) for such period to the extent paid or mandatorily payable in cash during such period, (ii) the sum of all scheduled principal payments on any Indebtedness of Borrower and its Restricted Subsidiaries (including, without duplication, any lease payments in respect of Capital Leases of Borrower and its Restricted Subsidiaries but excluding any prepayment of a type contemplated by Section 2.10) and (iii) all cash income tax expense actually paid to any Governmental Authority by Borrower and its Restricted Subsidiaries for such period (other than taxes related to Asset Sales not in the ordinary course of business). Notwithstanding the foregoing, for the initial four Test Dates, for the purposes of calculation of Fixed Charges, Consolidated Interest Expense shall equal the product of (x) Consolidated Interest Expense since the Closing Date to the date in question and (y) a fraction, the numerator of which is 365 and the denominator of which is the number of days since the Closing Date.

"**Foreign Lender Certificate**" see Section 5.06(b).

"**Foreign Plan**" shall mean any employee benefit plan, program, policy, arrangement or agreement maintained or contributed to by, or entered into with, any Company with respect to employees employed outside the United States.

"**Foreign Subsidiary**" shall mean each Subsidiary that is organized under the laws of a jurisdiction other than the United States of America or any state thereof.

"**Funding Date**" shall mean the date of the making of any extension of credit hereunder (including the Closing Date).

"**GAAP**" shall mean generally accepted accounting principles set forth as of the relevant date in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

"**Gaming Approval**" shall mean any and all approvals, authorizations, consents, rulings, orders or directives of any Governmental Authority (i) necessary to enable Borrower or any of its Restricted Subsidiaries to engage in the casino, gambling, horse racing or gaming business or otherwise continue to conduct its business as is contemplated on the Closing Date, (ii) required by any Gaming Authority or under any Gaming Law or (iii) necessary, as is contemplated on the Closing Date, to accomplish the financing and other transactions contemplated hereby.

"**Gaming Authority**" shall mean any governmental agency, authority, board, bureau, commission, department, office or instrumentality with regulatory, licensing or permitting authority or jurisdiction over any gaming business or enterprise or any Gaming Facility (including, without limitation, the Alcohol and Gaming Commission of Ontario, the Colorado Division of Gaming, the Colorado Limited Gaming Control Commission, the Illinois Gaming Board, the Louisiana Gaming Control Board, the Mississippi Gaming Commission, the Mississippi State Tax Commission, the Pennsylvania State Horse Racing Commission, the Pennsylvania State Harness Racing Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission, the New Jersey Racing Commission and the New Jersey Casino Control Commission), or with regulatory, licensing or permitting authority or jurisdiction over any gaming operation (or proposed gaming operation) owned, managed or operated by Borrower or any of its Restricted Subsidiaries.

"**Gaming Facility**" shall mean any gaming establishment and other property or assets directly ancillary thereto or used in connection therewith, including, without limitation, any casinos, hotels, resorts, race tracks, off-track wagering sites, theaters, parking facilities, recreational vehicle parks, timeshare operations, retail shops, restaurants, other buildings, land, golf courses and other recreation and entertainment facilities, marinas, vessels, barges, ships and related equipment.

"**Gaming Laws**" shall mean all applicable provisions of all: (a) constitutions, treaties, statutes or laws governing Gaming Facilities (including, without limitation, card club casinos and pari mutuel race tracks) and rules, regulations, codes and ordinances of, and all administrative or judicial orders or decrees or other laws pursuant to which, any Gaming Authority possesses regulatory, licensing or permit authority over gambling, gaming or Gaming Facility activities conducted by Borrower or any of its Restricted Subsidiaries within its jurisdiction; (b) Gaming Approvals; and (c) orders, decisions, determinations, judgments, awards and decrees of any Gaming Authority.

"**Governmental Authority**" shall mean any government or political subdivision of the United States or any other country or any agency, authority, board, bureau, central bank, commission, department or instrumentality thereof or therein, including, without limitation, any court, tribunal, grand jury or arbitrator, in each case whether foreign or domestic, or any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to such government or political subdivision including, without limitation, any Gaming Authority.

"**Governmental Real Property Disclosure Requirements**" shall mean any Requirement of Law requiring notification of the buyer, mortgagee or assignee of real property, or notification, registration or filing to or with any Governmental Authority, in connection with the sale, lease, mortgage, assignment or other transfer (including, without limitation, any transfer of control) of any real property, establishment or business, of the actual or threatened presence or release in or into the Environment, or the use, disposal or handling of Hazardous Material on, at, under or near the real property, facility or business to be sold, mortgaged, assigned or transferred.

"**Ground Leases**" shall mean, collectively, (i) that certain Lease Agreement between Martha Peresich McDermott, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of June 2, 1995, in connection with the Boomtown Casino (the "**McDermott Lease**"), (ii) that certain Lease Agreement between Gary Gollott, Tommy Gollott and Tyrone Gollott, collectively, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of September 22, 1994, in connection with the Boomtown Casino (the "**Gollott Lease**"), (iii) that certain Lease Agreement between Andrew Cvitanovich and Anthony C. Cvitanovich, together, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of March 3, 1994, in connection with the Boomtown Casino (the "**Cvitanovich Lease**"), (iv) that certain Lease Agreement between Joseph A. Suarez, Jr. and Mary Ellen Suarez, together, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of May 9, 1994, in connection with the Boomtown Casino (the "**Suarez Lease**"), (v) that certain Lease Agreement

between R.A. Fayard Seafood Co., Inc., as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of May 9, 1994, in connection with the Boomtown Casino (the "**Fayard Lease**"), (vi) that certain Lease Agreement between James A. Desporte and Linda L. Desporte, together, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of June 25, 1998, in connection with the Boomtown Casino (the "**Desporte Lease**"), (vii) that certain Lease Agreement between Marilyn C. Hille, as landlord, and BSL, Inc., successor in interest to Casino Advertising, Inc., as tenant, dated as of July 10, 1992, in connection with the Casino Magic (the "**Hille Lease**"), (viii) that certain Lease with Option to Purchase between L.D. Lang, Jr., as landlord, and BSL, Inc., successor in interest to Mardi Gras Casino Corp., as tenant, dated as of March 30, 1994, in connection with the Casino Magic (the "**Lang Lease**"), (ix) that certain Lease Agreement between Custom Pack, Inc., as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of March 1, 1996, in connection with the Boomtown Casino (the "**Custom Pack Lease**"), (x) that certain Lease Agreement between R.M. Leatherman & Hugh M. Magevney III, as landlord, and HWCC-Tunica, Inc., successor in interest to Summit Riverboat Casinos-Tunica, Inc., as tenant, dated as of October 11, 1993, in connection with the Hollywood Casino Tunica (the "**Leatherman Lease**"), (xi) that certain Lease between Edward E. Smith and Shirley

J. Smith, as landlord, and Penn Bullpen, Inc., successor in interest to Wild Card Casino, Inc., as tenant, dated as of March 17, 1992, in connection with the Penn Bullpen Casino (the "**Smith Lease**"), (xii) that certain Lease between KDL, Inc., as landlord, and Penn Bullpen, Inc., successor in interest to Pioneer Associates Ltd. as tenant, dated as of March 16, 1994, in connection with the Penn Bullpen Casino (the "**KDL Lease**"), (xiii) that certain Lease between Elizabeth Branecki, as landlord, and Penn Bullpen, Inc., successor in interest to KDL, Inc. as tenant, dated as of July 10, 1991, in connection with the Penn Bullpen Casino (the "**Branecki Lease**"), (xiv) that certain Lease Agreement between Sharon and Eloy Perea, as landlord, and Penn Silver Hawk, Inc., successor in interest to Gold Mine Casino, Inc. as tenant, dated as of October 1, 1995, in connection with the Penn Silver Hawk Casino (the "**Perea Lease**"), (xv) that certain Lease Agreement between City of Aurora, Illinois, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of June 4, 1991, in connection with the Hollywood Casino Aurora (the "**Aurora Parking Lease**"), (xvi) that certain Lease Agreement between Aurora Metropolitan Exposition Auditorium and Office Building Authority, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of June 12, 1995, in connection with the Hollywood Casino Aurora (the "**Aurora Metropolitan Exposition Lease**"), (xvii) that certain Lease Agreement between City of Aurora, Illinois, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of February 27, 2001, in connection with the Hollywood Casino Aurora (the "**City of Aurora Lease I**"), (xviii) that certain Lease Agreement between Aurora YWCA, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of November 14, 2001, in connection with the Hollywood Casino Aurora (the "**YWCA Lease**"), and (xix) that certain Lease Agreement between City of Aurora, Illinois, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of July 1, 2002, in connection with the Hollywood Casino Aurora (the "**City of Aurora Lease II**"), each as it may be or may have been amended, supplemented, replaced or otherwise modified from time to time.

"**Guarantee**" shall mean the guarantee of each Subsidiary Guarantor pursuant to Article VI.

"**Guaranteed Obligations**" see Section 6.01.

"**Hazardous Material**" shall mean any material, substance, waste, constituent, compound, pollutant or contaminant including, without limitation, petroleum (including, without limitation, crude oil or any fraction thereof or any petroleum product or waste) subject to regulation or which could reasonably be expected to give rise to liability under Environmental Law.

"**Hollywood Acquisition**" see Recitals.

"**Hollywood Shreveport**" shall mean HWCC-Louisiana, Inc. and its Subsidiaries.

"**Immaterial Subsidiary**" shall mean any Subsidiary of Borrower having assets with a fair market value of less than $1.0 million.

"**Incremental Loan Activation Notice**" shall mean a notice substantially in the form of *Exhibit C*.

"**Incremental Loan Amount**" shall mean, as to each Incremental Loan Lender, on and after the effectiveness of any Incremental Loan Activation Notice, the obligation of such Incremental Loan Lender to make Incremental Loans hereunder in a principal amount equal to the amount set forth under the heading "Incremental Loan Amount" opposite such Incremental Loan Lender's name on such Incremental Loan Activation Notice.

"**Incremental Loan Effective Date**" shall mean each date, which shall be a Business Day on or before the Incremental Loan Maturity Date, on which any Lender shall execute and deliver to Administrative Agent an Incremental Loan Activation Notice pursuant to Section 2.01(e).

"**Incremental Loan Facility**" shall mean the credit facility comprising the Incremental Loans, if any.

"**Incremental Loan Facility Commitments**" shall mean for each Incremental Loan Lender, the obligation of such Lender to make an Incremental Loan for the amount requested and agreed to in any Incremental Loan Activation Notice.

"**Incremental Loan Lenders**" shall mean (a) on any Incremental Loan Effective Date, the Lenders signatory to the Incremental Loan Activation Notice and (b) thereafter, each Lender that has made, or acquired pursuant to an assignment made pursuant to Section 13.06(b), an Incremental Loan.

"**Incremental Loan Maturity Date**" shall mean, as to the Incremental Loans to be made pursuant to any Incremental Loan Activation Notice, the maturity date specified in such Incremental Loan Activation Notice, which date shall be no earlier than the Term B Final Maturity Date then in effect in the case of Incremental Loans that are Term Loans, and no earlier than the R/C Maturity Date then in effect in the case of Incremental Loans that are revolving loans.

"**Incremental Loans**" shall mean Loans made pursuant to Section 2.01(e).

"**Incremental Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-5*.

"**incur**" shall mean, with respect to any Indebtedness or other obligation of any person, to create, issue, incur (including by conversion, exchange or otherwise), assume, guarantee or otherwise become liable in respect of such Indebtedness or other obligation, or to grant or create a Lien upon any Property of such person to secure any Indebtedness or Contingent Obligations of another person (and "**incurrence,**" "**incurred**" and "**incurring**" shall have meanings correlative to the foregoing).

"**Indebtedness**" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money; (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments; (c) all obligations of such person under conditional sale or other title retention agreements relating to property purchased by such person; (d) all obligations of such person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business); (e) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed *(provided* that if such obligations have not been assumed, the amount of such Indebtedness included for the purposes of this definition will be the amount equal to the lesser of the fair market value of such property and the amount of the Indebtedness secured); (f) all Capital Lease Obligations and Purchase Money Obligations of such person; (g) all obligations of such person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements; (h) all obligations of such person as an account

party in respect of letters of credit and bankers' acceptances, except obligations in respect of letters of credit issued in support of obligations not otherwise constituting Indebtedness shall not constitute Indebtedness except to the extent such letter of credit is drawn and not reimbursed within ten Business Days; and (i) all Contingent Obligations of such person in respect of Indebtedness or obligations of others of the kinds referred to in clauses (a) through (h) above. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a general partner unless recourse is limited, in which case the amount of such Indebtedness shall be the limited amount. The amount of Indebtedness of the type referred to in clause (g) above of any person shall be zero unless and until such Indebtedness shall be terminated, in which case the amount of such Indebtedness shall be the then termination payment due thereunder by such person.

"**Indemnitee**" see Section 13.03(b).

"**Initial Term B Facility Commitments**" shall mean for each Term B Facility Lender, the obligation of such Lender to make an Initial Term B Facility Loan in an amount up to but not exceeding the amount set opposite the name of such Lender on *Annex A* under the caption "Initial Term B Facility Commitment" (as the same may be changed pursuant to Section 13.06(b)).

"**Initial Term B Facility Loans**" see Section 2.01(c).

"**Insurance Requirements**" shall mean all material terms of any insurance policy required pursuant to this Agreement or any Security Document and all material regulations and then current standards applicable to or affecting any Mortgaged Real Property or any part thereof or any use or condition thereof, which may, at any time, be recommended by the Board of Fire Underwriters, if any, having jurisdiction over any Mortgaged Real Property, or any other body exercising similar functions.

"**Intellectual Property**" see Section 8.22.

"**Interest Period**" shall mean, with respect to any LIBOR Loan, each period commencing on the date such LIBOR Loan is made or Converted from an ABR Loan or the last day of the next preceding Interest Period for such LIBOR Loan and (subject to the requirements of Section 2.09) ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as Borrower may select as provided in Section 4.05, except that each Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (i) if any Interest Period for any Revolving Loan would otherwise end after the R/C Maturity Date, such Interest Period shall end on the R/C Maturity Date; (ii) each Interest Period that would otherwise end on a day that is not a Business Day shall end on the next succeeding Business Day (or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day); and (iii) notwithstanding clause (i) above, except as otherwise provided in Section 2.01 (f) no Interest Period shall have a duration of less than one month and, if the Interest Period for any LIBOR Loan would otherwise be a shorter period, such Loan shall not be available hereunder as a LIBOR Loan for such period.

"**Interest Rate Certificate**" shall mean an Interest Rate Certificate substantially in the form of *Exhibit E*, delivered pursuant to Section 9.04(e), demonstrating in reasonable detail the calculation of the Consolidated Total Leverage Ratio and the Consolidated Senior Leverage Ratio as of any Test Date.

"**Interest Rate Protection Agreement**" shall mean, for any person, an interest rate swap, cap or collar agreement or similar arrangement between such person and one or more financial institutions which has been designated as either a secured Interest Rate Protection Agreement or an unsecured Interest Rate Protection Agreement pursuant to a written notice from Borrower to Administrative

Agent providing for the transfer or mitigation of interest risks either generally or under specific contingencies.

"**internally generated funds**" shall mean funds not generated from the proceeds of any Loan, Debt Issuance, Equity Issuance, Asset Sale, insurance recovery or Indebtedness (in each case without regard to the exclusions from the definition thereof (other than transactions in the ordinary course of business)).

"**Investment**" see Section 10.04.

"**Joinder Agreements**" shall mean the Joinder Agreement substantially in the form of *Exhibit P* attached hereto and the Joinder Agreements to be entered into pursuant to the Security Agreement.

"**Landlord Consents**" see Section 9.09(c).

"**Lang Parcels**" shall mean those certain parcels of real property identified in Exhibit "A" to that certain Lease with Option to Purchase, dated as of March 30, 1994, by and between L.D. Lang, Jr., as landlord, and BSL, Inc., as successor-in-interest to Mardi Gras Casino Corp., as tenant.

"**Laws**" shall mean, collectively, all common law and all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents, including without limitation the interpretation thereof by any Governmental Authority charged with the enforcement thereof.

"**L/C Commitments**" shall mean the commitments of the L/C Lender to issue Letters of Credit pursuant to Section 2.03.

"**L/C Disbursements**" shall mean a payment or disbursement made by any L/C Lender pursuant to a Letter of Credit.

"**L/C Documents**" shall mean, with respect to any Letter of Credit, collectively, any other agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties concerned or at risk with respect to such Letter of Credit or (b) any collateral security for any of such obligations, each as the same may be modified and supplemented and in effect from time to time.

"**L/C Exposure**" shall mean at any time the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time *plus* (b) the aggregate principal amount of all L/C Disbursements that have not yet been reimbursed at such time. The L/C Exposure of any Revolving Lender at any time shall mean its R/C Percentage of the aggregate L/C Exposure at such time.

"**L/C Interest**" shall mean, for each Revolving Lender, such Lender's participation interest (or, in the case of L/C Lender, L/C Lender's retained interest) in L/C Lender's liability under Letters of Credit and such Lender's rights and interests in Reimbursement Obligations and fees, interest and other amounts payable in connection with Letters of Credit and Reimbursement Obligations.

"**L/C Lender**" shall mean Wachovia Bank, N.A. or any of its Affiliates, or such other Lender or Lenders selected by Administrative Agent and reasonably satisfactory to Borrower, as the issuer of Letters of Credit under Section 2.03, together with its successors and assigns in such capacity.

"**L/C Liability**" shall mean, without duplication, at any time and in respect of any Letter of Credit, the sum of (a) the undrawn face amount of such Letter of Credit, *plus* (b) the aggregate unpaid principal amount of all Reimbursement Obligations at such time due and payable in respect of all drawings made under such Letter of Credit.

"**Lead Arrangers**" see the introduction hereto.

"**Lease**" shall mean any lease, sublease, franchise agreement, license, occupancy or concession agreement.

"**Lenders**" shall mean (a) the financial institutions listed under the caption "Lenders" on the signature pages hereto (other than any such financial institution that has ceased to be a party hereto pursuant to Section 13.06(b)) and (b) any financial institution that has become a party hereto pursuant to Section 13.06(b). Unless the context clearly indicates otherwise, the term "Lenders" shall include the Swingline Lender.

"**Letter of Credit**" see Section 2.03.

"**LIBO Base Rate**" shall mean, with respect to any LIBOR Loan for any Interest Period therefor, the rate *per annum* determined by Administrative Agent to be the arithmetic mean (rounded to the nearest 1/100th of 1%) of the offered rates for deposits in Dollars with a term comparable to such Interest Period that appears on the Dow Jones Market Screen 3750 (as defined below) at approximately 11:00 a.m., London, England time, on the second full Business Day preceding the first day of such Interest Period; *provided, however,* that (i) if no comparable term for an Interest Period is available, the LIBO Base Rate shall be determined using the weighted average of the offered rates for the two terms most nearly corresponding to such Interest Period and (ii) if there shall at any time no longer exist a Dow Jones Market Screen 3750, "LIBO Base Rate" shall mean, with respect to each day during each Interest Period pertaining to LIBOR Loans comprising part of the same borrowing, the rate *per annum* equal to the rate at which Administrative Agent is offered deposits in Dollars at approximately 11:00 a.m., London, England time, two Business Days prior to the first day of such Interest Period in the London interbank market for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of such LIBOR Loan to be outstanding during such Interest Period. "**Dow Jones Market Screen 3750**" shall mean the display designated as Page 3750 on the Dow Jones Market Service (or such other page as may replace such page on such service for the purpose of displaying the rates at which Dollar deposits are offered by leading banks in the London interbank deposit markets).

"**LIBO Rate**" shall mean, for any LIBOR Loan for any Interest Period therefor, a rate *per annum* (rounded upwards, if necessary, to the nearest $1/100^{th}$ of 1%) determined by Administrative Agent to be equal to the LIBO Base Rate for such Loan for such Interest Period divided by 1 *minus* the Reserve Requirement (if any) for such Loan for such Interest Period.

"**LIBOR Loans**" shall mean Loans that bear interest at rates based on rates referred to in the definition of "LIBO Rate" in this Section 1.01.

"**License Revocation**" shall mean the revocation, failure to renew or suspension of, or the appointment of a receiver, supervisor or similar official with respect to, any Gaming Approval or other casino, gambling, horse racing or gaming license issued by any Gaming Authority covering any Gaming Facility owned, leased, operated or used by Borrower or any of its Restricted Subsidiaries.

"**Lien**" shall mean, with respect to any Property, any mortgage, deed of trust, lien, pledge, claim, charge, security interest, assignment, hypothecation or encumbrance of any kind or any filing of any financing statement under the UCC or any other similar notice of lien under any similar notice or recording statute of any Government Authority (other than such financing statements or similar notices filed for informational purposes only), any conditional sale or other title retention agreement or any lease in the nature thereof and, to the extent not co-extensive with such definitions, the definition of "Lien" or "Liens" in the Security Documents.

"**Liquor Authorities**" see Section 13.14.

"**Liquor Laws**" see Section 13.14.

"**Loans**" shall mean the Revolving Loans, the Swingline Loans, the Term Loans and the Incremental Loans, if any.

"**Losses**" of any person shall mean the losses, liabilities, claims (including those based upon negligence, strict or absolute liability and liability in tort), damages, reasonable expenses, obligations, penalties, actions, judgments, encumbrances, liens, penalties, fines, suits, reasonable and documented costs or disbursements of any kind or nature whatsoever (including reasonable fees and expenses of counsel in connection with any Proceeding commenced or threatened in writing, whether or not such person shall be designated a party thereto) at any time (including following the payment of the Obligations) incurred by, imposed on or asserted against such person.

"**Maintenance Cap Ex Basket**" see Section 10.08(d)(i).

"**Maintenance Capital Expenditures**" shall mean any Capital Expenditures by Borrower or any of its Restricted Subsidiaries that are made to maintain, restore, refurbish or replace in the ordinary course of business the condition or usefulness of property of Borrower or any of its Restricted Subsidiaries, or otherwise to support the continuation of such person's day-to-day operations as then conducted, but that are not properly chargeable to repairs and maintenance in accordance with GAAP.

"**Majority Lenders**" shall mean Lenders holding at least a majority of the sum of (without duplication) (a) the aggregate principal amount of outstanding Loans, *plus* (b) the aggregate amount of all L/C Liabilities, *plus* (c) the aggregate Unutilized R/C Commitments and Unutilized Second Term B and Term C Commitments then in effect.

"**Majority Pro Rata Lenders**" see Section 13.04(i)(m).

"**Majority Revolving Lenders**" shall mean (i) at any time prior to the Closing Date, Lenders holding at least a majority of the aggregate amount of the Revolving Commitments and (ii) at any time after the Closing Date, Lenders holding at least a majority of the sum of (without duplication) (a) the aggregate principal amount of outstanding Revolving Loans, *plus* (b) the aggregate amount of all L/C Liabilities, *plus* (c) the aggregate Unutilized R/C Commitments then in effect.

"**Margin Stock**" shall mean margin stock within the meaning of Regulations T, U and X.

"**Material Adverse Change**" shall mean, with respect to any person, a material adverse change, or any condition or event that has resulted or could reasonably be expected to result in a material adverse change, in the business, operations, condition (financial or otherwise), Properties or liabilities (contingent or otherwise) of such person, together with its Restricted Subsidiaries taken as a whole.

"**Material Adverse Effect**" shall mean an event, circumstance, occurrence, or condition which has caused as of any date of determination any of (a) a material adverse effect, or any condition or event that has resulted or could reasonably be expected to result in a material adverse effect, on the business, operations, condition (financial or otherwise), Properties or liabilities (contingent or otherwise) of Borrower, together with the Restricted Subsidiaries taken as a whole, (b) a material adverse effect on the ability of the Credit Parties to consummate in a timely manner the Transactions or to perform any of their material obligations under any Credit Document or (c) a material adverse effect on the legality, binding effect or enforceability of any Credit Document or any of the material rights and remedies of any Creditor thereunder or the legality, priority or enforceability of the Lien on a material portion of the Collateral.

"**Material Indebtedness**" see Section 10.09.

"**Merger Sub**" see Recitals.

"**MGC Loan Report**" shall mean the report required to be filed with the Mississippi Gaming Commission within 30 days after the Closing Date pursuant to MGC Reg. II.I Section 11.

"**Moody's**" shall mean Moody's Investors Service, Inc.

"**Mortgage**" shall mean with respect to each Mortgaged Real Property, a First Mortgage and/or a Second Mortgage, as applicable.

"**Mortgaged Real Property**" shall mean (i) each Real Property identified on *Schedule 1.01 (a)* and (ii) each Real Property, if any, which shall be subject to a Mortgage delivered after the Closing Date pursuant to Section 9.09.

"**Multiemployer Plan**" shall mean a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA (i) to which any ERISA Entity is then making or accruing an obligation to make contributions, (ii) to which any ERISA Entity has within the preceding five plan years made contributions, including any person which ceased to be an ERISA Entity during such five year period, or (iii) with respect to which any Company is reasonably likely to incur liability.

"**NAIC**" shall mean the National Association of Insurance Commissioners.

"**Net Available Proceeds**" shall mean:

(i) in the case of any Asset Sale, the aggregate amount of all cash payments (including any cash payments received by way of deferred payment of principal pursuant to a note or otherwise, but only as and when received) received by any Company directly or indirectly in connection with such Asset Sale, net (without duplication) of (A) the amount of all reasonable fees and expenses paid by or on behalf of any Company in connection with such Asset Sale; (B) any Taxes paid or estimated in good faith to be payable by or on behalf of any Company as a result of such Asset Sale (after application of all credits and other offsets that arise from such Asset Sale); (C) any repayments by or on behalf of any Company of Indebtedness (other than the Obligations) to the extent that such Indebtedness is secured by a Permitted Lien on the subject Property required to be repaid as a condition to the purchase or sale of such Property; (D) amounts required to be paid to any person (other than any Company) owning a beneficial interest in the subject Property; and (E) amounts reserved, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by Borrower or any of its Subsidiaries after such Asset Sale and related thereto, including pension and other post-employment benefit liabilities, purchase price adjustments, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an Officer's Certificate delivered to Administrative Agent;

(ii) in the case of any Casualty Event, the aggregate amount of cash proceeds of insurance, condemnation awards and other compensation received by the person whose Property was subject to such Casualty Event in respect of such Casualty Event net of (A) fees and expenses incurred by or on behalf of such Company in connection with recovery thereof, (B) repayments of Indebtedness (other than Indebtedness hereunder) to the extent secured by a Lien on such Property that is permitted by the Credit Documents, and (C) any Taxes paid or payable by or on behalf of any Company in respect of the amount so recovered (after application of all credits and other offsets arising from such Casualty Event); and

(iii) in the case of any Equity Issuance or any Debt Issuance, the aggregate amount of all cash received in respect thereof by the person consummating such Equity Issuance or Debt Issuance in respect thereof net of all investment banking fees, discounts and commissions, legal fees,

consulting fees, accountants' fees, underwriting discounts and commissions and other fees and expenses, actually incurred in connection therewith.

"**New Jersey Joint Venture**" shall mean the joint venture between Greenwood Racing, Inc. (and its successors and assigns) and Penn National Holding Company (and its successors and assigns) comprising Pennwood pursuant to an agreement dated October 30, 1998 and as amended on January 28, 1999.

"**Non-U.S. Lender**" see Section 5.06(b).

"**Notes**" shall mean the Revolving Notes, the Swingline Notes and the Term Loan Notes.

"**Notice of Assignment**" shall mean a notice of assignment pursuant to Section 13.06 substantially in the form of *Exhibit O*.

"**Notice of Borrowing**" shall mean a notice of borrowing substantially in the form of *Exhibit B*.

"**Notice of Continuation/Conversion**" shall mean a notice of continuation/conversion substantially in the form of *Exhibit D*.

"**Obligations**" shall mean all amounts, direct or indirect, contingent or absolute, of every type or description, and at any time existing, owing by any Credit Party to any Creditor or any of its Agent Related Parties or their respective successors, transferees or assignees pursuant to the terms of any Credit Document or any Swap Contract relating to the Loans or secured by any of the Security Documents, whether or not the right of such person to payment in respect of such obligations and liabilities is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured and whether or not such claim is discharged, stayed or otherwise affected by any bankruptcy case or insolvency or liquidation proceeding.

"**OECD**" see the definition of Eligible Person.

"**Officer's Certificate**" shall mean, as applied to any corporation, a certificate executed on behalf of such corporation by its Chairman of the Board of Directors (if an officer), its Chief Executive Officer, its President, its Chief Financial Officer or its Treasurer (in each case, or an equivalent officer) in their official (and not individual) capacities.

"**Option Parcel**" see Section 8.26(m).

"**Organic Document**" shall mean, relative to any person, its certificate of incorporation, its by-laws, its partnership agreement, its memorandum and articles of association, share designations or similar organization documents and all shareholder agreements, voting trusts and similar arrangements applicable to any of its authorized Equity Interests.

"**Other Taxes**" see Section 5.06(c).

"**Participant**" see Section 13.06(d).

"**Payor**" see Section 4.06.

"**PBGC**" shall mean the United States Pension Benefit Guaranty Corporation or any successor thereto.

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

"**Pension Plan**" shall mean an employee pension benefit plan (other than a Multiemployer Plan) that is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code or Section 302 of ERISA and is maintained or contributed to by any ERISA Entity or with respect to which any Company is reasonably likely to incur liability.

"**Perfection Certificate**" shall mean a Perfection Certificate substantially in the form of *Exhibit L*.

"**Permits**" see Section 8.16.

"**Permitted Acquisitions**" shall mean any acquisition, whether by purchase, merger, consolidation or otherwise, by Borrower or any of its Restricted Subsidiaries of all or substantially all the assets of, or all the Equity Interests in, a person or business of a person so long as (a) such acquisition shall not

have been preceded by a tender offer that has not been approved by the Board of Directors of such person, (b) such assets are to be used in, or such person so acquired is engaged in, as the case may be, a business of the type conducted by Borrower and its Restricted Subsidiaries on the Closing Date or activities related or ancillary thereto and (c) immediately after giving effect thereto, (i) no Default has occurred and is continuing or would result therefrom, (ii) all transactions related thereto are consummated in all material respects in accordance with applicable laws, (iii) Borrower and its Restricted Subsidiaries are in compliance, on a pro forma basis after giving effect to such acquisition, with the covenants contained in Section 10.08 computed as at the last day of the most recently ended fiscal quarter of Borrower for which financial statements are available, as if such acquisition (and any related incurrence or repayment of Indebtedness) had occurred on the first day of such relevant Test Period *(provided* that any acquisition that occurs prior to the first Test Period under such Section 10.08 shall be deemed to have occurred during such first Test Period) and (iv) Borrower has delivered to Administrative Agent an Officer's Certificate to the effect set forth in clauses (a), (b) and (c)(i) through (iii) above, together with all relevant financial information for the person or assets to be acquired.

"**Permitted Liens**" see Section 10.02.

"**Permitted Mortgage Liens**" see Section 9.09.

"**Permitted Refinancing**" shall mean, with respect to any Indebtedness or Contingent Obligation, any refinancing thereof, *provided, however,* that:

(a) no Default or Event of Default shall have occurred and be continuing or would arise therefrom;

(b) any such refinancing Indebtedness shall (i) not have defaults, rights or remedies materially more burdensome, taken as a whole (as reasonably determined by Borrower and Lead Arrangers), to any Credit Party or any Creditor than the Indebtedness being refinanced, (ii) not have a stated maturity or weighted average life that is shorter than that of the Indebtedness or Contingent Obligation being refinanced (*provided* that the stated maturity or weighted average life may be shorter if the stated maturity of any principal payment (including any amortization payments) is not earlier than the earlier of (1) the stated maturity in effect prior to such refinancing or (2) 181 days after the Term B Final Maturity Date then in effect), (iii) if the Indebtedness or Contingent Obligation being refinanced is subordinated by its terms or by the terms of any agreement or instrument relating to such Indebtedness or Contingent Obligation, be at least as subordinate to the Obligations as the Indebtedness or Contingent Obligation being refinanced (and unsecured if the refinanced Indebtedness is unsecured) and (iv) be in a principal amount that does not exceed the principal amount so refinanced, *plus* accrued interest, *plus* any reasonable premium or other payment required to be paid in connection with such refinancing, *plus*, in either case, the amount of fees and reasonable expenses of Borrower or any of its Restricted Subsidiaries incurred in connection with such refinancing; and

(c) the sole obligor on such refinancing Indebtedness or Contingent Obligation shall be Borrower or the original obligor on such Indebtedness or Contingent Obligation being refinanced; *provided, however,* that (i) any guarantor of the Indebtedness or Contingent Obligation being refinanced shall be permitted to guarantee the refinancing Indebtedness and (ii) any Credit Party shall be permitted to guarantee any such refinancing Indebtedness of any other Credit Party.

"**Permitted Subordinated Indebtedness**" shall mean unsecured Indebtedness of Borrower or a Restricted Subsidiary (a) that contains subordination provisions that are reasonably satisfactory to Lead Arrangers (it being understood that subordination provisions providing that such Indebtedness is at least as subordinated in all material respects to the Obligations then outstanding as the obligations under the indenture governing Borrower's $11^1/_8$% Senior Subordinated Notes due 2008, as in effect on

the date hereof, to the Obligations are reasonably satisfactory to Lead Arrangers), (b) that shall not have any principal payments due prior to the date that is twelve months after the Term B Final Maturity Date then in effect, whether at maturity or otherwise, except upon the occurrence of a Change of Control or similar event (including Asset Sales), in each case as long as the provisions relating to Change of Control or similar events (including Asset Sales) included in the governing instrument of such Indebtedness provide that the provisions of this Agreement must be satisfied prior to the satisfaction of such provisions of Indebtedness, and (c) that bears interest at a fixed rate, which rate shall be, in the good faith judgment of Borrower's Board of Directors, consistent with the market at the time of issuance for similar Indebtedness for comparable issuers or borrowers; *provided, however,* that subject to Section 9.11, such Permitted Subordinated Indebtedness may be swapped for variable rate Indebtedness, which rate shall be, in the good faith judgment of Borrower's Board of Directors, consistent with the market at the time of issuance for similar Indebtedness for comparable issuers or borrowers.

"**Permitted Vessel Liens**" shall mean maritime Liens on ships, barges or other vessels for damages arising out of a maritime tort, wages of a stevedore, when employed directly by a person listed in 46 U.S.C. Section 31341, crew's wages, salvage and general average, whether now existing or hereafter arising and other maritime Liens which arise by operation of law during normal operations of such ships, barges or other vessels.

"**person**" shall mean any individual, corporation, company, voluntary association, partnership, limited liability company, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

"**Pledged Collateral**" has the meaning set forth in the Security Agreement.

"**Pre-Opening Expenses**" shall mean, with respect to any fiscal period, the amount of expenses (other than Consolidated Interest Expense) incurred with respect to capital projects which are classified as "pre-opening expenses" on the applicable financial statements of Borrower and its Subsidiaries for such period, prepared in accordance with GAAP.

"**Principal**" shall mean Peter M. Carlino.

"**Principal Office**" shall mean the principal office of Administrative Agent, located on the Closing Date at 383 Madison Avenue, New York, NY 10179, or such other office as may be designated by Administrative Agent.

"**Principal Payment Date**" shall mean, with respect to any Term Loan, each Quarterly Date or other date set forth on *Annex C* on which a payment of principal is due with respect to such Term Loan.

"**Proceeding**" shall mean any claim, counterclaim, action, judgment, suit, hearing, governmental investigation, arbitration or proceeding, including by or before any Governmental Authority and whether judicial or administrative.

"**Pro Forma Balance Sheet**" see Section 8.02(d).

"**Pro Forma Date**" see Section 8.02(d).

"**Property**" shall mean any right, title or interest in or to property or assets of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible and including all contract rights, real property interests, trademarks, trade names, equipment and proceeds of the foregoing and Equity Interests or other ownership interests of any person.

"**Purchase Money Obligation**" shall mean, for any person, the obligations of such person in respect of Indebtedness incurred for the purpose of financing all or any part of the purchase price of any Property (including Equity Interests of any person) or the cost of installation, construction or

improvement of any property or assets and any refinancing thereof; *provided, however,* that such Indebtedness is incurred within 180 days after such acquisition of such Property by such person.

"**Qualified Capital Stock**" shall mean with respect to any person any Equity Interests of such person which is not Disqualified Capital Stock.

"**Quarter**" shall mean each three month period ending on March 31, June 30, September 30 and December 31.

"**Quarterly Dates**" shall mean the last Business Day of each Quarter in each year, commencing with the last Business Day of the first full Quarter after the Closing Date; *provided, however,* that solely for purposes of Section 2.05, the Quarterly Dates shall commence with the last Business Day of the first full Quarter after the Closing Date.

"**R/C Maturity Date**" shall mean September 1, 2007; *provided, however,* that if Borrower's outstanding $11^{1}/_{8}$% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after the Closing Date, "R/C Maturity Date" shall mean the fifth anniversary of the Closing Date.

"**R/C Percentage**" shall mean, with respect to any Revolving Lender, the ratio of (a) the amount of the Revolving Commitment of such Lender to (b) the aggregate amount of the Revolving Commitments of all of the Lenders.

"**Real Property**" shall mean all right, title and interest of Borrower or any of its Restricted Subsidiaries (including, without limitation, any leasehold estate) in and to a parcel of real property owned or operated by Borrower or any of its Restricted Subsidiaries, whether by lease, license or other use or occupancy agreement, together with, in each case, all improvements and appurtenant fixtures, easements and other real property and rights incidental to the ownership, lease or operation thereof or thereon.

"**redeem**" shall mean redeem, repurchase, repay, defease or otherwise acquire or retire for value; and "**redemption**" and "**redeemed**" have correlative meanings.

"**refinance**" shall mean refinance, renew, extend, replace, defease or refund, in whole or in part, including successively; and "**refinancing**" and "**refinanced**" have correlative meanings.

"**Register**" see Section 2.08.

"**Regulation D** shall mean Regulation D (12 C.F.R. Part 204) of the Board of Governors of the United States Federal Reserve System.

"**Regulations T, U and X**" shall mean, respectively, Regulation T (12 C.F.R. Part 220), Regulation U (12 C.F.R. Part 221) and Regulation X (12 C.F.R. Part 224) of the Board of Governors of the United States Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

"**Reimbursement Obligations**" shall mean, at any time, the obligations of Borrower then outstanding, or that may thereafter arise in respect of all Letters of Credit then outstanding, to reimburse amounts paid by L/C Lender in respect of any drawings under a Letter of Credit.

"**Related Party**" shall mean:

(1) any immediate family member of Principal; or

(2) any trust, corporation, partnership or other entity, in which Principal and/or such other persons referred to in the immediately preceding clause (1) have an 80% or more controlling interest.

"**Release**" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the Environment.

"**Replaced Lender**" see Section 2.11.

"**Replacement Lender**" see Section 2.11.

"**Replacement Vessel**" shall mean the replacement, in any manner, of any Vessel existing on the Closing Date including, without limitation, any replacement of such Vessel with a vessel, riverboat, barge or improvement on real property, whether such vessel, riverboat, barge or improvement is acquired or constructed and whether or not such vessel, riverboat, barge or improvement is temporarily or permanently moored or affixed to any real property.

"**Required Payment**" see Section 4.06.

"**Requirement of Law**" shall mean as to any person, the Organic Documents of such person, and any Law or determination of an arbitrator or any Governmental Authority, in each case applicable to or binding upon such person or any of its Property or to which such person or any of its Property is subject.

"**Requisite Tranche Lenders**" shall mean (i) with respect to Lenders having Revolving Commitments or Revolving Loans, Lenders having at least a majority of the aggregate sum of the Unutilized R/C Commitments, Revolving Loans and L/C Liabilities then outstanding, (ii) with respect to Lenders having Term A Facility Loans or Term A Facility Commitments, Lenders having at least a majority of the aggregate sum of the Term A Facility Loans and Term A Facility Commitments then outstanding, (iii) with respect to Lenders having Term B Facility Loans or Term B Facility Commitments, Lenders having at least a majority of the aggregate sum of the Term B Facility Loans and Term B Facility Commitments then outstanding, (iv) with respect to Lenders having Term C Facility Loans or Term C Facility Commitments, Lenders having at least a majority of the aggregate sum, of the Term C Facility Loans and Term C Facility Commitments then outstanding and (v) if applicable, with respect to Lenders having Incremental Loans, Lenders having at least a majority of the aggregate sum of the Incremental Loans then outstanding.

"**Reserve Requirement**" shall mean, for any Interest Period for any LIBOR Loan, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the United States Federal Reserve System in New York City with deposits exceeding one billion Dollars against "Eurocurrency liabilities" (as such term is used in Regulation D).

"**Response Action**" shall mean (a) "response" as such term is defined in CERCLA, 42 U.S.C. § 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to: (i) clean up, remove, treat, abate or in any other way address any Hazardous Material in the Environment, (ii) prevent the Release or threatened Release, or minimize the further Release, of any Hazardous Material or (iii) perform studies and investigations in connection with, or as a precondition to, clause (i) or (ii) above.

"**Responsible Officer**" shall mean the chief executive officer of Borrower, the president of Borrower (if not the chief executive officer) and, with respect to financial matters, the chief financial officer of Borrower.

"**Restricted Subsidiaries**" shall mean all existing and future Subsidiaries of Borrower other than the Unrestricted Subsidiaries.

"**Revolving Availability Period**" shall mean the period from and including the Closing Date to but excluding the earlier of the R/C Maturity Date and the date of termination of the Revolving Commitments.

"**Revolving Borrowing**" shall mean a Borrowing comprised of Revolving Loans.

"**Revolving Commitment**" shall mean, for each Revolving Lender, the obligation of such Lender to make Revolving Loans in an aggregate principal amount at any one time outstanding up to but not exceeding the amount set opposite the name of such Lender on *Annex A* under the caption "Revolving Commitment" (as the same may be reduced from time to time pursuant to Section 2.04 or changed pursuant to Section 13.06(b)). The initial aggregate principal amount of the sum of the Revolving Commitments of all Lenders is $100.0 million.

"**Revolving Exposure**" shall mean, with respect to any Lender at any time, the aggregate principal amount at such time of all outstanding Revolving Loans of such Lender, *plus* the aggregate amount at such time of such Lender's L/C Exposure, *plus* the aggregate amount at such of such Lender's Swingline Exposure.

"**Revolving Facility**" shall mean the credit facility comprising the Revolving Commitments.

"**Revolving Lenders**" shall mean (a) on the Closing Date, the Lenders having a Revolving Commitment on *Annex A* hereof and (b) thereafter, the Lenders from time to time holding Revolving Loans and a Revolving Commitment after giving effect to any assignments thereof permitted by Section 13.06(b).

"**Revolving Loans**" see Section 2.01 (a).

"**Revolving Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-1*.

"**S&P**" shall mean Standard & Poor's, a division of The McGraw-Hill Companies.

"**SEC**" shall mean the United States Securities and Exchange Commission.

"**Second Mortgage**" shall mean an agreement, including, but not limited to, a mortgage, deed of trust or any other document, creating and evidencing a second Lien (subject only to the Liens permitted thereunder) in favor of Collateral Agent on behalf of the Second Priority Secured Parties on a Mortgaged Real Property, which shall be in substantially in the same form as the First Mortgage and otherwise reasonably acceptable, in form and substance, to Collateral Agent, with such schedules and including such provisions as shall be necessary to conform such document to applicable or local law or as shall be customary under local law, as the same may at any time be amended in accordance with the terms thereof and hereof.

"**Second Priority Lenders**" shall mean the Term C Facility Lenders.

"**Second Priority Loans**" shall mean the Term C Facility Loans.

"**Second Priority Secured Parties**" shall mean the Second Priority Lenders and each party to a Swap Contract relating to the Second Priority Loans if at the date of entering into such Swap Contract such person was a Second Priority Lender or an Affiliate of a Second Priority Lender and such person executes and delivers to Collateral Agent a letter agreement in form and substance acceptable to Collateral Agent pursuant to which such person (x) appoints Collateral Agent as its agent under the applicable Credit Documents and (y) agrees to be bound by the provisions of Article IV hereof.

"**Second Security Agreement**" shall mean a Second Security Agreement substantially in the same form as the First Security Agreement or otherwise reasonably acceptable, in form and substance, to Collateral Agent as shall be necessary to comply with applicable Requirements of Law and effective to grant to Collateral Agent on behalf of the Second Priority Secured Parties a second priority perfected

security interest (subject only to the Liens permitted thereunder) in the Pledged Collateral covered thereby.

"**Second Security Documents**" shall mean the Second Security Agreement, the Second Mortgages, the Second Ship Mortgages, an updated Perfection Certificate and each other security document or pledge agreement required by applicable local law to grant a valid, perfected security interest in any Property acquired or developed that is of the kind and nature that would constitute Collateral on the date hereof, and all UCC or other financing statements or instruments of perfection required by this Agreement, the Second Security Agreement or any Second Mortgage or Second Ship Mortgage to be filed with respect to the security interests in Property and fixtures created pursuant to the Second Security Agreement or any Second Mortgage or Second Ship Mortgage and any other document or instrument utilized to pledge as collateral for the Obligations any Property of whatever kind or nature.

"**Second Ship Mortgage**" shall mean a Second Ship Mortgage substantially in the same form as the First Ship Mortgage or otherwise reasonably acceptable, in form and substance, to Collateral Agent as shall be necessary to comply with applicable Requirements of Law and effective to grant to Collateral Agent on behalf of the Second Priority Secured Parties a second preferred mortgage (subject only to the Liens permitted thereunder) on the Vessel covered thereby.

"**Second Term B Facility**" shall mean the credit facility comprising the Second Term B Facility Commitments.

"**Second Term B Facility Commitments**" shall mean for each Term B Facility Lender, the obligation of such Lender to make a Second Term B Facility Loan in an amount up to but not exceeding the amount set opposite the name of such Lender on *Annex A* under the caption "Second Term B Facility Commitment" (as the same may be changed pursuant to Section 13.06(b)).

"**Second Term B Facility Loans**" see Section 2.01(c).

"**Secured Interest Rate Protection Agreement**" shall mean a secured interest rate swap or other similar agreement between Borrower and/or any or all of its Restricted Subsidiaries and one or more Lenders or Affiliates thereof (including any guarantees thereof by any Restricted Subsidiaries) which has been designated as a Secured Interest Rate Protection Agreement pursuant to a written notice from Borrower to Administrative Agent providing for interest rate swaps or other similar agreements with respect to a notional amount of indebtedness not to exceed the amount of Permitted Subordinated Indebtedness, the net proceeds of which have been used to permanently reduce Borrower's Obligations under this Agreement.

"**Secured Parties**" shall mean, collectively, the First Priority Secured Parties and the Second Priority Secured Parties.

"**Securities Act**" shall mean the United States Securities Act of 1933, as amended, and all rules and regulations of the SEC promulgated thereunder.

"**Security Agreement**" shall mean, the First Security Agreement and/or Second Security Agreement, as applicable.

"**Security Documents**" shall mean the Security Agreement, the Mortgages, the Ship Mortgages, the Perfection Certificate and each other security document or pledge agreement required by applicable local law to grant a valid, perfected security interest in any Property acquired or developed that is of the kind and nature that would constitute Collateral on the date hereof, and all UCC or other financing statements or instruments of perfection required by this Agreement, the Security Agreement, any Mortgage or Ship Mortgage to be filed with respect to the security interests in Property and fixtures created pursuant to the Security Agreement, any Mortgage or Ship Mortgage and any other document or instrument utilized to pledge as collateral for the Obligations any Property of whatever kind or nature.

"**Ship Mortgage**" shall mean with respect to each Vessel, a First Ship Mortgage and/or a Second Ship Mortgage, as applicable.

"**Shreveport**" shall mean the Gaming Facility known as "Hollywood Casino Shreveport" located in Hollywood, Louisiana.

"**Shreveport EBITDA**" shall mean the net income of Hollywood Shreveport, *plus*, in each case to the extent deducted in calculating such net income, (1) income tax expense, (2) interest expense, (3) depreciation and amortization expense, (4) any extraordinary non-cash items, (5) any non-recurring or extraordinary items of income or expense and net tax consequences thereof, (6) non-cash valuation adjustments, and (7) other non-cash items of expense, other than to the extent such non-cash items require an accrual or reserve for future cash expenses (*provided* that if such accrual or reserve is for contingent items, the outcome of which is subject to uncertainty, such non-cash items of expense will be added to net income and deducted when and to the extent actually paid in cash), in each case on a consolidated basis in accordance with GAAP.

"**Solvent**" and "**Solvency**" shall mean, for any person on a particular date, that on such date (a) the fair value of the Property of such person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such person, (b) the present fair salable value of the assets of such person is not less than the amount that will be required to pay the probable liability of such person on its debts as they become absolute and matured, (c) such person does not intend to, and does not believe that it will, incur debts and liabilities beyond such person's ability to pay as such debts and liabilities mature, (d) such person is not engaged in a business or a transaction, and is not about to engage in a business or a transaction, for which such person's Property would constitute an unreasonably small capital and (e) such person is able to pay its debts as they become due and payable. For purposes of this definition, the amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability, without duplication.

"**Subsidiary**" shall mean, with respect to any person (the "**parent**"**)** at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise controlled, by the parent or one or more subsidiaries of the parent.

"**Subsidiary Guarantors**" shall mean each of the persons listed on *Schedule 1.01(b)* attached hereto and each person which may hereafter execute a Joinder Agreement pursuant to Section 9.12, together with their successors and permitted assigns, and "**Subsidiary Guarantor**" shall mean any one of them.

"**Survey**" shall mean a survey of any Mortgaged Real Property (and all improvements thereon): (i) prepared by a surveyor or engineer licensed to perform surveys in the state, province or country where such Mortgaged Real Property is located at the time such survey was prepared, (ii) dated (or redated) not earlier than 6 months prior to the date of delivery to Administrative Agent thereof unless there shall have occurred after the date of such survey any exterior construction on the site of such Mortgaged Real Property, in which event such survey shall be dated (or redated) after the completion of such construction or, if such construction shall not have been completed as of such date of delivery, not earlier than 20 days prior to such date of delivery or if such survey is dated more than 6 months prior to the date of delivery to Administrative Agent, then accompanied by an affidavit or certification to the Title Company from the applicable Credit Party that since the date of such survey there has been no exterior construction on the improvements depicted on such survey (to the extent such affidavit or certification can factually be made), (iii) certified by the surveyor (in a manner reasonably acceptable to Collateral Agent) to Administrative Agent and Collateral Agent and (iv) complying in all material respects with the Minimum Standard Detail Requirements for ALTA/ACSM surveys by the American Land Title Association at the time such survey was prepared.

"**Swap Contract**" shall mean any agreement entered into in the ordinary course of business (as a bona fide hedge and not for speculative purposes) (including any master agreement and any schedule or agreement, whether or not in writing, relating to any single transaction) that is an interest rate swap agreement, basis swap, forward rate agreement, commodity swap, commodity option, equity or equity index swap or option, bond option, interest rate option, foreign exchange agreement, rate cap, collar or floor agreement, currency swap agreement, cross-currency rate swap agreement, swaption, currency option or any other similar agreement (including any option to enter into any of the foregoing) and is designed to protect any Company against fluctuations in interest rates, currency exchange rates, commodity prices, or similar risks (including any Interest Rate Protection Agreement entered into pursuant to Section 9.11).

"**Swingline Commitment**" shall mean the commitment of the Swingline Lender to make loans pursuant to Section 2.01(g), as the same may be reduced from time to time pursuant to Section 2.04.

"**Swingline Exposure**" shall mean at any time the aggregate principal amount at such time of all outstanding Swingline Loans. The Swingline Exposure of any Revolving Lender at any time shall equal its R/C Percentage of the aggregate Swingline Exposure at such time.

"**Swingline Lender**" shall have the meaning assigned to such term in the preamble hereto.

"**Swingline Loan**" shall mean any loan made by the Swingline Lender pursuant to Section 2.01(g).

"**Swingline Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-6*.

"**Syndication Agent**" see the introduction hereto.

"**Taking**" shall mean a taking or voluntary conveyance during the term of this Agreement of all or part of any Mortgaged Real Property or Vessel, or any interest therein or right accruing thereto or use thereof, as the result of, or in settlement of, any condemnation or other eminent domain proceeding by any Governmental Authority affecting any Mortgaged Real Property or Vessel or any portion thereof, whether or not the same shall have actually been commenced.

"**Target**" see Recitals.

"**Target Non-Callable Bonds**" shall mean Target's $11^{1}/_{4}$% Senior Secured Notes due 2007 and the indenture relating thereto.

"**Target Subsidiary Bonds**" shall mean the Hollywood Casino Shreveport and Shreveport Capital Corporation First Mortgage Notes due 2006 and the Hollywood Casino Shreveport and Shreveport Capital Corporation 13% Senior Secured Notes due 2006 and, in each case, the indenture related thereto.

"**Tax Benefit**" see Section 5.06(e).

"**Tax Returns**" see Section 8.08.

"**Taxes**" shall mean (i) any and all taxes, imposts, duties, charges, fees, levies or other charges or assessments of whatever nature, including income, gross receipts, excise, real or personal property, sales, withholding, social security, retirement, unemployment, occupation, use, service, license, net worth, payroll, franchise, and transfer and recording, imposed by the Internal Revenue Service or any taxing authority (whether domestic or foreign, including any federal, state, U.S. possession, county, local or foreign government or any subdivision or taxing agency thereof) including interest, fines, penalties or additions to tax attributable to or imposed on or with respect to any such taxes, charges, fees, levies or other assessments and (ii) all transferee, successor, joint and several or contractual liability (including, without limitation, liability pursuant to Treas. Reg. § 1.1502-6 (or any similar state, local or foreign provisions)) in respect of any items described in clause (i).

"**Term A Facility**" shall mean the credit facility comprising the Term A Facility Commitments and the Term A Facility Loans.

"**Term A Facility Commitment**" shall mean, for each Term A Facility Lender, the obligation of such Lender to make a Term A Facility Loan in an amount up to but not exceeding the amount set opposite the name of such Lender on *Annex A* under the caption "Term A Facility Commitment" (as the same may be changed pursuant to Section 13.06(b)). The initial aggregate principal amount of the sum of the Term A Facility Commitments of all Lenders is $100.0 million.

"**Term A Facility Lenders**" shall mean (a) on the Closing Date, the Lenders having Term A Facility Commitments on *Annex A*, and (b) thereafter, the Lenders from time to time holding Term A Facility Loans and Term A Facility Commitments after giving effect to any assignments thereof permitted by Section 13.06(b).

"**Term A Facility Loans**" see Section 2.01(b).

"**Term A Facility Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-2*.

"**Term A Final Maturity Date**" shall mean September 1, 2007; *provided*, *however*, that if Borrower's outstanding $11^{1}/_{8}$% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after the Closing Date, the Term A Final Maturity Date shall mean the fifth anniversary of the Closing Date.

"**Term B Facility**" shall mean the credit facility comprising the Term B Facility Commitments and the Term B Facility Loans.

"**Term B Facility Commitment**" shall mean the Initial Term B Facility Commitments and the Second Term B Commitments. The initial aggregate principal amount of the sum of the Term B Facility Commitments of all Lenders is $700.0 million.

"**Term B Facility Lenders**" shall mean (a) on the Closing Date, the Lenders having Term B Facility Commitments on *Annex A*, and (b) thereafter, the Lenders from time to time holding Term B Facility Loans and Term B Facility Commitments after giving effect to any assignments thereof permitted by Section 13.06(b).

"**Term B Facility Loans**" see Section 2.01(c).

"**Term B Facility Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-3*.

"**Term B Final Maturity Date**" shall mean September 1, 2007; *provided, however,* that if Borrower's outstanding $11^{1}/_{8}$% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after the Closing Date, the Term B Final Maturity Date shall mean the sixth anniversary of the Closing Date.

"**Term C Facility**" shall mean the credit facility comprising the Term C Facility Commitments and the Term C Facility Loans.

"**Term C Facility Commitment**" **shall** mean, for each Term C Facility Lender, the obligation of such Lender to make a Term C Facility Loan in an amount up to but not exceeding the amount set opposite the name of such Lender on *Annex A* under the caption "Term C Facility Commitment" (as the same may be changed pursuant to Section 13.06(b)). The initial aggregate principal amount of the sum of the Term C Facility Commitments of all Lenders is $100.0 million.

"**Term C Facility Lenders**" shall mean (a) on the Closing Date, the Lenders having Term C Facility Commitments on *Annex A*, and (b) thereafter, the Lenders from time to time holding Term C Facility Loans and Term C Facility Commitments after giving effect to any assignments thereof permitted by Section 13.06(b).

"**Term C Facility Loans**" see Section 2. 01 (d).

"**Term C Facility Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-4*.

"**Term C Final Maturity Date**" shall mean September 1, 2007; *provided, however,* that if Borrower's outstanding $11^{1}/_{8}$% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after the Closing Date, the Term C Final Maturity Date shall mean the seventh anniversary of the Closing Date.

"**Term Facilities**" shall mean the credit facilities comprising the Term A Facility, the Term B Facility, the Term C Facility and the Incremental Loan Facility, if any, collectively.

"**Term Loan Commitments**" shall mean the Term A Facility Commitments, the Term B Facility Commitments, the Term C Facility Commitments and the Incremental Loan Facility Commitments, once drawn.

"**Term Loan Lenders**" shall mean the Term A Facility Lenders, the Term B Facility Lenders, the Term C Facility Lenders and the Incremental Loan Lenders, if any, collectively.

"**Term Loan Notes**" shall mean the Term A Facility Notes, the Term B Facility Notes, the Term C Facility Notes and the Incremental Notes, if any, collectively.

"**Term Loans**" shall mean the Term A Facility Loans, the Term B Facility Loans, the Term C Facility Loans and any Incremental Loans that are term loans, collectively.

"**Test Date**" shall mean, for any Financial Maintenance Covenant, the last day of each fiscal quarter of Borrower included within any period set forth in the table for such Financial Maintenance Covenant.

"**Test Period**" shall mean for any date of determination the period of the four most recently ended consecutive fiscal quarters of the Consolidated Companies.

"**Tidelands Lease**" shall mean that certain Public Trust Tidelands Lease, dated August 15, 1994, by and between the Secretary of State, with the approval of the Governor, for and on behalf of the State of Mississippi, as landlord, and BTN, Inc., as successor-in-interest to Mississippi-I Gaming, L.P., as has been amended from time to time.

"**Title Company**" shall mean either First American Title Insurance Company or Penn Title Company or such other title insurance or abstract company as shall be designated by Collateral Agent (in consultation with Borrower).

"**Tranche**" shall mean (i) with respect to Lenders, each of the following classes of Lenders: (a) Lenders having Revolving Loans or Revolving Commitments, (b) Lenders having Term A Facility Commitments or Term A Facility Loans, (c) Lenders having Term B Facility Commitments or Term B Facility Loans, (d) Lenders having Term C Facility Commitments or Term C Facility Loans and (e) Lenders having Incremental Loans, and (ii) with respect to Loans, each of the following classes of Loans: (a) Revolving Loans or Revolving Commitments, (b) Term A Facility Commitments or Term A Facility Loans, (c) Term B Facility Commitments or Term B Facility Loans, (d) Term C Facility Commitments or Term C Facility Loans and (e) Incremental Loans.

"**Transaction Documents**" shall mean the Acquisition Agreement, this Agreement, the Fee Letter, the Engagement Letter, the Security Documents and in each case all documents related thereto and all exhibits, appendices, schedules and annexes to any thereof.

"**Transactions**" shall mean the financings and transactions to occur on the Closing Date, including the Hollywood Acquisition, the tender offer and consent solicitation with respect to not less than 85% of the Target Non-Callable Bonds or a discharge or defeasance of the Target Non-Callable Bonds, the discharge of Target's $50.0 million of Floating Rate Senior Secured Notes due May 1, 2007, the

refinancing of Borrower's existing revolving credit facility, the payment of Target's severance and pension cost in an amount not to exceed $29.4 million, the initial borrowings hereunder and the payment of all fees and expenses in connection with the foregoing.

"**Trigger Date**" see the definition of "Applicable Fee Percentage."

"**Tunica Casino**" shall mean the Gaming Facility known as "The Hollywood Casino Tunica" located in Tunica, Mississippi.

"**Type**" see Section 1.03.

"**UCC**" shall mean the Uniform Commercial Code as in effect in the applicable state or other jurisdiction.

"**Unrestricted Subsidiaries**" shall mean HWCC-Louisiana, Inc., HWCC-Shreveport, Inc., HCS I, Inc., HCS II, Inc., HCS-Golf Course, L.L.C., Hollywood Casino Shreveport and Shreveport Capital Corporation and their respective Subsidiaries; *provided* that if 85% or more of each series of the Target Subsidiary Bonds have been tendered pursuant to the Change of Control Offers or the Alternate Target Subsidiary Bond Offers, or repurchased or redeemed, then following consummation of such offers, repurchases or redemptions pursuant to which at least 85% of each series of Target Subsidiary Bonds have been tendered, repurchased or redeemed, Hollywood Casino Shreveport, Shreveport Capital Corporation, HWCC-Shreveport, Inc., HWCC-Louisiana, Inc., HCS I, Inc., HCS II, Inc., HCS-Golf Course, L.L.C. shall cease to be Unrestricted Subsidiaries; *provided*, that, immediately prior to becoming a Restricted Subsidiary, such entities shall deliver an Officer's Certificate certifying as to such entities', compliance with Sections 8.10 and 8.11.

"**Unutilized Second Term B and Term C Commitments**" shall mean for any Term Loan Lender, at any time, the excess of the sum of such Lender's Second Term B Commitment and Term C Facility Commitments over the sum of the aggregate outstanding principal amount of Second Term B Facility Loans and Term C Facility Loans made by such Lender.

"**Unutilized R/C Commitment**" shall mean, for any Revolving Lender, at any time, the excess of such Lender's Revolving Commitment at such time over the sum of (i) the aggregate outstanding principal amount of Revolving Loans made by such Lender and (ii) such Lender's R/C Percentage of the aggregate amount of L/C Liabilities at such time.

"**Vessel**" shall mean the gaming vessels and barges listed on *Schedule 8.14(b)* hereto and the fixtures and equipment located thereon or any Replacement Vessel.

"**Voting Stock**" shall mean, with respect to any person, the capital stock (including any and all shares, interests (including partnership, membership and other equity interests), participations, rights in, or other equivalents (however designated and whether voting or nonvoting) of, such capital stock, and any and all rights, warrants or options exchangeable for or convertible into such capital stock) of such person that ordinarily has voting power for the election of directors (or persons performing similar functions) of such person, whether at all times or only as long as no senior class of Equity Interests has such voting power by reason of any contingency.

"**Weighted Average Life to Maturity**" shall mean, on any date and with respect to the Revolving Commitments, or the Term Loans, an amount equal to (i) the sum, for each scheduled repayment of Term Loans to be made after such date, or each scheduled reduction of Revolving Commitments to be made after such date, of the amount of such scheduled repayment or reduction multiplied by the number of days from such date to the date of such scheduled prepayment or reduction divided by (ii) the aggregate principal amount of such Term Loans or such Revolving Commitments, as the case may be.

"**Wholly Owned Subsidiary**" shall mean, with respect to any person, any corporation, partnership or other entity of which all of the Equity Interests (other than, in the case of a corporation, directors' qualifying shares or nominee shares required under applicable law) are directly or indirectly owned or controlled by such person and/or one or more Wholly Owned Subsidiaries of such person. Unless the context clearly requires otherwise, all references to any Wholly Owned Subsidiary shall mean a Wholly Owned Subsidiary of Borrower.

"**Withdrawal Liability**" shall mean liability by an ERISA Entity to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part 1 of Subtitle E of Title IV of ERISA.

"**Working Capital**" shall mean an amount determined for Borrower and its Restricted Subsidiaries equal to the sum of all current assets (other than cash and Cash Equivalents) less the sum of all current liabilities (other than the current portion of long-term Indebtedness).

SECTION 1.02. Accounting Terms and Determinations. Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters (including financial covenants) shall be made in accordance with GAAP as in effect on the Closing Date consistently applied for all applicable periods, and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Credit Document, and Borrower notifies Administrative Agent that Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if Administrative Agent notifies Borrower that the Majority Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Credit Document, and Borrower, Administrative Agent or Majority Lenders shall so request, Administrative Agent, Lenders and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of Majority Lenders, not to be unreasonably withheld).

SECTION 1.03. Classes and Types of Loans. Loans hereunder are distinguished by "Class" and by "Type." The "Class" of a Loan (or of a Commitment to make a Loan) refers to whether such Loan is a Revolving Loan, Term A Facility Loan, Term B Facility Loan, Term C Facility Loan, Incremental Loan or

Swingline Loan, each of which constitutes a Class. The "Type" of a Loan refers to whether such Loan is an ABR Loan or a LIBOR Loan, each of which constitutes a Type. Loans may be identified by both Class and Type.

SECTION 1.04. Rules of Construction. (a) In each Credit Document, unless the context clearly requires otherwise (or such other Credit Document clearly provides otherwise), references to (i) the plural include the singular, the singular include the plural and the part include the whole; (ii) persons include their respective permitted successors and assigns or, in the case of governmental persons, persons succeeding to the relevant functions of such persons; (iii) agreements (including this Agreement), promissory notes and other contractual instruments include subsequent amendments, assignments, and other modifications thereto, but only to the extent such amendments, assignments or other modifications thereto are not prohibited by their terms or the terms of any Credit Document; (iv) statutes and related regulations include any amendments of the same and any successor statutes and regulations; (v) unless otherwise expressly provided, any reference to any action of any Creditor by way of consent, approval or waiver shall be deemed modified by the phrase "in its/their sole reasonable

discretion"; and (vi) time shall be a reference to New York City time. Where any provision herein refers to action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such person.

(b) In each Credit Document, unless the context clearly requires otherwise (or such other Credit Document clearly provides otherwise), (i) "**amend**" shall mean "amend, restate, amend and restate, supplement or modify"; and "**amended**," "**amending**" and "**amendment**" shall have meanings correlative to the foregoing; (ii) in the computation of periods of time from a specified date to a later specified date, "**from**" shall mean "from and including"; "**to**" and "**until**" shall mean "to but excluding"; and "**through**" shall mean "to and including"; (iii) "**hereof**," "**herein**" and "**hereunder**" (and similar terms) in any Credit Document refer to such Credit Document as a whole and not to any particular provision of such Credit Document; (iv) "**including**" (and similar terms) shall mean "including without limitation" (and similarly for similar terms); (v) "**or**" has the inclusive meaning represented by the phrase "and/or"; (vi) "**satisfactory to**" any Creditor shall mean in form, scope and substance and on terms and conditions satisfactory to such Creditor; (vii) references to "**the date hereof**" shall mean the date first set forth above; (viii) "**asset**" and "**Property**" shall have the same meaning and effect and refer to all tangible and intangible assets and property, whether real, personal or mixed and of every type and description; and (ix) a "**fiscal year**" or a "**fiscal quarter**" is a reference to a fiscal year or fiscal quarter of Borrower.

(c) In this Agreement unless the context clearly requires otherwise, any reference to (i) an Annex, Exhibit or Schedule is to an Annex, Exhibit or Schedule, as the case may be, attached to this Agreement and constituting a part hereof, and (ii) a Section or other subdivision is to a Section or such other subdivision of this Agreement.

(d) This Agreement and the other Credit Documents are the result of negotiations among and have been reviewed by counsel to Agents, Borrower and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Lenders or Agents merely because of Agents' or Lenders' involvement in their preparation.

ARTICLE II

CREDITS

SECTION 2.01. Loans.

(a) **Revolving Loans.** Each Revolving Lender severally agrees, on the terms and conditions of this Agreement, to make revolving loans (the "**Revolving Loans**") to Borrower in Dollars during the Revolving Availability Period in an aggregate principal amount at any one time outstanding not exceeding the amount of the Revolving Commitment of such Lender as in effect from time to time *minus* the aggregate principal amount of the then outstanding Swingline Loans held by such Lender; *provided, however,* that in no event shall the sum of the aggregate principal amount of (without duplication) all Revolving Loans and Swingline Loans then outstanding, *plus* the aggregate amount of all L/C Liabilities at any time exceed the aggregate amount of the Revolving Commitments as in effect at such time. Subject to the terms and conditions of this Agreement, during such period Borrower may borrow, repay and reborrow the amount of the Revolving Commitments by means of ABR Loans and LIBOR Loans. Borrowings under the Revolving Facility on the Closing Date shall not exceed $15.8 million (unless consented to by Lead Arrangers).

(b) **Term A Facility Loans.** Each Term A Facility Lender severally agrees, on the terms and conditions of this Agreement, to make a term loan ("**Term A Facility Loans**") to Borrower in Dollars on the Closing Date in an aggregate principal amount equal to the Term A Facility Commitment of such Lender. Term A Facility Loans that are repaid or prepaid may not be reborrowed. The Term A Facility Loans shall be used to finance the Transactions.

(c) **Initial and Second Term B Facility Loans.** Each Term B Facility Lender severally agrees, on the terms and conditions of this Agreement, to make a term loan ("**Initial Term B Facility Loans**") to Borrower in Dollars on the Closing Date in an aggregate principal amount equal to the amount listed on *Annex A* attached hereto under the heading "Initial Term B Facility Commitments." Subject to the conditions set forth in Section 7.03, each of Bear Stearns Corporate Lending Inc. and Merrill Lynch Capital Corporation severally agrees to make a term loan ("**Second Term B Facility Loans**" and, together with the Initial Term B Facility Loans, the "**Term B Facility Loans**") to Borrower in Dollars in an aggregate principal amount equal to the amount listed on *Annex A* attached hereto under the heading "Second Term B Facility Commitments." Term B Facility Loans that are repaid or prepaid may not be reborrowed. The Initial Term B Facility Loans shall be used to finance the Transactions. The Second Term B Facility Loans shall be used only to fund repurchases of Target Subsidiary Bonds in connection with Change of Control Offers or Alternate Target Subsidiary Bond Offers in accordance with the terms of the indentures governing the Target Subsidiary Bonds.

(d) **Term C Facility Loans.** Each Term C Facility Lender severally agrees, on the terms and conditions of this Agreement and upon the satisfaction of the additional conditions set forth in Section 7.03 hereof, to make a term loan ("**Term C Facility Loans**") to Borrower in Dollars in an aggregate principal amount equal to the Term C Facility Commitment of such Lender. Term C Facility Loans that are repaid or prepaid may not be reborrowed. The Term C Facility Loans shall only be used to fund repurchases of Target Subsidiary Bonds in connection with Change of Control Offers or Alternate Target Subsidiary Bond Offers in accordance with the terms of the indentures governing the Target Subsidiary Bonds.

(e) **Incremental Loans.** Borrower and the Lenders may, up to two times during the period from and including the Closing Date to but excluding the Incremental Loan Maturity Date, agree that all or any of such Lenders who wish to become an Incremental Loan Lender shall become Incremental Loan Lenders or increase the principal amount of their Incremental Loans by executing and delivering to Administrative Agent an Incremental Loan Activation Notice specifying (i) the respective Incremental Loan Amount of such Incremental Lenders; *provided, however,* that the aggregate amount of all Incremental Loan Amounts in any Incremental Loan Activation Notice shall not exceed $75.0 million, (ii) the applicable Incremental Loan Effective Date, (iii) the applicable Incremental Loan Maturity Date, (iv) the amortization schedule for the applicable Incremental Loans, (v) whether such Incremental Loan Lenders may elect to decline prepayments as specified in Section 2.10(b)(i) and (vi) the Applicable Margin for the Incremental Loans to be made pursuant to such Incremental Loan Activation Notice, and which shall be otherwise duly completed. Each Incremental Loan Lender that is a signatory to an Incremental Loan Activation Notice severally agrees, on the terms and conditions of this Agreement, to make an Incremental Loan to Borrower on the Incremental Loan Effective Date specified in such Incremental Loan Activation Notice in a principal amount not to exceed the amount of the Incremental Loan Amount of such Incremental Loan Lender specified in such Incremental Loan Activation Notice. Subject to the terms and conditions of this Agreement, Borrower may convert Incremental Loans of one Type into Incremental Loans of another Type (as provided in Section 2.09) or continue Incremental Loans of one Type as Incremental Loans of the same Type (as provided in Section 2.09). Notwithstanding anything in this Agreement expressed or implied to the contrary, nothing in this Section 2.01(e) shall be construed to obligate any Lender to execute an Incremental Loan Activation Notice or require consent from Lenders to the making of Incremental Loans. Notwithstanding the foregoing, the aggregate amount of Incremental Loans shall not exceed $100.0 million.

(f) **Limit on LIBOR Loans.** No more than fifteen separate Interest Periods in respect of LIBOR Loans may be outstanding at any one time. Unless otherwise consented to by Agents in their sole discretion, prior to the earlier of (x) five days after the Closing Date, and (y) the date on which Borrower has been notified by Lead Arrangers that the primary syndication of the Commitments has been completed, no borrowing of any LIBOR Loan may be made, and, in addition to the foregoing

limitation, prior to the earlier of (x) thirty days after the Closing Date and (y) the date on which Borrower has been notified by Lead Arrangers that the primary syndication of the Commitments has been completed, no Interest Period of more than 14 days may be elected.

(g) **Swingline Loans**.

(i) *Swingline Commitment.* Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to Borrower from time to time during the Revolving Availability Period, in an aggregate principal amount at any time outstanding that will not result in (x) the aggregate principal amount of outstanding Swingline Loans exceeding $20.0 million or (y) the sum of the total Revolving Exposures exceeding the total Revolving Commitments; *provided* that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, Borrower may borrow, repay and reborrow Swingline Loans.

(ii) *Swingline Loans.* To request a Swingline Loan, Borrower shall notify Administrative Agent of such request by telephone (confirmed by telecopy), not later than 2:00 p.m., New York City time, on the day of a proposed Swingline Loan. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Loan. Administrative Agent will promptly advise the Swingline Lender of any such notice received from Borrower. The Swingline Lender shall make each Swingline Loan available to Borrower by means of a credit to the general deposit account of Borrower with the Swingline Lender by 3:00 p.m., New York City time, on the requested date of such Swingline Loan. Borrower shall not request a Swingline Loan if at the time of and immediately after giving effect to such request a Default or an Event of Default has occurred and is continuing. Swingline Loans shall be made in minimum amounts of $250,000 and integral multiples of $250,000 above such amount.

(iii) *Prepayment.* Borrower shall have the right at any time and from time to time to repay any Swingline Loan, in whole or in part, upon giving written or telecopy notice (or telephone notice promptly confirmed by written, or telecopy notice) to the Swingline Lender and to Administrative Agent before 12:00 (noon), New York City time on the date of repayment at the Swingline Lender's address for notices specified in the Swingline Lender's Administrative Questionnaire. All principal payments of Swingline Loans shall be accompanied by accrued interest on the principal amount being repaid to the date of payment.

(iv) *Participations.* The Swingline Lender may by written notice given to Administrative Agent not later than 12:00 noon, New York City time, on any Business Day require the Revolving Lenders to acquire participations on such Business Day in all or a portion of the Swingline Loans outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Revolving Lenders will participate. Promptly upon receipt of such notice, Administrative Agent will give notice thereof to each Revolving Lender, specifying in such notice such Lender's applicable percentage of such Swingline Loan or Loans. Each Revolving Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to Administrative Agent, for the account of the Swingline Lender, such Lender's R/C Percentage of such Swingline Loan or Loans. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever *(provided* that such payment shall not cause such Lender's Revolving Exposure to exceed such Lender's Revolving Commitment). Each Revolving Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 4.01 with respect to Loans made by such Lender (and Section 4.01 shall apply, *mutatis mutandis*, to the payment obligations of the Revolving Lenders), and Administrative Agent shall

promptly pay to the Swingline Lender the amounts so received by it from the Revolving Lenders. Administrative Agent shall notify Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from Borrower (or other party on behalf of Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to Administrative Agent; any such amounts received by Administrative Agent shall be promptly remitted by Administrative Agent to the

Revolving Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve Borrower of any default in the payment thereof.

SECTION 2.02. Borrowings. Borrower shall give Administrative Agent notice of each borrowing hereunder as provided in Section 4.05 in the form of a Notice of Borrowing. Not later than 12:00 noon New York City time on the date specified for each borrowing hereunder, each Lender shall make available the amount of the Loan or Loans to be made by it on such date to Administrative Agent, at an account specified by Administrative Agent maintained at the Principal Office, in immediately available funds, for the account of Borrower. Each borrowing of Revolving Loans shall be made by each Revolving Lender *pro rata* based on its R/C Percentage. The amounts so received by Administrative Agent shall, subject to the terms and conditions of this Agreement, be made available to Borrower by depositing the same, in immediately available funds, in an account of Borrower maintained with Administrative Agent at the Principal Office designated by Borrower.

SECTION 2.03. Letters of Credit. Subject to the terms and conditions hereof, the Revolving Commitment may be utilized, upon the request of Borrower, in addition to the Revolving Loans provided for by Section 2.01(a), for standby and commercial documentary letters of credit (herein collectively called "Letters of Credit") issued by L/C Lender for the account of any Credit Party *(provided* that Borrower shall be a co-applicant (and jointly and severally liable) with respect to each Letter of Credit issued for the account of any Subsidiary); *provided*, *however*, that in no event shall (i) the aggregate amount of all L/C Liabilities, *plus* the aggregate principal amount of the Revolving Loans and Swingline Loans then outstanding, exceed at any time the Revolving Commitments as in effect at such time, (ii) the sum of the aggregate principal amount of Revolving Loans then outstanding made by any Revolving Lender, *plus* such Lender's R/C Percentage of the aggregate amount of all L/C Liabilities exceed such Lender's Revolving Commitment as in effect at such time, (iii) the outstanding aggregate amount of all L/C Liabilities exceed $20.0 million, (iv) the face amount of any Letter of Credit be less than $100,000, (v) the expiration date of any Letter of Credit extend beyond the earlier of (x) the fifth Business Day preceding the R/C Maturity Date and (y) the date twelve months following the date of such issuance for standby Letters of Credit or 180 days after the date of such issuance for commercial documentary Letters of Credit, unless the Majority Revolving Lenders have approved such expiry date in writing (but never beyond the fifth Business Day prior to the R/C Maturity Date); *provided further, however,* that any standby Letter of Credit may be automatically extendible for periods of up to one year (but never beyond the fifth Business Day preceding the R/C Maturity Date), (vi) L/C Lender issue any Letter of Credit after it has received notice from Borrower or the Majority Revolving Lenders stating that a Default exists until such time as L/C Lender shall have received written notice of (x) rescission of such notice from the Majority Revolving Lenders, (y) waiver or cure of such Default in accordance with this Agreement or (z) Administrative Agent's good faith determination that such Default has ceased to exist, or (vii) any letter of credit be issued in a currency other than Dollars nor at a tenor other than sight. The following additional provisions shall apply to Letters of Credit:

(a) Borrower shall give Administrative Agent and L/C Lender at least three Business Days' irrevocable prior notice (effective upon receipt by L/C Lender) pursuant to a Letter of Credit application reasonably satisfactory to L/C Lender specifying the date (which shall be no later than

thirty days preceding the R/C Maturity Date) each Letter of Credit is to be issued and describing in reasonable detail the proposed terms of such Letter of Credit (including the beneficiary thereof) (including whether such Letter of Credit is to be a commercial Letter of Credit or a standby Letter of Credit). Upon receipt of any such notice, Administrative Agent shall advise L/C Lender of the contents thereof. Each Lender hereby authorizes L/C Lender to issue, and perform its obligations under, Letters of Credit. Letters of Credit shall be issued in accordance with the customary procedures of L/C Lender, which may include an application for Letters of Credit but which application shall not contain any operating or financial covenants or any provisions inconsistent with this Agreement. L/C Lender may refuse to issue any Letter of Credit the contents of which are not reasonably satisfactory to it. If there is any conflict between the procedures or any Letter of Credit application required by L/C Lender and this Agreement, this Agreement shall govern.

(b) On each day during the period commencing with the issuance by L/C Lender of any Letter of Credit and until such Letter of Credit shall have expired or been terminated, the Revolving Commitment of each Revolving Lender shall be deemed to be utilized for all purposes hereof in an amount equal to such Lender's R/C Percentage of the then undrawn face amount of such Letter of Credit plus the amount of any unreimbursed drawings thereunder. Each Revolving Lender (other than L/C Lender) severally agrees that, upon the issuance of any Letter of Credit hereunder, it shall automatically acquire a participation in L/C Lender's obligation to fund drawings and rights under such Letter of Credit in an amount equal to such Lender's R/C Percentage of such obligations and rights, and each Revolving Lender (other than L/C Lender) thereby shall absolutely, unconditionally and irrevocably assume, as primary obligor and not as surety, and shall be unconditionally obligated to L/C Lender to pay and discharge when due, its R/C Percentage of L/C Lender's obligation to fund drawings under such Letter of Credit. L/C Lender shall be deemed to hold a L/C Liability in an amount equal to its retained interest in the related Letter of Credit after giving effect to such acquisition by the Revolving Lenders other than L/C Lender of their participation interests.

(c) In the event that L/C Lender has determined to honor a drawing under a Letter of Credit, L/C Lender shall promptly notify Borrower (through Administrative Agent) of the amount paid by L/C Lender and the date on which payment is to be made to such beneficiary. Borrower hereby unconditionally agrees to pay and reimburse L/C Lender for the amount of payment under such Letter of Credit, together with interest thereon at the Alternate Base Rate *plus* the Applicable Margin applicable to Revolving Loans from the date payment was made to such beneficiary to the date on which payment is due, such payment to be made not later than the first Business Day after the date on which Borrower receives such notice from L/C Lender (or the second Business Day thereafter if such notice is received on a date that is not a Business Day or after 2:00 p.m. New York City time on a Business Day). Any such payment due from Borrower and not paid on the required date shall thereafter bear interest at rates specified in Section 3.02(b) until paid.

(d) Promptly upon its receipt of a notice referred to in clause (c) of this Section 2.03, Borrower shall advise L/C Lender and Administrative Agent whether or not Borrower intends to borrow hereunder to finance its obligation to reimburse L/C Lender for the amount of the related demand for payment and, if it does so intend, submit a notice of such borrowing to Administrative Agent as provided in Section 4.05. In the event that Borrower fails to either submit a notice of borrowing to Administrative Agent or to reimburse L/C Lender for a demand for payment under a Letter of Credit by the next Business Day after the date of such notice, Administrative Agent shall give each Revolving Lender prompt notice of the amount of the demand for payment, specifying such Lender's R/C Percentage of the amount of the related demand for payment and requesting payment of such amount.

(e) Each Revolving Lender (other than L/C Lender) shall pay to Administrative Agent for account of L/C Lender at the Principal Office in Dollars and in immediately available funds, the amount of such Lender's R/C Percentage of any payment under a Letter of Credit upon not less than one Business Day's actual notice by Administrative Agent as described in clause (d) above to such Revolving Lender requesting such payment and specifying such

amount. Subject to the proviso to the last paragraph of this Section 2.03, each such Revolving Lender's obligation to make such payments to Administrative Agent for the account of L/C Lender under this clause (e), and L/C Lender's right to receive the same, shall be absolute and unconditional and shall not be affected by any circumstance whatsoever, including (i) the failure of any other Revolving Lender to make its payment under this clause (e), (ii) the financial condition of Borrower or the existence of any Default or (iii) the termination of the Commitments. Each such payment to L/C Lender shall be made without any offset, abatement, withholding or reduction whatsoever.

(f) Upon the making of each payment by a Revolving Lender to L/C Lender pursuant to clause (e) above in respect of any Letter of Credit, such Lender shall, automatically and without any further action on the part of Administrative Agent, L/C Lender or such Lender, acquire (i) a participation in an amount equal to such payment in the Reimbursement Obligation owing to L/C Lender by Borrower hereunder and under the L/C Documents relating to such Letter of Credit and (ii) a participation in a percentage equal to such Lender's R/C Percentage in any interest or other amounts (other than cost reimbursements) payable by Borrower hereunder and under such L/C Documents in respect of such Reimbursement Obligation. If L/C Lender receives directly from or for the account of Borrower, any payment in respect of any Reimbursement Obligation or any such interest or other amounts (including by way of setoff or application of proceeds of any collateral security) L/C Lender shall promptly pay to Administrative Agent for the account of each Revolving Lender which has satisfied its obligations under clause (e) above, such Revolving Lender's R/C Percentage of such payment, each such payment by L/C Lender to be made in Dollars. In the event any payment received by L/C Lender and so paid to the Revolving Lenders hereunder is rescinded or must otherwise be returned by L/C Lender, each Revolving Lender shall, upon the request of L/C Lender (through Administrative Agent), repay to L/C Lender (through Administrative Agent) the amount of such payment paid to such Lender, with interest at the rate specified in clause (i) of this Section 2.03.

(g) Borrower shall pay to Administrative Agent for the account of L/C Lender in respect of each Letter of Credit, a letter of credit commission in an amount (not less than $500) equal to (x) the rate *per annum* equal to the Applicable Margin for Revolving Loans that are LIBOR Loans in effect from time to time, multiplied by (y) the daily average undrawn face amount of such Letter of Credit for the period from and including the date of issuance of such Letter of Credit (i) in the case of a Letter of Credit which expires in accordance with its terms, to and including such expiration date and (ii) in the case of a Letter of Credit which is drawn in full or is otherwise terminated other than on the stated expiration date of such Letter of Credit, to but excluding the date such Letter of Credit is drawn in full or is terminated, such fee to be non-refundable and to be paid in arrears quarterly, on each Quarterly Date, and on the earlier of the R/C Maturity Date, the date of the termination of the Revolving Commitment, the date of such termination, expiration or the Business Day subsequent to notice of a drawing in full. L/C Lender authorizes Administrative Agent to pay to each Revolving Lender, but only to the extent actually received from Borrower, an amount equal to such Lender's R/C Percentage of all letter of credit commissions referred to in the first sentence of this clause (g). In addition, Borrower shall pay to Administrative Agent for account of L/C Lender only in respect of each Letter of Credit a letter of credit issuance fee in an amount equal to 0.25% *per annum* multiplied by the original face amount from the issue date through the expiry date of such Letter of Credit (but in no event less than $500 per Letter of Credit) payable quarterly in arrears, such amount to be non-refundable and payable on each Quarterly Date after issuance of such Letter of Credit, *plus* all charges, costs and expenses in the amounts customarily charged by L/C Lender from time to time in like

circumstances with respect to the issuance, amendment or transfer of each Letter of Credit and drawings and other transactions relating thereto.

(h) Upon the issuance of a standby Letter of Credit, L/C Lender shall deliver (through Administrative Agent) to each Revolving Lender a notice describing such standby Letter of Credit, and promptly following the end of each 2nd and 4th Quarter, L/C Lender shall deliver (through Administrative Agent) to each Revolving Lender and Borrower a notice describing the aggregate amount of all Letters of Credit outstanding at the end of such 2nd and 4th Quarter. Upon the request of any Revolving Lender from time to time, L/C Lender shall deliver any other information reasonably requested by such Lender with respect to each Letter of Credit then outstanding.

(i) To the extent that any Revolving Lender fails to pay an amount required to be paid pursuant to clause (e) or (f) of this Section 2.03 on the due date therefor, such Lender shall pay interest to L/C Lender (through Administrative Agent) on such amount from and including such due date to but excluding the date such payment is made at a rate *per annum* equal to the Federal Funds Rate (as in effect from time to time).

(j) The issuance by L/C Lender of any modification or supplement to any Letter of Credit hereunder that would extend the expiry date or increase the face amount thereof shall be subject to the same conditions applicable under this Section 2.03 to the issuance of new Letters of Credit, and no such modification or supplement shall be issued hereunder unless either (x) the respective Letter of Credit affected thereby would have complied with such conditions had it originally been issued hereunder in such modified or supplemented form or (y) the Majority Revolving Lenders (or all of the Revolving Lenders to the extent required by Section 13.04) shall have consented thereto.

(k) Notwithstanding the foregoing, L/C Lender shall not be under any obligation to issue any Letter of Credit if at the time of such issuance, any order, judgment or decree of any Governmental Authority or arbitrator shall purport by its terms to enjoin or restrain L/C Lender from issuing such Letter of Credit or any Requirement of Law applicable to L/C Lender or any request or directive (whether or not having the force of law) from any Governmental Authority shall prohibit the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such L/C Lender with respect to such Letter of Credit any restriction or reserve or capital requirement (for which L/C Lender is not otherwise compensated) not in effect on the Closing Date. At any time that L/C Lender shall not be under any obligation to issue Letters of Credit pursuant to this paragraph (k), L/C Lender may be replaced by Borrower with another Lender reasonably acceptable to Lead Arrangers upon notice to L/C Lender and Administrative Agent and acceptance of such appointment by such successor L/C Lender. Upon any such replacement, Administrative Agent shall notify the Lenders of any such replacement of L/C Lender and the replacement L/C Lender shall agree to be bound by the applicable provisions of this Agreement. At the time any such replacement shall become effective, Borrower shall pay all unpaid fees accrued for the account of the replaced L/C Lender pursuant to Section 2.03(g). From and after the effective date of any such replacement, (i) the successor L/C Lender shall have all the rights and obligations of L/C Lender under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "L/C Lender" shall be deemed to refer to such successor or to any previous L/C Lender, or to such successor and all previous L/C Lenders, as the context shall require. After the replacement of an L/C Lender hereunder, the replaced L/C Lender shall remain a party hereto and shall continue to have all the rights and obligations of an L/C Lender under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

The obligations of Borrower under this Agreement and any L/C Document to reimburse L/C Lender for a drawing under a Letter of Credit, and to repay any drawing under a Letter of Credit converted into Revolving Loans or Swingline Loans, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and each such other L/C Document under all circumstances, including the following: (i) any lack of validity or enforceability of this Agreement or any L/C Document; (ii) the existence of any claim, setoff, defense or other right that Borrower may have at any time against any beneficiary or any transferee of any Letter of Credit (or any person for whom any such beneficiary or any such transferee may be acting), L/C Lender or any other person, whether in connection with this Agreement, the transactions contemplated hereby or by the L/C Documents or any unrelated transaction; (iii) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit; or any defense based upon the failure of any drawing under a Letter of Credit to conform to the terms of the Letter of Credit or any non-application or misapplication by the beneficiary of the proceeds of such drawing; or (iv) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, Borrower or a Subsidiary Guarantor; *provided*, *however*, that neither Borrower nor any Revolving Lender shall be obligated to reimburse L/C Lender for any wrongful payment finally determined by a court of competent jurisdiction to have been made by L/C Lender as a result of acts or omissions constituting willful misconduct or gross negligence on the part of L/C Lender. To the extent that any provision of any L/C Document is inconsistent with the provisions of this Section 2.03, the provisions of this Section 2.03 shall control.

Reference is made to the L/C Lender's letter of credit number SM418794P dated October 23, 2001, issued for the account of Borrower and Charles Town Gaming LLC and for the benefit of County Commission of Jefferson County and having a current face amount of $645,547 ("**Existing Letter of Credit**"). Borrower, Administrative Agent and Revolving Lenders hereby agree that as of the date of this Agreement such Existing Letter of Credit shall be Letter of Credit as if originally issued under this Agreement, and that the fees and other provisions set forth in this Section 2.03 shall be applicable to such Existing Letter of Credit as of the date hereof. Any letter of credit annual fees or commissions previously paid to L/C Lender by Borrower on account of the Existing Letter of Credit for the period after the date hereof shall be credited to the issuance fee payable only to L/C Lender described in clause (g) above.

SECTION 2.04. Termination and Reductions of Commitment. (a)(i) The Commitments shall be automatically and permanently terminated in their entirety on the earliest of (A) the date that is 45 days after receipt by Borrower of all approvals required by Section 7.1 of the Acquisition Agreement, but in any event no later than July 31, 2003 if the funding hereunder on the Closing Date has not already occurred; (B) the date of the Hollywood Acquisition if the funding of the Term A Facility Loans and Initial Term B Facility Loans does not occur on such date; and (C) the termination of the Acquisition Agreement (if the Hollywood Acquisition has not been previously consummated).

(ii) The aggregate amount of Term A Facility Commitments and the Initial Term B Facility Commitments shall be automatically and permanently reduced to zero on the Closing Date.

(iii) The aggregate amount of Second Term B Facility Commitments and the Term C Facility Commitments shall be automatically and permanently reduced to zero on the earlier of (A) the funding of the Second Term B Facility and the Term C Facility and (B) the date that is 71 days after the Closing Date.

(iv) The aggregate amount of the Revolving Commitments, the L/C Commitments and the Swingline Commitments shall be automatically and permanently reduced to zero on the R/C Maturity Date.

(v) The aggregate amount of the Revolving Commitments shall be permanently reduced on the date any required prepayments described in Section 2.10(a) are required to be made in the amount specified in Section 2.10(b)(ii).

(b) Borrower shall have the right at any time or from time to time (without premium or penalty except breakage costs (if any) pursuant to Section 5.05)) (i) so long as no Revolving Loans, Swingline Loans or L/C Liabilities will be outstanding as of the date specified for termination (after giving effect to all transactions occurring on such date), to terminate the Revolving Commitments in their entirety, and (ii) to reduce the aggregate amount of the Unutilized R/C Commitments (which shall be *pro rata* among Revolving Lenders); *provided*, *however*, that (x) Borrower shall give notice of each such termination or reduction as provided in Section 4.05, and (y) each partial reduction shall be in an aggregate amount at least equal to $1.0 million (or a larger multiple of $1.0 million) or, if less, the remaining Unutilized R/C Commitments.

(c) Borrower shall have the right at any time or from time to time (without premium or penalty except breakage costs (if any) pursuant to Section 5.05)) (i) so long as no Second Term B Facility Loans and Term C Facility Loans are outstanding as of the date specified for termination (after giving effect to all transactions occurring on such date), to terminate the Second Term B Facility Commitments and Term C Facility Commitments in their entirety, and (ii) to reduce the aggregate amount of the Unutilized Second Term B and Term C Commitments (which shall first be applied *pro rata* among the Term C Facility Lenders and then *pro rata* among the Second Term B Facility Lenders); *provided*, *however*, that (x) Borrower shall give notice of each such termination or reduction as provided in Section 4.05, and (y) each partial reduction shall be in an aggregate amount at least equal to $1.0 million (or a larger multiple of $1.0 million) or, if less, the remaining Unutilized Second Term B and Term C Commitments.

(d) Any Commitment once terminated or reduced may not be reinstated.

SECTION 2.05. Fees. (a) Borrower shall pay to Administrative Agent for the account of each Lender a commitment fee on the daily average amount of such Lender's Unutilized R/C Commitments and Unutilized Second Term B and Term C Commitments, for the period from and including the Closing Date to but not including (i) with respect to the Revolving Commitments, the earlier of the date such Revolving Commitment is terminated or expires and the R/C Maturity Date (for purposes of computing commitment fees with respect to Revolving Commitments, a Revolving Commitment of a Lender shall be deemed to be used to the extent of the outstanding Revolving Loans and L/C Exposure of such Lender (and the Swingline Exposure of such Lender shall be disregarded for such purpose)) and (ii) with respect to the Second Term B Facility Commitments and Term C Facility Commitments, the date such Second Term B Facility Commitment and Term C Facility Commitment are terminated or expire, at a rate equal to the Applicable Fee Percentage. Any accrued commitment fee under this Section 2.05(a) shall be payable in arrears on each Quarterly Date and (i) with respect to the Revolving Commitments, on the earlier of the date the Revolving Commitments are terminated or expire and the R/C Maturity Date and (ii) with respect to the Second Term B Facility Commitments and Term C Facility Commitments, the date such Second Term B Facility Commitment and Term C Facility Commitment are terminated or expire.

(b) Borrower shall pay to Administrative Agent for its own account the annual administrative fee pursuant to the Administrative Agent's Fee Letter.

SECTION 2.06. Lending Offices. The Loans of each Type made by each Lender shall be made and maintained at such Lender's Applicable Lending Office for Loans of such Type.

SECTION 2.07. Several Obligations of Lenders. The failure of any Lender to make any Loan to be made by it on the date specified therefor shall not relieve any other Lender of its obligation to make its Loan on such date, but neither any Lender nor Administrative Agent shall be responsible for the failure of any other Lender to make a Loan to be made by such other Lender, and no Lender shall

have any obligation to Administrative Agent or any other Lender for the failure by such Lender to make any Loan required to be made by such Lender. No Revolving Lender will be responsible for failure of any other Lender to fund its participation in Letters of Credit.

SECTION 2.08. Notes; Register. (a) At the request of any Lender, its Loans of a particular Class shall be evidenced by a promissory note, dated the Closing Date, payable to such Lender (or its nominee) and otherwise duly completed, substantially in the form of *Exhibits A-1, A-2, A-3, A-4* and *A-5* for such Lender's Revolving Loans, Term A Facility Loans, Term B Facility Loans, Term C Facility Loans and Incremental Loans, respectively.

(b) The date, amount, Type, interest rate and duration of the Interest Period (if applicable) of each Loan of each Class made by each Lender to Borrower and each payment made on account of the principal thereof, shall be recorded by such Lender (or its nominee) on its books and, prior to any transfer of any Note evidencing the Loans of such Class held by it, endorsed by such Lender (or its nominee) on the schedule attached to such Note or any continuation thereof; *provided, however,* that the failure of such Lender (or its nominee) to make any such recordation or endorsement or any error in such recordation or endorsement shall not affect the obligations of Borrower to make a payment when due of any amount owing hereunder or under such Note.

(c) Borrower hereby designates Administrative Agent to serve as its agent, solely for purposes of this Section 2.08, to maintain a register (the "**Register**") on which it will record the name and address of each Lender, the Commitment from time to time of each of the Lenders, the principal amount of the Loans made by each of the Lenders and each repayment in respect of the principal amount of the Loans of each Lender. Failure to make any such recordation or any error in such recordation shall not affect Borrower's obligations in respect of such Loans. The entries in the Register shall be prima facie evidence of the information noted therein (absent manifest error), and the parties hereto shall treat each person whose name is recorded in the Register as the owner of a Loan or other obligation hereunder as the owner thereof for all purposes of the Credit Documents, notwithstanding any notice to the contrary. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice. No assignment shall be effective unless recorded in the Register.

SECTION 2.09. Optional Prepayments and Conversions or Continuations of Loans. (a) Subject to Section 4.04, Borrower shall have the right to prepay Loans, or to Convert Loans of one Type into Loans of another Type or to Continue Loans of one Type as Loans of the same Type, at any time or from time to time. Borrower shall give Administrative Agent notice of each such prepayment, Conversion or Continuation as provided in Section 4.05 (and, upon the date specified in any such notice of prepayment, the amount to be prepaid shall become due and payable hereunder). Each notice of Conversion or Continuation shall be substantially in the form of *Exhibit D*. If LIBOR Loans are prepaid or Converted other than on the last day of an Interest Period therefor, Borrower shall at such time pay all expenses and costs required by Section 5.05. Notwithstanding the foregoing, and without limiting the rights and remedies of the Lenders under Article XI, in the event that any Event of Default shall have occurred and be continuing, Administrative Agent may (and at the request of the Majority Lenders shall) suspend the right of Borrower to Convert any Loan into a LIBOR Loan, or to Continue any Loan as a LIBOR Loan, in which event all Loans shall be Converted (on the last day(s) of the respective Interest Periods therefor) or Continued, as the case may be, as ABR Loans. Swingline Loans may not be converted or continued.

(b) **Application.** (i) The amount of any optional prepayments described in Section 2.09(a) shall be applied first to prepay Loans outstanding under the Term C Facility and then in amounts and tranches as determined by Borrower.

(ii) Notwithstanding the foregoing, any holder of Term B Facility Loans at its sole discretion may, with respect to any optional prepayment (except as provided below in clause (iii)), so long as any Term A Facility Loans are then outstanding, elect by written notice provided to Administrative Agent not to

have all or any amount of any such optional prepayments applied to such holder's Term B Facility Loans, in which case the aggregate amount so declined shall be applied to the Term A Facility Loans, *pro rata* to the remaining Amortization Payments thereof; *provided, however,* that to the extent that the aggregate principal amount of the Term A Facility Loans after giving effect to such optional prepayment is less than the aggregate amount so declined by the holders of the Term B Facility Loans, such amount so declined shall be allocated between the declining holders of the Term B Facility Loans *pro rata* based on the aggregate amount declined by each such holder; *provided, further, however,* that notwithstanding the foregoing, any such optional prepayment made from the first $150.0 million of Net Available Proceeds from any Debt Issuance that is Permitted Subordinated Indebtedness issued pursuant to Section 10.01(n) and (o) hereof may not be so declined by a holder of Term B Facility Loans.

(iii) In addition to the foregoing, and *provided* that (a) no Term C Facility Loans are outstanding and (b) the Consolidated Total Leverage Ratio is less than 3.00 to 1.00, Borrower shall have the right to elect to offer to prepay the Loans *pro rata* to the Term A Facility Loans and the Term B Facility Loans then outstanding and apply any amounts not accepted for such prepayment to repurchase Permitted Subordinated Indebtedness and/or Borrower Outstanding Bonds in accordance with Section 10.10(v). If Borrower makes such an election, it shall provide notice thereof to Administrative Agent, who shall promptly, and in any event within one Business Day of receipt, provide such notice to the holders of the Term A Facility Loans and Term B Facility Loans. Any such notice shall specify the aggregate amount offered to prepay the Term A Facility Loans and Term B Facility Loans. Each holder of a Term A Facility Loan or a Term B Facility Loan may elect, in its sole discretion, to accept such prepayment offer with respect to an amount equal to or less than (i) with respect to holders of Term A Facility Loans, an amount equal to the aggregate amount so offered to prepay Term A Facility Loans times a fraction, the numerator of which is the principal amount of Term A Facility Loans owed to such holder and the denominator of which is the principal amount of Term A Facility Loans outstanding or (ii) with respect to holders of Term B Facility Loans, an amount equal to the aggregate amount so offered to prepay Term B Facility Loans times a fraction, the numerator of which is the principal amount of Term B Facility Loans owed to such holder and the denominator of which is the principal amount of Term B Facility Loans outstanding. Any acceptance of such offer must be evidenced by written notice delivered to Administrative Agent within five Business Days of receipt of the offer for prepayment, specifying an amount of such prepayment offer accepted by such holder, if any. Failure to give such notice will constitute an election not to

accept such offer. Any portion of such prepayment offer so accepted will be used to prepay the Term A Facility Loans and Term B Facility Loans held by the applicable holders within ten Business Days of the date of receipt of the offer to prepay. Any portion of such prepayment offer not so accepted may be used by Borrower and its Restricted Subsidiaries as provided in Section 10.10(v) to the extent permitted thereby.

SECTION 2.10. Mandatory Prepayment and Commitment Reductions. (a) Borrower shall prepay the Loans (and/or reduce Commitments) as follows (each such prepayment (and/or Commitment reduction) to be effected in each case in the manner, order and to the extent specified in subsection (b) below of this Section 2.10):

(i) **Casualty Events.** Within three Business Days after Borrower or any Restricted Subsidiary receives any Net Available Proceeds from any Casualty Event (or notice of collection by Administrative Agent of the same), in an aggregate principal amount equal to 100% of such Net Available Proceeds; *provided, however,* that

(w) if no Default or Event of Default then exists or would arise therefrom, the Net Available Proceeds thereof shall not be required to be so applied on such date to the extent that Borrower has delivered an Officer's Certificate to Administrative Agent on or prior to such date stating that an amount equal to such proceeds shall be used to fund the acquisition of Property used or usable in the business of any Credit Party or repair, replace or restore the Property in accordance with the provisions of the applicable Security Document in respect of

which such Casualty Event has occurred, in each case within 365 days following the date of the receipt of such Net Available Proceeds,

(x) to the extent such Casualty Event affects any of the Collateral or Property acquired to effect any repair, replacement or restoration of such Collateral, such proceeds shall be made subject to the Lien of the Security Documents in accordance with the provisions of Section 9.09,

(y) an amount equal to all such Net Available Proceeds (A) in excess of $1.0 million but less than or equal to $5.0 million in the aggregate for all such Casualty Events during any fiscal year, shall be deposited and maintained in a Controlled Account and may thereafter only be utilized to effect any repair, replacement or restoration permitted pursuant to this Section 2.10(a)(i) or to repay Revolving Loans (with no corresponding reduction in Revolving Commitments) and (B) in excess of $5.0 million in the aggregate for all such Casualty Events during any fiscal year, shall be held in the Collateral Account or used to repay Revolving Loans (with no corresponding reduction in Revolving Commitments), and shall be released therefrom only in accordance with the terms of the Security Agreement or be used to repay Revolving Loans (with no corresponding reduction in Revolving Commitments), and

(z) if all or any portion of such Net Available Proceeds not required to be applied to the prepayment of Loans pursuant to this Section 2.10(a)(i) is not so used within 365 days after the date of the receipt of such Net Available Proceeds, such remaining portion shall be applied on the last day of such period as specified in Section 2.10(b); *provided* that if any portion has not been so used within 365 days after such date and any Credit Party is diligently pursuing the repair, replacement or restoration of Property or the acquisition of Property, then such application of such remaining portion shall not be required for so long as such repair, replacement or restoration is being diligently pursued.

(ii) **Equity Issuance.** Within three Business Days after receipt of Net Available Proceeds from any Equity Issuance on or after the Closing Date, in an aggregate principal amount equal to (A) if Term C Facility Loans are then outstanding, the lesser of the outstanding principal amount of the Term C Facility Loans then outstanding and 100% of the Net Available Proceeds of such Equity Issuance or (B) if no Term C Facility Loans are then outstanding, 50% of the Net Available Proceeds of such Equity Issuance if and to the extent the Consolidated Total Leverage Ratio is equal to or greater than 4.0 to 1.0 (calculated as of the most recent Test Date, after giving pro forma effect to such Equity Issuance and the use of proceeds therefrom (including prepayments pursuant to this Section 2.10)); *provided, however,* that any such Net Available Proceeds from any Equity Issuance which are used to consummate Permitted Acquisitions pursuant to Section 10.05(j) shall not be subject to the provisions of this Section 2.10(a)(ii).

(iii) **Debt Issuance.** Within three Business Days after any Debt Issuance on or after the Closing Date, in an aggregate principal amount equal to 100% of the Net Available Proceeds of such Debt Issuance (it being understood that applications pursuant to this Section 2.10(a)(iii) shall not be duplicative of Section 2.10(a)(iv) below).

(iv) **Asset Sales.** Within three Business Day after receipt by Borrower or any of its Restricted Subsidiaries of any Net Available Proceeds from any Asset Sale, in an aggregate principal amount equal to 100% of the Net Available Proceeds from such Asset Sale (it being understood that applications pursuant to this Section 2.10(a)(iv) shall not be duplicative of Section 2.10(a)(iii) above); *provided, however,* that

(w) the Net Available Proceeds from any Asset Sale permitted by Section 10.05 shall not be required to be applied as provided above on such date if (1) no Default or Event of Default then exists or would arise therefrom, and (2) Borrower delivers an Officer's Certificate to Administrative Agent on or prior to such date stating that an amount equal to

such Net Available Proceeds shall be reinvested, directly or indirectly, in capital assets (which may be pursuant to an acquisition of Equity Interests of a person that directly or indirectly owns such capital assets) otherwise permitted under this Agreement of (A) if such Asset Sale was effected by any Credit Party, any Credit Party, and (B) if such Asset Sale was effected by any other Company, any Company, in each case within 365 days following the date of such Asset Sale (which certificate shall set forth the estimates of the proceeds to be so expended),

(x) to the extent such Net Available Proceeds are from an Asset Sale of Collateral, the Net Available Proceeds shall be used within such 365 day period to acquire Property made subject to the Lien of the Security Documents in accordance with the provisions of Section 9.09,

(y) pending application of all such Net Available Proceeds (including Net Available Proceeds from Asset Sales of Collateral) in accordance with the Officer's Certificate referred to in clause (w) above or in accordance with clause (z) below, all such Net Available Proceeds (A) in excess of $1.0 million but less than or equal to $5.0 million in the aggregate for all such Asset Sales during any fiscal year shall be deposited and maintained in a Controlled Account and may thereafter only be utilized to reinvest in capital assets as contemplated by the Officer's Certificate referred to in clause (w) above (and, in the case of any Net Available Proceeds from an Asset Sale of Collateral, in compliance with clause (x) above) or to repay Revolving Loans (with no corresponding reduction in Revolving Commitments) and (B) in excess of $5.0 million in the

aggregate for all such Asset Sales during any fiscal year, shall be held in the Collateral Account and may thereafter only be utilized to reinvest in capital assets as contemplated by the Officer's Certificate referred to in clause (w) above (and, in the case of any Net Available Proceeds from an Asset Sale of Collateral, in compliance with clause (x) above) or to repay Revolving Loans (with no corresponding reduction in Revolving Commitments) *provided, however,* that available borrowings under the Revolving Facility shall at no time be less than the amount of Net Available Proceeds utilized to Repay Revolving Loans under this clause (y), and

(z) if all or any portion of such Net Available Proceeds is not reinvested in capital assets in accordance with the Officer's Certificate referred to in clause (w) above (and, in the case of any Net Available Proceeds from an Asset Sale of Collateral, in compliance with clause (y) above) within such 365-day period, such remaining portion shall be applied on the last day of such period as specified in Section 2.10(b) (it being understood that the foregoing shall in no way affect the obligation of any Company to obtain the consent of the Majority Lenders if required pursuant to this Agreement to effect any Asset Sale).

(v) **Excess Cash Flow.** On a date not later than 100 days after each December 31 (each such December 31, an "**Excess Cash Flow Measurement Date**"), beginning with the fiscal year ended December 31, 2003, (i) if the Consolidated Total Leverage Ratio as of the Excess Cash Flow Measurement Date is greater than or equal to 4.5 to 1.0, an amount equal to 75% of Excess Cash Flow for the Excess Cash Flow Period ending on such Excess Cash Flow Measurement Date, (ii) if the Consolidated Total Leverage Ratio as of the Excess Cash Flow Measurement Date is less than 4.5 to 1.0 but equal to or greater than 3.5 to 1.0, an amount equal to 50% of Excess Cash Flow for the Excess Cash Flow Period ending on such Excess Cash Flow Measurement Date or (iii) if the Consolidated Total Leverage Ratio as of the Excess Cash Flow Measurement Date is less than 3.5 to 1.0, an amount equal to 0% of Excess Cash Flow for the Excess Cash Flow Period ending on such Excess Cash Flow Measurement Date; *provided, however,* that if there are amounts or commitments outstanding under the Term C Facility as of the date payment is required to be made, then, for the period commencing with the first complete fiscal quarter following the initial borrowing under the Term C Facility and ending on the earliest of (i) 90 days from the date of the initial borrowing under the Term C Facility, (ii) November 30, 2003 and (iii) the date the Term C Facility Loans are repaid in full, an amount equal to 62.5% of Excess Cash Flow measured since

the beginning of the first complete fiscal quarter following the initial borrowing under the Term C Facility shall be applied to the Term C Facility on a monthly basis beginning with the first month after such fiscal quarter and an amount equal to 37.5% of Excess Cash Flow shall be applied to the balance of the Credit Facilities as provided in Section 2.10(b) below.

(vi) **Other Required Prepayments.** If the terms of any agreement, instrument or indenture pursuant to which any Indebtedness (other than the Obligations) *pari passu* with or junior in right of payment to the Loans is outstanding (or pursuant to which such Indebtedness is guaranteed) require prepayment of such Indebtedness out of the Net Available Proceeds of any Asset Sale unless such Net Available Proceeds are used to prepay other Indebtedness, then, to the extent not otherwise required by this Section 2.10(a), if Borrower and its Restricted Subsidiaries shall not have reinvested the Net Available Proceeds thereof as permitted by Section 2.10(a)(iv) within the time frame permitted thereby (but prior to the date required to be applied to such Indebtedness), the Loans shall be repaid in an amount not less than the minimum amount that would be required to be prepaid not later than the latest time as and upon such terms so that such other Indebtedness will not be required to be prepaid pursuant to the terms of the agreement, indenture or instrument or guarantee governing such other Indebtedness.

(b) **Application.** The amount of any required prepayments described in Section 2.10(a) shall be applied to prepay Loans and/or reduce Commitments as follows:

(i) *First,* the amount of the required prepayment shall be applied to the reduction of Amortization Payments on the Term Loans required by Section 3.01 (b) *pro rata* among the Term Facilities based upon the remaining unpaid aggregate principal amounts thereof and, in each case, *pro rata* to the remaining Amortization Payments. Notwithstanding the foregoing, any holder of Term B Facility Loans (or any Incremental Loans if such option is specified in such Incremental Loan Activation Notice) may, at its sole discretion, so long as any Term A Facility Loans are then outstanding (after giving effect to the application of such required prepayment to the Term A Facility Loans), elect by written notice provided to Administrative Agent not to have all or any amount of any such required prepayments applied to such holder's Term B Facility Loans and/or Incremental Loans, as the case may be, in which case the aggregate amount so declined shall be applied to the Term A Facility Loans, *pro rata* to the remaining Amortization Payments thereof; *provided, however,* that to the extent that the aggregate principal amount of the Term A Facility Loans after giving effect to such mandatory prepayment is less than the aggregate amount so declined by the holders of the Term B Facility Loans and Incremental Loans, the excess shall be allocated between the declining holders of the Term B Facility Loans and Incremental Loans *pro rata* based on the aggregate amount declined by each such holder;

(ii) *Second,* after such time as no Term Loans remain outstanding, with an amount equal to the remaining amount of any such required prepayment that would have been applied to the Term Loans, Borrower shall, first, repay all outstanding Swingline Loans, *second,* prepay outstanding Revolving Loans and, *third,* provide cover for L/C Liabilities as specified in Section 2.10(d), in an aggregate amount equal to such remaining portion (*provided* that such prepayments shall not reduce the Revolving Commitments);

(iii) *Third,* after application of prepayments in accordance with clauses (i) and (ii) above, Borrower shall be permitted to retain any such remaining excess;

provided that (1) in the event that any of the Term C Facility is drawn and remains outstanding, mandatory prepayments of the type referred to in Section 2.10(a)(ii) or (iii) shall be applied, first, to the Term C Facility and, second, *pro rata* among the remaining Term Loan Facilities and (2) mandatory prepayments of the type referred in Section 2.10(a)(iv) shall be applied to the Term C Facility only after application to the other Term Loan Facilities; *provided, further, however*, notwithstanding anything in Section 2.10(a), to the extent any Debt Issuance or Equity Issuance occurs on or prior to the expiration of the Change of Control Offers or the Alternate Target Subsidiary Bond Offers that would

otherwise be required to be applied to prepay the Term C Facility Loans, the Term C Facility Commitments shall be correspondingly reduced.

Notwithstanding the foregoing, if the amount of any prepayment of Loans required under this Section 2.10 shall be in excess of the amount of the ABR Loans at the time outstanding, only the portion of the amount of such prepayment as is equal to the amount of such outstanding ABR Loans shall be immediately prepaid and, at the election of Borrower, the balance of such required prepayment shall be either (i) deposited in the Collateral Account and applied to the

prepayment of LIBOR Loans on the last day of the then next-expiring Interest Period for LIBOR Loans (with all interest accruing thereon for the account of Borrower) or (ii) prepaid immediately, together with any amounts owing to the Lenders under Section 5.05. Notwithstanding any such deposit in the Collateral Account, interest shall continue to accrue on such Loans until prepayment.

(c) **Revolving Credit Extension Reductions.** Until the R/C Maturity Date, Borrower shall from time to time immediately prepay the Revolving Loans (and/or provide cover for L/C Liabilities as specified in Section 2.10(d)) in such amounts as shall be necessary so that at all times the aggregate outstanding amount of the Revolving Loans and the Swingline Loans, *plus* the aggregate outstanding L/C Liabilities shall not exceed the Revolving Commitments as in effect at such time, such amount to be applied, *first*, to Revolving Loans outstanding and *second*, as cover for L/C Liabilities outstanding as specified in Section 2.10(d).

(d) **Cover for L/C Liabilities.** In the event that Borrower shall be required pursuant to this Section 2.10 to provide cover for L/C Liabilities, Borrower shall effect the same by paying to Administrative Agent immediately available funds in an amount equal to the required amount, which funds shall be retained by Administrative Agent in the Collateral Account (as provided in the Security Agreement as collateral security in the first instance for the L/C Liabilities) until such time as all Letters of Credit shall have been terminated and all of the L/C Liabilities paid in full.

SECTION 2.11. Replacement of Lenders. (a) Borrower shall have the right, if no Default then exists, to replace any Lender (the "**Replaced Lender**") with one or more other Eligible Persons reasonably acceptable to Lead Arrangers (collectively, the "**Replacement Lender**") if (x) such Lender is charging Borrower increased costs pursuant to Section 5.01 or 5.06 or such Lender becomes incapable of making LIBOR Loans as provided in Section 5.03 when other Lenders are generally able to do so and/or (y) as provided in Section 13.04(ii), such Lender refuses to consent to certain proposed amendments, waivers or modifications with respect to this Agreement; *provided, however,* that (i) at the time of any replacement pursuant to this Section 2.11, the Replacement Lender shall enter into one or more assignment agreements (and with all fees payable pursuant to Section 13.06 to be paid by the Replacement Lender) pursuant to which the Replacement Lender shall acquire all of the Commitments and outstanding Loans of, and in each case L/C Interests by, the Replaced Lender and, in connection therewith, shall pay to (x) the Replaced Lender, an amount equal to the sum of (A) the principal of, and all accrued interest on, all outstanding Loans of the Replaced Lender, (B) all Reimbursement Obligations owing to such Replaced Lender, together with all then unpaid interest with respect thereto at such time, and (C) all accrued, but theretofore unpaid, fees owing to the Replaced Lender pursuant to Section 2.05, and (y) L/C Lender an amount equal to such Replaced Lender's R/C Percentage of any Reimbursement Obligations (which at such time remains a Reimbursement Obligation) to the extent such amount was not theretofore funded by such Replaced Lender, and (ii) all obligations of Borrower owing to the Replaced Lender (other than those specifically described in clause (i) above in respect of which the assignment purchase price has been, or is concurrently being, paid, but including any amounts which would be paid to a Lender pursuant to Section 5.05 if Borrower were prepaying a LIBOR Loan) shall be paid in full to such Replaced Lender concurrently with such replacement. Upon the execution of the respective assignment agreement, the payment of amounts referred to in clauses (i) and (ii) above and, if so requested by the Replacement Lender, delivery to the Replacement Lender of Notes executed by Borrower, the Replacement Lender shall become a Lender hereunder and the Replaced Lender shall cease to constitute a Lender hereunder and be released of all its obligations as

a Lender, except with respect to indemnification provisions applicable to the Replaced Lender under this Agreement, which shall survive as to such Replaced Lender.

(b) If Borrower receives a notice from any applicable Gaming Authority that a Lender is not qualified to make Loans to Borrower or to hold the securities of a casino licensee under applicable Gaming Laws (and such Lender is notified by Borrower and Lead Arrangers in writing of such disqualification), Borrower shall have the right to replace such Lender with a Replacement Lender or prepay the Loans held by such Lender, even if a Default exists. Any such prepayment shall be deemed an optional prepayment, as set forth in Section 2.09 and shall not be required to be made on a *pro rata* basis with respect to Loans of the same Tranche as the Loans held by such Lender. Notice to such Lender shall be given at least ten (10) days before the required date of transfer or prepayment (unless a shorter period is required under applicable law), as the case may be, and shall be accompanied by evidence demonstrating that such transfer or redemption is required pursuant to Gaming Laws. Upon receipt of a notice in accordance with the foregoing, the Replaced Lender shall cooperate with Borrower in effectuating the required transfer or prepayment within the time period set forth in such notice, not to be less than the minimum notice period set forth in the foregoing sentence (unless a shorter period is required under applicable law). Further, if the transfer or prepayment is triggered by notice from the Gaming Authority that the Lender is disqualified, commencing on the date the Gaming Authority serves the disqualification notice upon Borrower: (i) such Lender shall no longer receive any interest on the Loans; (ii) such Lender shall no longer exercise, directly or through any trustee or nominee, any right conferred by the Loans; and (iii) such Lender shall not receive any remuneration in any form from Borrower for services or otherwise in respect of the Loans.

ARTICLE III

PAYMENTS OF PRINCIPAL AND INTEREST

SECTION 3.01. Repayment of Loans.

(a) **Revolving Credit Loans.** Borrower hereby promises to pay (i) to Administrative Agent for the account of each Revolving Lender the entire outstanding principal amount of such Revolving Lender's Revolving Loans made to Borrower, and each Revolving Loan shall mature, on the R/C Maturity Date and (ii) to the Swingline Lender the then unpaid principal amount of each Swingline Loan on the earlier of the R/C Maturity Date and the first amount of each Swingline Loan on the earlier of the R/C Maturity Date and the first date after such Swingline Loan is made that is the 15th or last day of a calendar month and is at least two Business Days after such Swingline Loan is made; *provided* that on each date that a Revolving Borrowing is made, Borrower shall repay all Swingline Loans that were outstanding on the date such Borrowing was requested.

(b) **Term A Facility Loans, Term B Facility Loans and Term C Facility Loans.** Borrower hereby promises to pay to Administrative Agent for the account of the Lenders in repayment of the principal of the Term Loans specified in *Annex C*, the amount of the respective Term Loan specified in *Annex C* under the column entitled "Term A Facility Loans," "Initial Term B Facility Loans," "Second Term B Facility Loans" and "Term C Facility Loans," respectively, on the dates set forth on *Annex C* (subject to adjustment for any prepayments made under Section 2.09 or Section 2.10 to the extent actually made).

(c) **Incremental Loans.** The Incremental Loans, if any, of each Incremental Lender shall mature in installments as specified in the Incremental Loan Activation Notice pursuant to which such Incremental Loans were made; *provided* that, in the event that any Incremental Loan is a Term Loan, prior to the date that is six months prior to the Term B Final Maturity Date then in effect, the amounts of such installments for any twelve consecutive months shall not exceed 1% of the aggregate principal amount of such Incremental Loans on the date such Loans were first made.

SECTION 3.02. Interest. (a) Borrower hereby promises to pay to Administrative Agent for the account of each Lender interest on the unpaid principal amount of each Loan made or maintained by

such Lender to Borrower for the period from and including the date of such Loan to but excluding the date such Loan shall be paid in full at the following *rates per annum:*

(i) during such periods as such Loan (including each Swingline Loan) is an ABR Loan, the Alternate Base Rate (as in effect from time to time), plus the Applicable Margin, and

(ii) during such periods as such Loan is a LIBOR Loan, for each Interest Period relating thereto, the LIBO Rate for such Loan for such Interest Period, *plus* the Applicable Margin.

(b) Upon the occurrence and during the existence of an Event of Default, (i) the unpaid principal amount of each Loan not paid when due shall bear interest at a rate *per annum* equal at all times to 2% *per annum* above the rate *per annum* required to be paid on such Loan pursuant to subsections (a)(i) and (a)(ii) above, as applicable, and (ii) all Obligations not paid when due other than Loans shall bear interest at the rate which is 2% in excess of the rate otherwise applicable to ABR Loans which are Revolving Loans from time to time. Interest which accrues under this paragraph shall be payable on demand.

(c) Accrued interest on each Loan shall be payable (i) in the case of an ABR Loan, quarterly on the Quarterly Dates, (ii) in the case of a LIBOR Loan, on the last day of each Interest Period therefor and, if such Interest Period is longer than three months, at three-month intervals following the first day of such Interest Period and (iii) in the case of any LIBOR Loan, upon the payment or prepayment thereof or the Conversion of such Loan to a Loan of another Type (but only on the principal amount so paid, prepaid or Converted), except that interest payable at the rate set forth in Section 3.02(b) shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, Administrative Agent shall give notice thereof to the Lenders to which such interest is payable and to Borrower.

(d) In the event that any Incremental Loan is a Term Loan and pursuant to an Incremental Loan Activation Notice, any Net Yield for the related Incremental Loans is in excess of 25 basis points above the Applicable Margin set forth for Term B Facility Loans in *Annex B* attached hereto, then the Applicable Margin for outstanding Term B Facility Loans shall automatically be increased to any extent required so that the Applicable Margin with respect thereto is 25 basis points less than the Net Yield for such Incremental Loans without any action or consent of Borrower, Administrative Agent or any Lender. "Net Yield" for purposes of Incremental Loans, if such Incremental Loans are term loans, shall mean the sum of (a) the Applicable Margin applicable to such Incremental Loans at the Incremental Loan Effective Date plus (b) any original issue discount offered to Incremental Loan Lenders amortized equally over the period from the Incremental Loan Effective Date to the Incremental Loan Maturity Date; *provided*, that such original issue discount shall not be amortized over a period of greater than three years.

ARTICLE IV

PAYMENTS; PRO RATA TREATMENT; COMPUTATIONS; ETC.

SECTION 4.01. Payments. (a) All payments of principal, interest, Reimbursement Obligations and other amounts to be made by Borrower under this Agreement and the Notes, and, except to the extent otherwise provided therein, all payments to be made by the Credit Parties under any other Credit Document, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to Administrative Agent at its account at the Principal Office, not later than 12:00 p.m. New York City time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) Borrower shall, at the time of making each payment under this Agreement or any Note for the account of any Lender, specify (in accordance with Section 2.09 and 2.10, if applicable) to Administrative Agent (which shall so notify the intended recipient(s) thereof) or, in the case of Swingline Loans, to the Swingline Lender, the Class and Type of Loans, Reimbursement Obligations or other amounts payable by Borrower hereunder to which such payment is to be applied (and in the event that Borrower fails to so specify, or if an Event of Default has occurred and is continuing, Administrative Agent may distribute such payment to the Lenders for application to the Obligations under the Credit Documents in such manner as it or the Majority Lenders, subject to Sections 2.09, 2.10 and 4.02, may determine to be appropriate).

(c) Except to the extent otherwise provided in the second sentence of Section 2.03(g), each payment received by Administrative Agent or by L/C Lender (through Administrative Agent) under this Agreement or any Note for the account of any Lender shall be paid by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be, to such Lender, in immediately available funds, (x) if the payment was actually received by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be, prior to 12:00 p.m. (New York City time) on any day, on such day and (y) if the payment was actually received by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be, after 12:00 p.m. (New York City time) on any day, by 1:00 p.m. (New York City time) on the following Business Day (it being understood that to the extent that any such payment is not made in full by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be, Administrative Agent shall pay to such Lender, upon demand, interest at the Federal Funds Rate from the date such amount was required to be paid to such Lender pursuant to the foregoing clauses until the date Administrative Agent pays such Lender the full amount).

(d) If the due date of any payment under this Agreement or any Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable for any principal so extended for the period of such extension at the rate then borne by such principal.

SECTION 4.02. Pro Rata Treatment. Except to the extent otherwise provided herein: (a) each borrowing of Loans of a particular Class from the Lenders under Section 2.01 shall be made from the relevant Lenders, each payment of commitment fees under Section 2.05 in respect of Commitments of a particular Class shall be made for account of the relevant Lenders, and each termination or reduction of the amount of the Commitments of a particular Class

under Section 2.04 shall be applied to the respective Commitments of such Class of the relevant Lenders *pro rata* according to the amounts of their respective Commitments of such Class; (b) except as otherwise provided in Section 5.04, LIBOR Loans of any Class having the same Interest Period shall be allocated *pro rata* among the relevant Lenders according to the amounts of their respective Revolving Commitments and Term Loan Commitments (in the case of the making of Loans) or their respective Revolving Loans and Term Loans (in the case of Conversions and Continuations of Loans); (c) except as otherwise provided in Section 2.10(b), each payment or prepayment of principal of Revolving Loans or of any particular Class of Term Loans shall be made for the account of the relevant Lenders *pro rata* in accordance with the respective unpaid outstanding principal amounts of the Loans of such Class held by them; and (d) except as otherwise provided in Section 2.10(b), each payment of interest on Revolving Loans and Term Loans shall be made for account of the relevant Lenders *pro rata* in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders.

SECTION 4.03. Computations. Interest on LIBOR Loans, commitment fees and Letter of Credit fees shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day) occurring in the period for which such amounts are payable and interest on ABR Loans and Reimbursement Obligations shall be computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed (including the first day but excluding the last day) occurring in the period for which such amounts are payable. Notwithstanding the foregoing, for each day that the Alternate Base Rate is calculated by reference to the Federal Funds Rate, interest on ABR Loans and Reimbursement Obligations shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day).

SECTION 4.04. Minimum Amounts. Except for mandatory prepayments made pursuant to Section 2.10 and Conversions or prepayments made pursuant to Section 5.04, each Borrowing, Conversion and prepayment of principal of Loans shall be in an amount at least equal to $1.0 million with respect to ABR Loans and $1.0 million with respect to LIBOR Loans and in multiples of $100,000 in excess thereof (borrowings, Conversions or prepayments of or into Loans of different Types or, in

the case of LIBOR Loans, having different Interest Periods at the same time hereunder to be deemed separate borrowings, Conversions and prepayments for purposes of the foregoing, one for each Type or Interest Period). Anything in this Agreement to the contrary notwithstanding, the aggregate principal amount of LIBOR Loans having the same Interest Period shall be in an amount at least equal to $250,000 and in multiples of $100,000 in excess thereof and, if any LIBOR Loans or portions thereof would otherwise be in a lesser principal amount for any period, such Loans or portions, as the case may be, shall be ABR Loans during such period.

SECTION 4.05. Certain Notices. Notices by Borrower to Administrative Agent (or, in the case of repayment of Swingline Loans, to the Swingline Lender) of terminations or reductions of the Commitments, of Borrowings, Conversions, Continuations and optional prepayments of Loans and of Classes of Loans, of Types of Loans and of the duration of Interest Periods shall be irrevocable and shall be effective only if received by Administrative Agent (or, in the case of Swingline Loans, the Swingline Lender) by telephone not later than 1:00 p.m. New York City time (promptly followed by written notice via telecopier) on at least the number of Business Days prior to the date of the relevant termination, reduction, Borrowing, Conversion, Continuation or prepayment or the first day of such Interest Period specified in the table below.

NOTICE PERIODS

Notice	Number of Business Days Prior
Termination or reduction of Commitments	2
Borrowing or optional prepayment of, or Conversions into, ABR Loans	1
Borrowing or optional prepayment of, Conversions into, Continuations as, or duration of Interest Periods for, LIBOR Loans	3
Borrowing or Repayment of Swingline Loans	same day

Each such notice of termination or reduction shall specify the amount and the Class of the Commitments to be terminated or reduced. Each such notice of Borrowing, Conversion, Continuation or prepayment shall specify the Class of Loans to be borrowed, Converted, Continued or prepaid and the amount (subject to Section 4.04) and Type of each Loan to be borrowed, Converted, Continued or prepaid and the date of borrowing, Conversion, Continuation or prepayment (which shall be a Business Day). Each such notice of the duration of an Interest Period shall specify the Loans to which such Interest Period is to relate. Administrative Agent shall promptly notify the Lenders of the contents of each such notice. In the event that Borrower fails to select the Type of Loan, or the duration of any Interest Period for any LIBOR Loan, within the time period and otherwise as provided in this Section 4.05, such Loan (if outstanding as a LIBOR Loan) will be automatically Converted into an ABR Loan on the last day of the then current Interest Period for such Loan or (if outstanding as an ABR Loan) will remain as, or (if not then outstanding) will be made as, an ABR Loan.

SECTION 4.06. Non-Receipt of Funds by Administrative Agent. Unless Administrative Agent shall have received written notice from a Lender or Borrower (the "**Payor**") prior to the date on which the Payor is to make payment to Administrative Agent of (in the case of a Lender) the proceeds of a Loan to be made by such Lender hereunder or a payment to Administrative Agent for the account of one or more of the Lenders hereunder (such payment being herein called the "**Required Payment**"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to Administrative Agent, Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount

thereof available to the intended recipient(s) on such date; and, if the Payor has not in fact made the Required Payment to Administrative Agent, the recipient(s) of such payment shall, on demand, repay to Administrative Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date (the "**Advance Date**") such amount was so made available by Administrative Agent until the date Administrative Agent recovers

such amount at a rate *per annum* equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, Administrative Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid; *provided, however,* that if neither the recipient(s) nor the Payor shall return the Required Payment to Administrative Agent within three Business Days of the date such demand was made, then, retroactively to the Advance Date, the Payor and the recipient(s) shall each be obligated to pay interest on the Required Payment as follows (without double recovery):

(i) if the Required Payment shall represent a payment to be made by Borrower to the Lenders, Borrower and the recipient(s) shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the rate set forth in Section 3.02(b) (without duplication of the obligation of Borrower under Section 3.02 to pay interest on the Required Payment at the rate set forth in Section 3.02(b)), it being understood that the return by the recipient(s) of the Required Payment to Administrative Agent shall not limit such obligation of Borrower under Section 3.02 to pay interest at the rate set forth in Section 3.02(b) in respect of the Required Payment; and

(ii) if the Required Payment shall represent proceeds of a Loan to be made by the Lenders to Borrower, the Payor, or Borrower, shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment pursuant to Section 3.02, it being understood that the return by Borrower of the Required Payment to Administrative Agent shall not limit any claim Borrower may have against the Payor in respect of such Required Payment.

SECTION 4.07. Right of Setoff, Sharing of Payments; Etc. (a) If any Event of Default shall have occurred and be continuing, each Credit Party agrees that, in addition to (and without limitation of) any right of setoff, banker's lien or counterclaim a Lender may otherwise have, each Lender shall be entitled, at its option (to the fullest extent permitted by law), to set off and apply any deposit (general or special, time or demand, provisional or final), or other indebtedness, held by it for the credit or account of such Credit Party at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Lender's Loans, Reimbursement Obligations or any other amount payable to such Lender hereunder that is not paid when due (regardless of whether such deposit or other indebtedness is then due to such Credit Party), in which case it shall promptly notify such Credit Party and Administrative Agent thereof; *provided, however,* that such Lender's failure to give such notice shall not affect the validity thereof.

(b) Each of the Lenders agrees that, if it should receive (other than pursuant to Article V or the Administrative Agent's Fee Letter) any amount hereunder (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker's lien, by counterclaim or cross action, by the enforcement of any right under the Credit Documents (including any guarantee), or otherwise) which is applicable to the payment of the principal of, or interest on, the Loans, Reimbursement Obligations or fees, the sum of which with respect to the related sum or sums received by other Lenders is in a greater proportion than the total of such amounts then owed and due to such Lender bears to the total of such amounts then owed and due to all of the Lenders immediately prior to such receipt, then such Lender receiving such excess payment shall purchase for cash without recourse or warranty from the other Lenders an interest in the Obligations of the respective Credit Party to such Lenders in such amount as shall result in a proportional participation by all of the Lenders in such amount; *provided, however,* that if all or any portion of such excess amount is thereafter recovered from such Lender, such purchase shall be rescinded and the purchase price

restored to the extent of such recovery, but without interest. Borrower consents to the foregoing arrangements.

(c) Borrower agrees that any Lender so purchasing such a participation may exercise all rights of setoff, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other Indebtedness or obligation of any Credit Party. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this Section 4.07 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

ARTICLE V

YIELD PROTECTION, ETC.

SECTION 5.01. Additional Costs. (a) If the adoption of, or any change in, in each case after the date hereof, any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority or the NAIC made subsequent to the Closing Date (other than such adoptions or changes as may relate to the certain Lenders' indirect ownership of Borrower and its Restricted Subsidiaries):

(i) shall subject any Lender or L/C Lender to any tax of any kind whatsoever with respect to this Agreement, any Note, any Letter of Credit or any Lender's participation therein, any L/C Document or any Loan made by it or change the basis of taxation of payments to such Lender in respect thereof by any Governmental Authority (except for taxes covered by or expressly excluded from coverage by, and expressly subject to, Section 5.06, Excluded Taxes, changes in the rate of tax on the overall net income or net profits of such Lender or its Applicable Lending Office, or any affiliate thereof or franchise taxes or similar taxes imposed with respect to or in lieu of its net income or net profits by any Governmental Authority);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement (including any Reserve Requirement) against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender or L/C Lender which is not otherwise included in the determination of the LIBO Rate hereunder; or

(iii) shall impose on such Lender or L/C Lender any other condition (excluding taxes);

and the result of any of the foregoing is to increase the cost to such Lender or L/C Lender, by an amount which such Lender or L/C Lender deems to be material, of making, converting into, continuing or maintaining LIBOR Loans or issuing or participating in Letters of Credit, then, in any such case, Borrower shall, within 10 days of written demand therefor, pay such Lender or L/C Lender any additional amounts necessary to compensate such Lender or L/C Lender on a net after-tax

basis (taking into account any additional tax costs or tax benefits) for such increased cost. If any Lender or L/C Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrower, through Administrative Agent, of the event by reason of which it has become so entitled. A certificate as to any additional amounts setting forth the calculation of such additional amounts pursuant to this Section 5.01 submitted by such Lender or L/C Lender, through Administrative Agent, to Borrower shall be conclusive in the absence of clearly demonstrable error.

Without limiting the survival of any other covenant hereunder, this Section 5.01 shall survive the termination of this Agreement and the payment of the Notes and all other Obligations payable hereunder.

(b) In the event that any Lender or L/C Lender shall have determined that the adoption after the Closing Date of any law, rule, regulation or guideline regarding capital adequacy (or any change after the Closing Date therein or in the interpretation or application thereof) or compliance by any Lender or L/C Lender or any corporation controlling such Lender or L/C Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any central bank or other Governmental Authority or the NAIC, in each case, made subsequent to the Closing Date, including, without limitation, the issuance after the Closing Date of any final rule, regulation or guideline, does or shall have the effect of reducing the rate of return on such Lender's or L/C Lender's or such corporation's capital as a consequence of its obligations hereunder or under any Letter of Credit to a level below that which such Lender or L/C Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or L/C Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender or L/C Lender to be material, then from time to time, after submission by such Lender or L/C Lender to Borrower (with a copy to Administrative Agent) of a written request therefor (setting forth in reasonable detail the amount payable to the affected Lender or L/C Lender and the basis for such request), Borrower shall promptly pay to such Lender or L/C Lender such additional amount or amounts as will compensate such Lender or L/C Lender on a net after-tax basis for such reduction.

(c) Failure or delay on the part of any Lender or the L/C Lender to demand compensation pursuant to this Section 5.01 shall not constitute a waiver of such Lender's or the L/C Lender's right to demand such compensation; *provided* that Borrower shall not be required to compensate a Lender or the L/C Lender pursuant to this Section 5.01 for any increased costs or reductions incurred more than 90 days prior to the date that such Lender or the L/C Lender, as the case may be, notifies Borrower of the change in law giving rise to such increased costs or reductions and of such Lender's or the L/C Lender's intention to claim compensation therefor; *provided*, *further*, that if the change in law giving rise to such increased costs or reductions is retroactive, then the 90-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 5.02. Inability To Determine Interest Rate. If prior to the first day of any Interest Period: (a) Administrative Agent shall have determined (which determination shall be conclusive and binding upon Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the LIBO Base Rate for such Interest Period, or (b) Administrative Agent shall have received notice from Majority Lenders that Dollar deposits are not available in the relevant amount and for the relevant Interest Period available to the Majority Lenders in their relevant market, Administrative Agent shall give telecopy or telephonic notice thereof to Borrower and the Lenders as soon as practicable thereafter. If such notice is given (x) any LIBOR Loans requested to be made on the first day of such Interest Period shall be made as ABR Loans, (y) any Loans that were to have been Converted on the first day of such Interest Period to LIBOR Loans shall be Converted to or Continued as ABR Loans and (z) any outstanding LIBOR Loans shall be Converted, on the first day of such Interest Period, to ABR Loans. Until such notice has been withdrawn by Administrative Agent, no further LIBOR Loans shall be made or Continued as such, nor shall Borrower have the right to Convert Loans to, LIBOR Loans.

SECTION 5.03. Illegality. Notwithstanding any other provision of this Agreement, in the event that any change after the date hereof in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender or L/C Lender or its Applicable Lending Office to honor its obligation to make or maintain LIBOR Loans or issue Letters of Credit hereunder (and, in the sole opinion of such Lender or L/C Lender, the designation of a different Applicable Lending Office would either not avoid such unlawfulness or would be disadvantageous to such Lender

or L/C Lender), then such Lender or L/C Lender shall promptly notify Borrower thereof (with a copy to Administrative Agent) and such Lender's or L/C Lender's obligation to make or Continue, or to Convert Loans of any other Type into, LIBOR Loans or issue Letters of Credit shall be suspended until such time as such Lender or L/C Lender may again make and maintain LIBOR Loans or issue Letters of Credit (in which case the provisions of Section 5.04 shall be applicable).

SECTION 5.04. Treatment of Affected Loans. If the obligation of any Lender to make LIBOR Loans or to Continue, or to Convert ABR Loans into, LIBOR Loans shall be suspended pursuant to Section 5.03, such Lender's LIBOR Loans shall be automatically Converted into ABR Loans on the last day(s) of the then current Interest Period(s) for such LIBOR Loans (or on such earlier date as such Lender may specify to Borrower with a copy to Administrative Agent as is required by law) and, unless and until such Lender gives notice as provided below that the circumstances specified in Section 5.03 which gave rise to such Conversion no longer exist:

(i) to the extent that such Lender's LIBOR Loans have been so Converted, all payments and prepayments of principal which would otherwise be applied to such Lender's LIBOR Loans shall be applied instead to its ABR Loans; and

(ii) all Loans which would otherwise be made or Continued by such Lender as LIBOR Loans shall be made or Continued instead as ABR Loans and all ABR Loans of such Lender which would otherwise be Converted into LIBOR Loans shall remain as ABR Loans.

If such Lender gives notice to Borrower with a copy to Administrative Agent that the circumstances specified in Section 5.03 which gave rise to the Conversion of such Lender's LIBOR Loans pursuant to this Section 5.04 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when LIBOR Loans are outstanding, such Lender's ABR Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding LIBOR Loans, to the extent necessary so that, after giving effect thereto, all Loans held by the Lenders holding LIBOR Loans and by such Lender are held *pro rata* (as to principal amounts, Types and Interest Periods) in accordance with their respective Commitments.

SECTION 5.05. Compensation. (a) Borrower agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of (1) default by Borrower in payment when due of the principal amount of or interest on any LIBOR Loan, (2) default by Borrower in making a borrowing of, Conversion into or Continuation of LIBOR Loans after Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (3) default by Borrower or in making any prepayment after Borrower has given a notice thereof in accordance

with the provisions of this Agreement, or (4) the Conversion or the making of a payment or a prepayment of LIBOR Loans on a day which is not the last day of an Interest Period with respect thereto, including in each case, any such loss (but excluding any lost profit or loss of margin) or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained.

(b) For the purpose of calculation of all amounts payable to a Lender under this Section 5.05 each Lender shall be deemed to have actually funded its relevant LIBOR Loan through the purchase of a deposit bearing interest at the LIBO Rate in an amount equal to the amount of the LIBOR Loan and having a maturity comparable to the relevant Interest Period; *provided, however,* that each Lender may fund each of its LIBOR Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this subsection. Any Lender requesting compensation pursuant to this Section 5.05 will furnish to Administrative Agent and Borrower a certificate setting forth the basis and amount of such request and such certificate, absent manifest error, shall be conclusive. Without limiting the survival of any other covenant hereunder, this covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

SECTION 5.06. Net Payments. (a) Except as provided in Section 5.06(b), all payments made by any Credit Party hereunder or under any Note or any Guarantee will be made without setoff, counterclaim or other defense. Except as provided in Section 5.06(b), all such payments will be made free and clear of, and without deduction or withholding for, any present or future Taxes now or hereafter imposed by any Governmental Authority or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding any Excluded Tax) (all such Taxes (other than Excluded Taxes) being referred to collectively as "**Covered Taxes**"). If any Covered Taxes are so levied or imposed, each Credit Party agrees on a joint and several basis to pay the full amount of such Covered Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement, the Guarantees or under any Note, after withholding or deduction for or on account of any Covered Taxes, will not be less than the amount provided for herein or in such Note; *provided* that no such additional amount shall be required to be paid to any Lender under this Section 5.06 to the extent such additional amount relates to a portion of any sums paid or payable to such Lender under any Note or Guarantee with respect to which such Lender does not act for its own account unless the beneficial owner would otherwise be entitled to such additional amount. Each Credit Party will furnish to Administrative Agent within 45 days after the date the payment of any Covered Taxes is due pursuant to applicable law documentation reasonably satisfactory to such Lender evidencing such payment by such Credit Party. The Credit Parties agree to jointly and severally indemnify and hold harmless each Lender, and reimburse such Lender upon its written request, for the amount of any Covered Taxes so levied or imposed and paid by such Lender.

(b) Each Lender that is not a United States person (as such term is defined in Section 7701 (a)(30) of the Code) (a "**Non-U.S. Lender**") agrees to deliver to Borrower and Administrative Agent on or prior to the Closing Date or, in the case of a Lender that is an assignee or transferee of an interest under this Agreement pursuant to Section 13.06 (unless the assigned or transferee Lender was already a Lender hereunder immediately prior to such assignment or transfer and was in compliance with this Section 5.06(b) as of the date of such assignment or transfer), on the date of such assignment or transfer to such Lender, (i) two accurate and complete original signed copies of Internal Revenue Service Form W-8ECI or W-8BEN (or successor forms) certifying to such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this Agreement and under any Note or any Guarantee (or, with respect to any assignee Lender, at least as extensive as the assigning Lender), or (ii) if the Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code and cannot deliver either Internal Revenue Service Form W-8ECI or W-8BEN pursuant to clause (i) above, (x) a certificate substantially in the form of *Exhibit F* (any such certificate, a "**Foreign Lender Certificate**") and (y) two accurate and complete original signed copies of Internal Revenue Service Form W-8 (or successor form) certifying to such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this Agreement and under any Note (or, with respect to any assignee Lender, at least as extensive as the assigning Lender). Each Non-U.S. Lender, to the extent it does not act or ceases to act for its own account with respect to any portion of any sums paid or payable to such Lender under any Note or Guarantee, shall deliver to Administrative Agent and to Borrower, on or prior to the Closing Date (in the case of each Lender listed on the signature pages hereof), on or prior to the date of the Assignment Agreement pursuant to which it becomes a Lender (in the case of each other Lender), or on such later date when such Lender ceases to act for its own account with respect to any portion of such sums paid or payable, and at such other times as may be necessary in the determination of Borrower or Administrative Agent, (i) two original copies of the forms or statements required to be provided by such Lender under this Section 5.06(b), properly completed and duly executed by such Lender, to establish the portion of any such sums paid or payable with respect to which such Lender acts for its own account and is not subject to United States withholding tax, and (ii) two original copies of Internal Revenue Service Form W-8IMY (or any successor forms) properly completed and duly executed by such Lender, together with any information, if any, such Lender chooses to transmit with

such form, and any other certificate or statement of exemption required under the Code or the regulations issued thereunder, to establish that such Lender is not acting for its own account with respect to a portion of any such sums paid or payable to such Lender. In addition, each Lender agrees that from time to time after the Closing Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to Borrower and Administrative Agent two new accurate and complete original signed copies of Internal Revenue Service Form W-8ECI or W-8BEN, or Form W-8 and a Foreign Lender Certificate, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any Note or any Guarantee, or it shall immediately notify Borrower and Administrative Agent of its inability to deliver any such Form or Certificate, in which case such Lender shall not be required to deliver any such form or certificate pursuant to this Section 5.06(b) for so long as such payments may be made free from United States withholding tax. Notwithstanding the foregoing, no Lender shall be required to deliver any such form or certificate if a change in treaty, law or regulation has occurred prior to the date on which such delivery would otherwise be required that renders any such form or certificate inapplicable or would prevent the Lender from duly completing and delivering any such form or certificate with respect to it and such Lender so advises Borrower. No Credit Party shall be required to indemnify any Non-U.S. Lender, or to pay any additional amounts to any Non-U.S. Lender, in respect of any Covered Taxes to the extent that the obligation to pay such Covered Taxes would not have arisen but for a failure by such Non-U.S. Lender to comply with the provisions of this Section 5.06(b). Notwithstanding anything to the contrary contained in this Section 5.06, Borrower agrees to pay additional amounts and to indemnify each Lender in the manner set forth in Section 5.06(a) (without regard to the identity of the jurisdiction requiring the deduction or withholding) in respect of any amounts deducted or withheld by it as described in the immediately preceding sentence as a result of any changes after the Closing Date in any applicable law, treaty, governmental rule, regulation, guideline or order, or in the interpretation thereof, relating to the deducting or withholding of Covered Taxes.

(c) In addition, Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Notes or from the execution, delivery, filing, recordation or registration of, or otherwise with respect to, this Agreement or the Notes (hereinafter referred to as "**Other Taxes**").

(d) Any Lender claiming any additional amounts payable pursuant to this Section 5.06 agrees to use (at the Credit Parties' expense) reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office if the making of such change would avoid the need for, or in the opinion of such Lender materially reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the sole judgment of such Lender, be otherwise disadvantageous to such Lender.

(e) If (i) Administrative Agent or any Lender receives a cash refund in respect of an overpayment of Taxes from a Governmental Authority or a tax credit with respect to, and actually resulting from, an amount of Taxes actually paid to or on behalf of Administrative Agent or such Lender by Borrower (a "**Tax Benefit**") and (ii) Administrative Agent or such Lender determines in its reasonable opinion that such Tax Benefit has been correctly paid or credited by such Governmental Authority or otherwise gives rise to a claim of credit that is actually claimed, and will not be required to be repaid to such Governmental Authority or otherwise disallowed, then Administrative Agent or such Lender shall use its reasonable efforts to notify Borrower of such Tax Benefit and to forward the proceeds of such Tax Benefit (or relevant portion thereof) to Borrower as reduced by any expense or liability incurred by Administrative Agent or such Lender in connection with obtaining such Tax Benefit.

ARTICLE VI

GUARANTEES

SECTION 6.01. The Guarantees. The Subsidiary Guarantors hereby jointly and severally guarantee as primary obligors and not as sureties to each Creditor and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest (including any interest, fees, costs or charges that would accrue but for the provisions of the Bankruptcy Code after any bankruptcy or insolvency petition under the Bankruptcy Code) on the Loans made by the Lenders to, and the Notes held by each Lender of, Borrower, and all other Obligations from time to time owing to the Creditors by any Credit Party under any Credit Document or Swap Contract entered into with a Lender or an Affiliate of a Lender and relating to the Loans, in each case strictly in accordance with the terms thereof but in the case of Swap Contracts not if such Lender or Affiliate provides notice to Borrower that it does not want such Swap Contract to be secured (such obligations being herein collectively called the "**Guaranteed Obligations**"). The Subsidiary Guarantors hereby jointly and severally agree that if Borrower or other Subsidiary Guarantor(s) shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, such Subsidiary Guarantors will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

SECTION 6.02. Obligations Unconditional. The obligations of the Subsidiary Guarantors under Section 6.01 shall constitute a guaranty of payment and are absolute, irrevocable and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of the Guaranteed Obligations of Borrower under this Agreement, the Notes or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or Subsidiary Guarantor (except for payment in full). Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Subsidiary Guarantors hereunder which shall remain absolute, irrevocable and unconditional under any and all circumstances as described above:

(i) at any time or from time to time, without notice to the Subsidiary Guarantors, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(ii) any of the acts mentioned in any of the provisions of this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be done or omitted;

(iii) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be amended in any respect, or any right under the Credit Documents or any other agreement or instrument referred to herein or therein shall be amended or waived in any respect or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with;

(iv) any Lien or security interest granted to, or in favor of, L/C Lender or any Lender or Agent as security for any of the Guaranteed Obligations shall fail to be perfected; or

(v) the release of any other Subsidiary Guarantor.

The Subsidiary Guarantors hereby expressly waive diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that any Creditor thereof exhaust any right, power or remedy or proceed against Borrower under this Agreement or the Notes or any other agreement or instrument referred to herein or therein, or against any other person under any other guarantee of, or security for, any of the Guaranteed Obligations. The Subsidiary Guarantors waive any and all notice of the creation, renewal, extension, waiver, termination or accrual of any of the Guaranteed Obligations and notice of or proof of reliance by any Creditor thereof upon this guarantee or acceptance of this guarantee, and the Guaranteed Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this guarantee, and all dealings between Borrower and the Creditors shall likewise be conclusively presumed to have been had or consummated in reliance upon this guarantee. This guarantee shall be construed as a continuing, absolute, irrevocable and unconditional guarantee of payment without regard to any right of offset with respect to the Guaranteed Obligations at any time or from time to time held by the Creditors, and the obligations and liabilities of the Subsidiary Guarantors hereunder shall not be conditioned or contingent upon the pursuit by the Creditors or any other person at any time of any right or remedy against Borrower or against any other person which may be or become liable in respect of all or any part of the Guaranteed Obligations or against any collateral security or guarantee therefor or right of offset with respect thereto. This guarantee shall remain in full force and effect and be binding in accordance with and to the extent of its terms upon the Subsidiary Guarantors and the successors and assigns thereof, and shall inure

to the benefit of the Lenders, and their respective successors and assigns, notwithstanding that from time to time during the term of this Agreement there may be no Guaranteed Obligations outstanding.

SECTION 6.03. Reinstatement. The obligations of the Subsidiary Guarantors under this Article VI shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of Borrower or other Credit Party in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise. The Subsidiary Guarantors jointly and severally agree that they will indemnify each Creditor on demand for all reasonable costs and expenses (including reasonable fees of counsel) incurred by such Creditor in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law, other than any costs or expenses resulting from the gross negligence or bad faith of such Creditor.

SECTION 6.04. Subrogation; Subordination. Each Subsidiary Guarantor hereby agrees that until the indefeasible payment and satisfaction in full in cash of all Guaranteed Obligations and the expiration and termination of the Commitments of the Lenders under this Agreement it shall not exercise any right or remedy arising by reason of any performance by it of its guarantee in Section 6.01, whether by subrogation or otherwise, against Borrower or any other Subsidiary Guarantor of any of the Guaranteed Obligations or any security for any of the Guaranteed Obligations. The payment of any amounts due with respect to any indebtedness of Borrower or any other Subsidiary Guarantor now or hereafter owing to any Subsidiary Guarantor or Borrower by reason of any payment by such Subsidiary Guarantor under the Guarantee in this Article VI is hereby subordinated to the prior indefeasible payment in full in cash of the Guaranteed Obligations. Each Subsidiary Guarantor agrees that it will not demand, sue for or otherwise attempt to collect any such indebtedness of Borrower to such Subsidiary Guarantor until the Obligations shall have been indefeasibly paid in full in cash. If, notwithstanding the foregoing sentence, any Subsidiary Guarantor shall prior to the indefeasible payment in full in cash of the Guaranteed Obligations collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by such Subsidiary Guarantor as trustee for Creditors and be paid over to Administrative Agent on account of the

Guaranteed Obligations without affecting in any manner the liability of such Subsidiary Guarantor under the other provisions of the guaranty contained herein.

SECTION 6.05. Remedies. The Subsidiary Guarantors jointly and severally agree that, as between the Subsidiary Guarantors and the Lenders, the obligations of Borrower under this Agreement and the Notes may be declared to be forthwith due and payable as provided in Article XI (and shall be deemed to have become automatically due and payable in the circumstances provided in said Article XI) for purposes of Section 6.01, notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against Borrower and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by Borrower) shall forthwith become due and payable by the Subsidiary Guarantors for purposes of Section 6.01.

SECTION 6.06. Instrument for the Payment of Money. Each Subsidiary Guarantor hereby acknowledges that the guarantee in this Article VI, as set forth in Section 6.01, constitutes an instrument for the payment of money, and consents and agrees that any Lender or Agent, at its sole option, in the event of a dispute by such Subsidiary Guarantor in the payment of any moneys due hereunder, shall have the right to bring a motion-action under New York CPLR Section 3213.

SECTION 6.07. Continuing Guarantee. The guarantee in this Article VI is a continuing guarantee of payment, and shall apply to all Guaranteed Obligations whenever arising.

SECTION 6.08. General Limitation on Guarantee Obligations. In any action or proceeding involving any state corporate law, or any state, federal or foreign bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Subsidiary Guarantor under Section 6.01 would otherwise be held or determined to be void, voidable, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under Section 6.01, then, notwithstanding any other provision to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any Creditor or any other person, be automatically limited and reduced to the highest amount that is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

ARTICLE VII

CONDITIONS PRECEDENT

SECTION 7.01. Conditions to Initial Extension of Credit. The obligation of the Lenders to make any initial extension of credit hereunder (whether by making a Loan or issuing a Letter of Credit) is subject to the satisfaction of the conditions precedent that (the date of the satisfaction (or waiver) of all of the conditions to the initial extension of credit in this Section 7.01, the "**Closing Date**"):

(i) **Documentation and Evidence of Certain Matters.** Lead Arrangers shall have received the following documents, each duly executed where appropriate (with sufficient conformed copies for each Lender), each of which shall be reasonably satisfactory to Lead Arrangers in form and substance:

(1) **Corporate Documents.** Certified true and complete copies of the charter and by-laws and all amendments thereto (or equivalent documents) of each Credit Party and of all corporate or other authority for each Credit Party (including board of director resolutions and evidence of the incumbency, including specimen signatures, of officers) with respect to the execution, delivery and performance of such of the Credit Documents to which such Credit Party is intended to be a party and each other document to be delivered by such Credit Party

from time to time in connection herewith and the extensions of credit hereunder and the consummation of the Transactions, certified as of the Closing Date as complete and correct copies thereof by the Secretary or an Assistant Secretary of such Credit Party.

(2) **Officer's Certificate.** An Officer's Certificate of Borrower, dated the Closing Date, (x) to the effect set forth in clauses (a) and (b) of Section 7.02(i), and (y) to the effect that all conditions precedent to the making of such initial extension of credit have been satisfied.

(3) **Opinions of Counsel.** (i) Opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special counsel to the Credit Parties, substantially in the form of *Exhibit G-1*, (ii) opinions of Ballard Spahr Andrews & Ingersoll, LLP, Phelps Dunbar LLP, Shefsky & Froelich, Ltd., Bowles Rice McDavid Graff & Lore, PLLC, Isaacson, Rosenbaum, Woods & Levy, regulatory counsel to the Credit Parties, and opinions of local counsel in each jurisdiction where a Credit Party is organized and/or where Mortgaged Real Property is located substantially in the form of *Exhibit G-2*.

(4) **Notes.** The Notes, duly completed and executed for each Lender that has requested Notes prior to the Closing Date.

(5) **The Credit Agreement.** This Agreement (i) executed and delivered by a duly authorized officer of each Credit Party, and (ii) executed and delivered by a duly authorized officer of each Lender and Agent.

(6) **Security Agreement.** The First Security Agreement, such other pledge agreements required under local law in the reasonable judgment of counsel to Administrative Agent and requested reasonably in advance of the intended Closing Date (each of which shall be in full force and effect) and the Perfection Certificate, duly authorized, executed and delivered by the Credit Parties, and the certificates identified under the name of such Credit Parties in *Schedule 5* to the Perfection Certificate, accompanied by undated stock powers, instruments of assignment or issuer acknowledgments executed in blank if applicable, and the intercompany notes identified under the name of such Credit Parties in *Schedule 9* to the Perfection Certificate, accompanied by undated notations or instruments of assignment executed in blank.

(7) **Solvency.** A certificate in the form of *Exhibit H* from the chief financial officer of Borrower in form and substance reasonably satisfactory to Lead Arrangers with respect to the Solvency (on a consolidated basis) of the Credit Parties, taken as a whole, immediately after the consummation of the Transactions to occur on the Closing Date (assuming the borrowing in full of the Term B Facility and the Term C Facility).

(8) **Insurance.** Evidence of insurance complying with the requirements of Section 9.02 and the Security Documents and certificates naming Administrative Agent as an additional insured and/or loss payee, and stating that such insurance shall not be canceled or revised in any material respect without 30 days prior written notice by the insurer to Administrative Agent and in the case of non-payment, 10 days.

(9) **Appraisal.** The Lenders shall have received appraisals for the Aurora Casino, the Boomtown Casino, the Casino Magic, the Tunica Casino and the Charles Town Facility in form and substance reasonably satisfactory to Lead Arrangers.

(10) **Credit Ratings.** Borrower shall have the debt under the Credit Facilities rated by each of Moody's and S&P.

(11) **Budget.** The Lenders shall have received a reasonably satisfactory business plan or budget for Borrower and its Subsidiaries after giving effect to the Transactions for fiscal year 2003.

(12) **Projections.** The Lenders shall have received projected cash flows and income statements for the period of six years following the Closing Date, which projections shall be (A) based upon reasonable assumptions made in good faith, and (B) substantially in conformity with those projections delivered to Lead Arrangers prior to the date hereof or with any delivered to the Lenders during syndication.

(13) **Financial Statements.** The Lenders shall have received quarterly consolidated financial statements of each of Borrower and Target within 45 days of the end of each fiscal quarter, commencing September 30, 2002 (which date will be extended by 35 days for the quarter in which the SAS 71 review for the last twelve-month period is being conducted and 45 days for the month ended December 31, 2002) and such financial statements shall not reflect any Material Adverse Change in the consolidated financial condition of Borrower and its Subsidiaries and Target and its Subsidiaries from what was reflected in the financial statements or projections previously furnished to the Lenders.

(14) **Pro Forma Balance Sheet.** The Lenders shall have received a *pro forma* consolidated balance sheet of Borrower and its Restricted Subsidiaries and the Consolidated Companies dated as of December 31, 2002 after giving effect to the Transactions, which balance sheet shall be consistent in all material respects with the sources and uses of funds previously provided to the Lenders.

(ii) **Repayment of Existing Indebtedness.** Borrower and its Restricted Subsidiaries shall have effected (or will, on the Closing Date, effect) the repayment of all Indebtedness of Borrower and its Restricted Subsidiaries, including, without limitation, the termination of all outstanding commitments in effect under any revolving credit facilities to which any of Borrower and its Restricted Subsidiaries is a party on terms and conditions and pursuant to documentation reasonably satisfactory to Lead Arrangers (other than the Loans and the Indebtedness set forth on *Schedule 8.23(a)* and other than Indebtedness permitted under Section 10.01). All Liens in respect of such Indebtedness shall have been released (or will, on the Closing Date, be released) and Lead Arrangers shall have received (or will, on the Closing Date, receive) evidence thereof reasonably satisfactory to Lead Arrangers and a "pay-off" letter or letters reasonably satisfactory to Lead Arrangers with respect to such Indebtedness; in addition, from any person holding any Lien securing any such Indebtedness, such Uniform Commercial Code termination statements, mortgage releases and other instruments, in each case in proper form for recording, as Lead Arrangers shall have reasonably requested to release and terminate of record the Liens securing such Indebtedness (or arrangements for such release and termination reasonably satisfactory to Lead Arrangers shall have been made). Immediately upon giving effect to the Transactions and the other transactions contemplated hereby, Borrower and its Restricted Subsidiaries shall have outstanding no Indebtedness or preferred stock (or direct or indirect guarantee or other credit support in respect thereof) outstanding other than the Loans and the Indebtedness set forth on *Schedule 8.23(a)* and other than Indebtedness permitted under Section 10.01.

(iii) **Transaction Documents in Full Force and Effect, Filings.** The Transaction Documents shall be in full force and effect and Borrower shall not be in breach in any material respect of any such documents. Lead Arrangers shall have received copies, certified by Borrower, of all filings made with any Governmental Authority in connection with the Transactions.

(iv) **Consummation of Transactions.** Each of the Transactions (other than the extensions of credit hereunder) shall have been (or shall be contemporaneously) consummated in all material respects in accordance with the terms hereof, the terms of documentation therefor (without the waiver or

amendment of any material condition unless consented to by Lead Arrangers) (which consents shall not be unreasonably withheld) that are in form and substance reasonably satisfactory to Lead Arrangers (with any material condition therein requiring the satisfaction or consent of any

person other than Lead Arrangers being deemed to require the reasonable satisfaction or consent of Lead Arrangers and in compliance with all applicable Laws). Each of the parties thereto shall have complied in all material respects with all covenants set forth in the Acquisition Agreement (without the waiver of performance under or amendment of any of the material terms thereof unless consented to by Lead Arrangers).

(v) **No Material Adverse Change.** Other than with respect to changes to the Illinois gaming tax law enacted in June 2002, there shall not have occurred or become known any material adverse change, or any condition or event that would reasonably be expected to result in a material adverse change, in the business, operations, condition (financial or otherwise), liabilities (contingent or otherwise) or prospects of either (1) Borrower and its Restricted Subsidiaries taken as a whole (after giving effect to the Transactions) since December 31, 2001 or (2) Target and its Restricted Subsidiaries taken as a whole (before giving effect to the Transactions) since December 31, 2001 (it being acknowledged that neither (i) the existence of the Notice of Violation and Hearing from the State of Louisiana Gaming Control Board dated July 1, 2002 addressed to HWCC-Louisiana, Inc. nor (ii) the existence of the lawsuits by and against Target and Jack E. Pratt *et al.*, shall, by itself and without any further material facts, constitute a material adverse change).

(vi) **Approvals.** All requisite material Governmental Authorities and third parties have approved or consented to the Transactions (including, without limitation, all approvals and consents required by the Acquisition Agreement) and the other transactions contemplated hereby to the extent required (without the imposition of any materially burdensome or materially adverse conditions or requirements in the reasonable judgment of Lead Arrangers), all such approvals are in full force and effect, all applicable waiting periods have expired and there shall be no Proceeding, actual or threatened, that has or would have a reasonable likelihood of restraining, preventing or imposing materially burdensome conditions or materially adverse conditions on any of the Transactions or the other transactions contemplated hereby. Lead Arrangers shall have received copies of any such approvals or consents so obtained.

(vii) **Payment of Fees and Expenses.** All accrued and unpaid fees and expenses (including the reasonable fees and expenses of Cahill Gordon & Reindel and of local counsel to Lead Arrangers, if any) of the Lenders and Lead Arrangers payable in connection with the Credit Documents shall have been paid if invoices therefor shall have been delivered to Borrower.

(viii) **Maximum Total Leverage Ratio.** Lead Arrangers shall have received reasonably satisfactory evidence (including reasonably satisfactory supporting schedules and other data) that the ratio of *pro forma* Consolidated Indebtedness to *pro forma* Consolidated EBITDA (which and the components of which shall be calculated in accordance with GAAP and Regulation S-X under the Securities Act) and after giving effect to the Transactions for the trailing 12 months ended immediately prior to the Closing Date was not greater than 5.0:1.0.

(ix) **No Legal Bar.** No Law shall be applicable that restrains, prevents or imposes material adverse conditions upon any component of the Transactions or the financing thereof, including the Credit Facilities. The Transactions and the financing therefor shall be in material compliance with all applicable laws and regulations; all requisite Gaming Approvals shall have been received.

(x) **Filings and Lien Searches.** The Credit Parties shall have authorized, executed and delivered each of the following:

(1) UCC financing statements (Form UCC-1 or UCC-2, as appropriate) and such other documents in appropriate form for filing under the UCC and any other applicable law, rule or regulation in each jurisdiction as may be necessary or appropriate, in Collateral Agent's

reasonable discretion, to perfect the Liens created, or purported to be created, by the Security Documents;

(2) copies of Requests for Information (Form UCC-11), tax lien, judgment lien, bankruptcy and pending lawsuit searches or equivalent reports or lien search reports, each of a recent date listing all effective financing statements, lien notices or comparable documents that name each Credit Party and Target and its Subsidiaries as debtor and that are filed in those state, county and other jurisdictions in which any of the Collateral of such Credit Party, the Target or its Subsidiaries is located, the state, county and other jurisdictions in which each such person's principal place of business is located and the state in which such person is organized and such other searches as may be reasonably requested by Collateral Agent (including, without limitation, lien searches against each item of intellectual property owned or licensed by any Credit Party at the United States Patent and Trademark Office or the United States Copyright Office), none of which encumber the Collateral covered or intended to be covered by the First Security Documents other than those encumbrances and other Liens acceptable to Collateral Agent or permitted by the applicable First Security Documents or this Agreement;

(3) evidence of arrangements for (A) the completion of all recordings and filings of, or with respect to, the First Security Documents, including the execution and/or delivery of such other security and other documents and consents of counterparties to contracts, including, without limitation, UCC termination statements with respect to UCC filings that do not constitute Permitted Liens and, to the extent required by Lead Arrangers, filings with the United States Patent and Trademark Office and United States Copyright Office, and (B) the taking of all actions as may be necessary or, in the reasonable opinion of Agents, desirable, to perfect the Liens created, or purported to be created, by the First Security Documents;

(4) evidence reasonably acceptable to Administrative Agent of payment (or arrangement for payment) by the Credit Parties of all applicable recording taxes, fees, charges, costs and expenses required for the recording of the First Security Documents;

(5) with respect to leased Real Property (excluding any leased Real Property constituting Mortgaged Real Property), if Inventory (as defined in the Security Agreement), Equipment (as defined in the Security Agreement) or other personal property of any Credit Party is maintained on such premises, the applicable Credit Party shall use or have used commercially reasonable efforts to obtain a Landlord Consent in the form of *Exhibit M* attached hereto; and

(6) a certificate of ownership issued by the National Vessel Documentation Center of the U.S. Coast Guard dated not more than 15 Business Days prior to the Closing Date disclosing no Liens on any Vessel (other than Liens permitted pursuant to the applicable Ship Mortgage and Liens to be discharged in connection with the repayment of existing Indebtedness occurring on the Closing Date).

(xi) **Mortgage Matters.** On or prior to the Closing Date, each Credit Party shall have caused to be delivered to Collateral Agent, on behalf of the First Priority Secured Parties:

(1) a First Mortgage (which shall comply with Gaming Laws to the extent so required) encumbering each Mortgaged Real Property identified as of the Closing Date on *Schedule 1.01(a)* in favor of Collateral Agent, for the benefit of the First Priority Secured Parties, duly executed and acknowledged by the Credit Party that is the owner of or holder of any interest in such Mortgaged Real Property, and otherwise in form for recording in the recording office of each political subdivision where each such Mortgaged Real Property is situated, together with such certificates, affidavits, questionnaires, instruments or returns as shall be required in connection with the recording or filing thereof to create a lien under

applicable law, and such UCC financing statements and other similar statements as are contemplated by the counsel opinions described in Section 7.01(i)(3) in respect of such First Mortgage, all of which shall be in form and substance reasonably satisfactory to Collateral Agent, and any other instruments necessary to grant a mortgage lien under the laws of any applicable jurisdiction, which First Mortgage and financing statements and other instruments shall when recorded be effective to create on behalf of the First Priority Secured Parties a valid, enforceable and perfected Lien on such Mortgaged Real Property subordinate to no Liens other than as permitted by such First Mortgage applicable to such Mortgaged Real Property and subject to no Liens other than Permitted Collateral Liens (as defined in the applicable First Mortgage);

(2) with respect to each Mortgaged Real Property, such consents, approvals, amendments, supplements, estoppels, tenant subordination agreements or other instruments as necessary or required to consummate the Transactions or as shall reasonably be deemed necessary by Collateral Agent in order for the owner or holder of the fee or leasehold interest constituting such Mortgaged Real Property to grant the Lien contemplated by the First Mortgage with respect to such Mortgaged Real Property;

(3) with respect to each First Mortgage, a policy (or commitment to issue a policy) of title insurance insuring (or committing to insure) the Lien of such First Mortgage as a valid, enforceable and perfected mortgage Lien on the real property and fixtures described therein in an amount equal to 100% of the fair market value thereof (as reasonably agreed upon by Borrower and Collateral Agent), which policies (or commitments) shall (a) be issued by the Title Company, (b) include such reinsurance arrangements (with provisions for direct access) as shall be reasonably acceptable to Collateral Agent, (c) contain a "tie-in" or "cluster" endorsement (if available under applicable law at commercially reasonable rates) (*i.e*., policies which insure against losses regardless of location or allocated value of the insured property up to a stated maximum coverage amount), and have been supplemented by such endorsements (or where such endorsements are not available or not available at commercially reasonable rates, opinions (or reports) of special counsel, architects or other professionals reasonably acceptable to Collateral Agent to the extent that such opinions (or reports) can be obtained at a cost which is reasonable with respect to the value of the Real Property subject to such First Mortgage) as shall be reasonably requested by Collateral Agent (including, without limitation, endorsements on matters relating to usury, first loss, last dollar, zoning, contiguity, revolving credit, doing business, public road access, survey, variable rate, address, environmental and so-called comprehensive coverage over covenants and restrictions), and (d) contain no exceptions to title other than exceptions for the Prior Liens (as defined in the applicable First Mortgage) applicable to such Mortgaged Real Property or otherwise acceptable to Collateral Agent on or prior to the Closing Date with respect to such Mortgaged Real Property;

(4) with respect to each Mortgaged Real Property, policies or certificates of insurance as required by the First Mortgage relating thereto, which policies or certificates shall comply with the insurance requirements contained in such First Mortgage;

(5) with respect to each Mortgaged Real Property (other than with respect to the Bullwhackers Casino and Charles Town Facility, which shall be delivered on a post-closing basis), (i) a Survey in form reasonably acceptable to Collateral Agent or (ii) an existing survey to the extent that the Title Company is willing to remove the standard survey exception to the title insurance policy with respect to such Mortgaged Real Property on the basis of any existing survey;

(6) with respect to each Mortgaged Real Property, UCC, tax lien, judgment lien and pending lawsuit searches confirming that the personal property comprising a part of such Mortgaged Real Property is subject to no Liens other than Permitted Liens;

(7) with respect to each Mortgaged Real Property, such affidavits, certificates, information (including financial data) and instruments of indemnification (including, without limitation, a so-called "gap" indemnification) as shall be required to induce the Title Company to issue the policy or policies (or commitments) and endorsements contemplated in subparagraph (3) above;

(8) evidence acceptable to Collateral Agent of payment (or arrangement for payment) by Borrower of all title insurance premiums, search and examination charges, survey costs, and related charges, mortgage recording taxes, fees, charges, costs and expenses required for the recording of the First Mortgages and issuance of the title insurance policies referred to subparagraph (3) above;

(9) with respect to each Mortgaged Real Property, copies of all Leases in which Borrower or any Restricted Subsidiary holds the lessor's interest or other agreements relating to possessory interests to which Borrower or any Restricted Subsidiary is a party, if any. To the extent any of the foregoing in which Borrower or any Restricted Subsidiary is a landlord or a sub-landlord affect any Mortgaged Real Property, such agreement shall be subordinate to the Lien of the First Mortgage to be recorded against such Mortgaged Real Property, either expressly by its terms or pursuant to a subordination, nondisturbance and attornment agreement **(**"**SNDA**"), substantially in the form attached hereto as *Exhibit R-1* and shall otherwise be reasonably acceptable to Collateral Agent; and

(10) with respect to each Mortgaged Real Property, Borrower and each Restricted Subsidiary shall have made all notification, registrations and filings, to the extent required by, and in accordance with, all Governmental Real Property Disclosure Requirements applicable to such Mortgaged Real Property, including the use of forms provided by state or local agencies, where such forms exist, whether to Borrower or to or with the state or local agency.

(xii) **Ship Mortgages.** Administrative Agent shall have received with respect to each Vessel, a First Ship Mortgage granting in favor of Collateral Agent for the benefit of the First Priority Secured Parties a legal, valid and enforceable preferred mortgage on each Vessel under Chapter 313 of Title 46 of the United States Code, executed and delivered by a duly authorized officer of the appropriate Credit Party, together with such certificates, affidavits and instruments as shall be required in connection with filing or recordation thereof and to grant a Lien on each Vessel, (ii) certificates of insurance as required by each First Ship Mortgage, which certificates shall comply with the insurance requirements contained in Section 9.02 and the applicable First Ship Mortgage, and (iii) evidence reasonably acceptable to Administrative Agent of payment (or provision for payment) by Borrower of all mortgage recording taxes, fees, charges, costs and expenses required for the filing or recording of each First Ship Mortgage.

(xiii) **Other Documents.** The Lenders shall have received such other corporate documents and other instruments and/or certificates as they may reasonably request.

SECTION 7.02. Conditions to Initial and Subsequent Extensions of Credit. The obligation of the Lenders to make any Loan or otherwise extend any credit to Borrower upon the occasion of each Borrowing or other extension of credit (whether by making a Loan or issuing a Letter of Credit) hereunder (including the initial borrowing) is subject to the further conditions precedent that:

(i) **No Default or Event of Default; Representations and Warranties True.** Both immediately prior to the making of such Loan or other extension of credit and also after giving pro forma effect thereto and to the intended use thereof;

(a) no Default or Event of Default shall have occurred and be continuing;

(b) the representations and warranties (other than those relating to an earlier date) made by the Credit Parties in Article VIII and by each Credit Party in each of the other Credit Documents to which it is a party, shall continue to be accurate in all material respects on and as of the date of the making of such Loan or other extension of credit with the same force and effect as if made on and as of such date (except that any such representation or warranty qualified as to materiality shall continue to be accurate on and as of the date of the making of such Loan or other extension of credit with the same force and effect as if made on and as of such date); and

(c) the sum of the aggregate amount of the outstanding Revolving Loans and Swingline Loans, *plus* L/C Liabilities shall not exceed the Revolving Commitments then in effect.

(ii) **Notice of Borrowing.** Administrative Agent shall have received a Notice of Borrowing duly completed and complying with Section 4.05.

Each Notice of Borrowing or request for the issuance of a Letter of Credit delivered by Borrower hereunder shall constitute a certification by Borrower to the effect set forth in clauses (i)-(ii) above as of the date of such borrowing or issuance. Each notice submitted by Borrower hereunder for an extension of credit hereunder shall constitute a representation and warranty by Borrower, as of the date of such notice and as of the relevant borrowing date or date of issuance of a Letter of Credit, as applicable, that the applicable conditions in Section 7.01 and this Section 7.02 have been satisfied or waived in accordance with the terms hereof.

SECTION 7.03. Conditions to Second Term B Facility and Term C Facility Borrowings. In addition to the conditions set forth in Section 7.02, the obligation of the Lenders to make any Loan in respect of the Second Term B Facility and the Term C Facility upon the occasion of such borrowing hereunder is subject to the further conditions precedent that the proceeds from the Second Term B Facility Loans and the Term C Facility Loans shall be used to make capital contributions or advances to the issuers of the Target Subsidiary Bonds to enable such issuers to consummate the Change of Control Offers or the Alternate Target Subsidiary Bond Offers in accordance with their terms. Prior to the funding of the Term C Facility Loans, Borrower shall and shall cause its Restricted Subsidiaries to (i) execute and deliver the Second Security Documents, (ii) make all filings and recordings necessary to perfect the Second Security Documents and (iii) deliver to Collateral Agent applicable legal opinions required pursuant to Section 7.01(i)(3)(ii) and (iii).

SECTION 7.04. Conditions to Incremental Loan Facility Borrowings. In addition to the conditions set forth in Section 7.02, the obligation of any Incremental Loan Lender to make any Loan in respect of the Incremental Loan Facility upon the execution of an Incremental Loan Activation Notice is subject to the further conditions precedent that Borrower has received gaming licenses from the State of Pennsylvania to operate slot machines or video lottery terminals at any of its gaming facilities in the State of Pennsylvania; *provided*, *however,* that Borrower uses the funds drawn under the Incremental Loan Facility solely to build out such slot and video lottery operations and/or related racing operations.

SECTION 7.05. Determinations Under Article VII. For purposes of determining compliance with the conditions specified in Sections 7.01, 7.02, 7.03 and 7.04 each applicable Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of Administrative Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that Borrower, by notice to the Lenders, designates as the proposed date of the extension of credit, specifying its objection thereto.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES

Each Credit Party represents and warrants to the Creditors that at and as of the Closing Date and at and as of each Funding Date (in each case immediately before and immediately after giving effect to the transactions to occur on such date (including, with respect to the Closing Date, the Transactions)):

SECTION 8.01. Corporate Existence; Compliance with Law. (a) Each Company: (i) is a corporation, partnership, limited liability company or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (ii) has all requisite corporate or other power and authority, and has all governmental licenses, authorizations, consents and approvals necessary to own its Property and carry on its business as now being conducted; and (iii) is qualified to do business and is in good standing in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary; *except*, in the case of clauses (i), (ii) and (iii) where the failure thereof individually or in the aggregate would not have a Material Adverse Effect;

(b) Except for compliance with the National Flood Insurance Act of 1968 with respect to the Property at Casino Rouge, no Company or any of its Property is in violation of, nor will the continued operation of such Company's Property as currently conducted violate, any Requirement of Law (including, without limitation, any zoning or building ordinance, code or approval or permits or any restrictions of record or agreements affecting the Real Property) or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violations or defaults that would not reasonably be expected to have a Material Adverse Effect.

SECTION 8.02. Financial Condition; Etc. (a) Borrower has delivered to the Lenders (i) the audited consolidated balance sheets of Borrower and its Subsidiaries as of December 31, 1999, 2000 and 2001, and the related statements of earnings, changes in stockholders' equity and cash flows for the fiscal years ended on those dates, together with reports thereon by BDO Seidman LLP, certified public accountants, and (ii) unaudited interim consolidated balance sheet of Borrower and its Subsidiaries and the related statements of earnings, changes in stockholders' equity and cash flows for each fiscal month ended after September 30, 2002 through the fiscal month ended January 31, 2003. All of said financial statements, including in each case the related schedules and notes, are true, complete and correct in all material respects and have been prepared in accordance with GAAP consistently applied and present fairly in all material respects the financial position of Borrower and its Subsidiaries as of the respective dates of said balance sheets and the results of their operations for the respective periods covered thereby, subject (in the case of interim statements) to normal period-end audit adjustments and the absence of footnotes.

(b) Except as set forth in the financial statements or other information referred to in Section 8.02(a)(i), as of the Closing Date (other than expenses directly related to the Transactions), there are no material liabilities of any Credit Party of any kind required to be set forth on a balance sheet or in the notes thereto prepared in accordance with GAAP, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which is reasonably likely to result in such a liability.

(c) Since December 31, 2001 there has been no Material Adverse Change.

(d) The *pro forma* balance sheet of Borrower and its Restricted Subsidiaries (the "**Pro Forma Balance Sheet**"), certified by the chief financial officer of Borrower, copies of which will be furnished to each Lender not later than the second Business Day (nor earlier than the fifth Business Day) prior to the Closing Date, is the balance sheet of Borrower and its Restricted Subsidiaries as of December 31, 2002 (the "**Pro Forma Date**"), adjusted to give effect (as if such events had occurred on such date) to the Transactions to occur on the Closing Date and the application of the proceeds of all Indebtedness to be incurred on such date. The Pro Forma Balance Sheet, together with the notes thereto, accurately reflects in all material respects all adjustments necessary to give effect to the Transactions, was prepared based on good faith assumptions, and presents fairly in all material respects on a *pro forma* basis the consolidated financial position of Borrower and its Restricted Subsidiaries as at the Pro Forma Date, adjusted as described above.

SECTION 8.03. Litigation. There is no Proceeding (other than any (a) *qui tam* Proceeding, to which this Section is limited to the best of Borrower's knowledge, and (b) normal overseeing reviews of the Gaming Authorities) pending against, or to the knowledge of Borrower, threatened in writing against or affecting, Borrower or any of its Restricted Subsidiaries or any of its respective Properties before any Governmental Authority or private arbitrator that (i) has a reasonable likelihood of being adversely determined and that, if determined or resolved adversely to Borrower or any of its Subsidiaries, would have a Material Adverse Effect, (ii) challenges the validity or enforceability of any of the Credit Documents or (iii) under the Racketeering Influenced and Corrupt Organizations Act or any similar federal or state statute, in each case where such person is a defendant in a criminal indictment, provide for forfeiture of assets to any Governmental Authority as a criminal penalty.

SECTION 8.04. No Breach; No Default. (a)None of the execution, delivery and performance by any Credit Party of any Credit Document or Transaction Document to which it is a party nor the consummation of the transactions herein and therein contemplated (including the Transactions) do or will (i) conflict with or result in a breach of, or require any consent (which has not been obtained and is in full force and effect) under, any Organic Document of any Credit Party or any applicable Requirement of Law (including, without limitation, any Gaming Law) or any order, writ, injunction or decree of any Governmental Authority binding on any Credit Party, or tortuously interfere with, result in a breach of, or require termination of, any term or provision of any Contractual Obligation of any Credit Party or (ii) constitute (with due notice or lapse of time or both) a default under any such Contractual Obligation, or (iii) result in the creation or imposition of any Lien (except for the Liens created pursuant to the Security Documents) upon any Property of any Credit Party pursuant to the terms of any such Contractual Obligation, except with respect to each of the foregoing which would not result in a Material Adverse Effect.

(b) No Default or Event of Default has occurred and is continuing.

SECTION 8.05. Action. Each Company has all necessary corporate power, authority and legal right to execute, deliver and perform its obligations under each Credit Document and Transaction Document to which it is a party and to consummate the transactions herein and therein contemplated; the execution, delivery and performance by each Company of each Credit Document and Transaction Document to which it is a party and the consummation of the transactions herein and therein contemplated have been duly authorized by all necessary corporate, partnership, etc. action on its part; and this Agreement has been duly and validly executed and delivered by each Credit Party and constitutes, and each of the Notes and the other Credit Documents and Transaction Documents to which it is a party when executed and delivered by such Credit Party (in the case of the Notes, for value) will constitute, its legal, valid and binding obligation, enforceable against each Credit Party in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws of general applicability from time to

time in effect affecting the enforcement of creditors' rights and remedies and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 8.06. Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Authority or any securities exchange are necessary for the execution, delivery or performance by any Company of the Credit Documents and the Transaction Documents to which it is a party or for the legality, validity or enforceability hereof or thereof or for the consummation of the transactions herein and therein contemplated, except for: (i) filings and recordings in respect of the Liens created pursuant to the Security Documents, (ii) the filing of the MGC Loan Report with the Mississippi Gaming Commission within 30 days after the Closing Date, (iii) the filings referred to in Section 8.15, (iv) waiver by the Gaming Authorities of any qualification requirement on the part of the Lenders who do not otherwise qualify or are not banks or licensed lending institutions, (v) prior approval of the Transactions by the Gaming Authorities, and (vi) consents, authorizations and filings that have been obtained or made and are in full force and effect or the failure of which to obtain would not have a Material Adverse Effect.

SECTION 8.07. ERISA and Foreign Employee Benefit Matters. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would result in a Material Adverse Effect. As of the Closing Date, no member of the ERISA Group maintains or contributes to any Pension Plan. Each ERISA Entity is in compliance with the presently applicable provisions of ERISA and the Code with respect to each Employee Benefit Plan (other than to the extent such failure to comply would not have a Material Adverse Effect). Except as disclosed on *Schedule 8.07*, using actuarial assumptions and computation methods consistent with Part 1 of Subtitle E of Title IV of ERISA, the aggregate liabilities of any ERISA Entity to all Multiemployer Plans in the event of a complete withdrawal therefrom, as of the close of the most recent fiscal year of each such Multiemployer Plan that precedes the Closing Date, would not result in a Material Adverse Effect.

Each Foreign Plan is in compliance in all material respects with all laws, regulations and rules applicable thereto and the respective requirements of the governing documents for such Plan (other than to the extent such failure to comply would not have a Material Adverse Effect). The aggregate of the liabilities to provide all of the accrued benefits under any funded Foreign Plan (based on reasonable assumptions used by such Plan) does not as of the most recent valuation report (or as of the end of the most recent plan year if there is no recent valuation report) exceed the current fair market value of the assets held in the trust or other funding vehicle for such Foreign Plan by an amount that would have a Material Adverse Effect. Other than to the extent such failure to comply would not have a Material Adverse Effect, with respect to any unfunded Foreign Plan, reasonable reserves have been established in accordance with prudent business practice or where required by ordinary accounting practices in the jurisdiction in which such Plan is maintained. There are no actions, suits or claims (other than routine claims for benefits) pending or, to Borrower's knowledge, threatened against Borrower or any of its Restricted Subsidiaries or any ERISA Entity with respect to any Foreign Plan that would result in a Material Adverse Effect.

SECTION 8.08. Taxes. Except as set forth on *Schedule 8.08* or as would not have a Material Adverse Effect, (i) all tax returns, statements, reports and forms or other documents (including estimated Tax or information returns and including any required, related or supporting information) (collectively, the "**Tax Returns**") required to be filed with any taxing authority by, or with respect to, Borrower and each of its Restricted Subsidiaries have been timely filed in accordance with all applicable laws; (ii) Borrower and each of its Restricted Subsidiaries has timely paid or made provision for payment of all Taxes shown as due and payable on Tax Returns that have been so filed or that are otherwise due and payable (other than Taxes which are being contested in good faith and for which adequate reserves in accordance with GAAP are reflected on other financial statements subsequently

delivered hereunder; *provided, however*, that any contest of any Taxes relating to Collateral shall also satisfy the Contested Collateral Lien Conditions) and each Tax Return is complete in all material respects; and (iii) Borrower and each of its Restricted Subsidiaries has made adequate provision in accordance with GAAP for all Taxes payable by Borrower or such Restricted Subsidiary for which no Tax Return has yet been filed. Neither Borrower nor any of its Restricted Subsidiaries has received written notice of any proposed or pending tax assessment, audit or deficiency against Borrower or such Restricted Subsidiary that would in the aggregate have a Material Adverse Effect.

No extension of a statute of limitations relating to material Taxes is in effect with respect to Borrower or any of its Restricted Subsidiaries, and there are no material Tax sharing agreements or similar arrangements (including Tax indemnity arrangements) with respect to or involving Borrower or any of its Restricted Subsidiaries other than between or among Borrower and the Restricted Subsidiaries.

All deficiencies which have been asserted against Borrower or any of its Restricted Subsidiaries as a result of any Tax examination for each taxable year in respect of which an examination has been conducted have been fully paid or finally settled or are being contested in good faith, and no issue has been raised in any such examination which, by application of similar principles, reasonably can be expected to result in assertion of a material deficiency for any other year not so examined which has not been reserved for in the consolidated financial statements heretofore delivered to Administrative Agent to the extent, if any, required by GAAP.

SECTION 8.09. Investment Company Act; Public Utility Holding Company Act; Other Restrictions. Neither Borrower nor any of its Restricted Subsidiaries is an "investment company," or a company "controlled" by an "investment company," within the meaning of the United States Investment Company Act of 1940, as amended. Neither Borrower nor any of its Restricted Subsidiaries is a "holding company," or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company," within the meaning of the United States Public Utility Holding Company Act of 1935, as amended. Neither Borrower nor any of its Restricted Subsidiaries is subject to regulation under any law or regulation which limits its ability to incur Indebtedness, other than Regulation X of the Board of Governors of the Federal Gaming Reserve System and the Gaming Law.

SECTION 8.10. Environmental Matters. Except as set forth on *Schedule 8.10* or as would not, individually or in the aggregate, result in a Material Adverse Effect: (i) each of Borrower and its Restricted Subsidiaries and each of their businesses, operations and Real Property is and in the last five years has been in material compliance with, and each has no liability under Environmental Law; (ii) each of Borrower and its Restricted Subsidiaries has obtained all Permits material to, and required for, the conduct of their businesses and operations, and the ownership, operation and use of their assets, all as currently conducted, under Environmental Law, all such Permits are valid and in good standing and, under the currently effective business plans of Borrower and its Restricted Subsidiaries, no material expenditures or operational adjustments could reasonably be expected to be required during the next five years in order to renew or modify such Permits; (iii) there has been no Release or threatened Release of Hazardous Material on, at, under or from any real property or facility presently or formerly owned, leased, operated or, to the knowledge of Borrower and its Restricted Subsidiaries, used for waste disposal by Borrower or any of its Restricted Subsidiaries, or any of their respective predecessors in interest that could reasonably be expected to result in liability to Borrower or any of its Restricted Subsidiaries under Environmental Law; (iv) there is no Environmental Action pending or, to the knowledge of Borrower and its Restricted Subsidiaries, threatened, against Borrower or any of its Restricted Subsidiaries or, relating to real property currently or formerly owned, leased, operated or, to the

knowledge of Borrower and its Restricted Subsidiaries, used for waste disposal, by Borrower or any of its Restricted Subsidiaries or relating to the operations of Borrower or its Restricted Subsidiaries; (v) none of Borrower or any of its Restricted Subsidiaries is obligated to perform any action or otherwise incur any expense under Environmental Law pursuant to any legally binding order, decree,

judgment or agreement by which it is bound or has assumed by contract or agreement, and none of Borrower or any of its Restricted Subsidiaries is conducting or financing any Response Action pursuant to any Environmental Law with respect to any location; and (vi) no circumstances exist that could reasonably be expected to (a) form the basis of an Environmental Action against Borrower or any of its Restricted Subsidiaries, or any of their Real Property, facilities or assets or (b) cause any such Real Property, facilities or assets to be subject to any restriction on ownership, occupancy, use or transferability under any Environmental Law; (vii) no real property or facility presently or formerly owned, operated or leased by Borrower or any of its Restricted Subsidiaries and, to the knowledge of Borrower and its Restricted Subsidiaries, no real property or facility presently or formerly used for waste disposal by Borrower or any of its Restricted Subsidiaries or owned, leased, operated or used for waste disposal by any of their respective predecessors in interests is (a) listed or proposed for listing on the National Priorities List promulgated pursuant to CERCLA or (b) included on any similar list maintained by any Governmental Authority including, without limitation, any such list relating to petroleum; (viii) no real property or facility presently or formerly owned, or presently leased or operated by Borrower or any of its Restricted Subsidiaries and, to the knowledge of Borrower and its Restricted Subsidiaries, no real property or facility formerly leased or operated by Borrower or any of its Restricted Subsidiaries is listed on the Comprehensive Environmental Response, Compensation, and Liability Information System promulgated pursuant to CERCLA as potentially requiring future Response Action; (ix) no Lien has been recorded or, to the knowledge of Borrower and its Restricted Subsidiaries, threatened under any Environmental Law with respect to any Real Property or other assets of Borrower or any of its Restricted Subsidiaries; and (x) the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not affect the validity or require the transfer of any Permit held by Borrower or any of its Restricted Subsidiaries under Environmental Law, and will not require any notification, registration, filing, reporting, disclosure, investigation, remediation or cleanup pursuant to any Governmental Real Property Disclosure Requirements with respect to each of Borrower and its Restricted Subsidiaries or any of their respective predecessors in interest.

SECTION 8.11. Environmental Investigations. As of the Closing Date, all material environmental audits or assessments in the possession, or custody of or prepared for or on behalf of Borrower or any of its Restricted Subsidiaries prior to the Closing Date relating (i) to the current or prior business or operations of Borrower or any of its Restricted Subsidiaries or any of their respective predecessors in interest or (ii) to any Property or real property now or previously owned, operated, leased or used for waste disposal by Borrower or any of its Restricted Subsidiaries or any of their respective predecessors in interest, have been made available to the Creditors.

SECTION 8.12. Use of Proceeds. (a) Borrower will use the proceeds of (i) Term A Facility Loans and Initial Term B Facility Loans to finance the Hollywood Acquisition and pay related fees and expenses, (ii) Revolving Loans to finance the Transactions (in an amount not to exceed on the Closing Date $15.8 million unless consented to by Lead Arrangers), pay fees and expenses related thereto, and for general corporate purposes, (iii) Second Term B Facility Loans and Term C Facility Loans to fund capital contributions or advances to issuers of the Target Subsidiary Bonds to fund repurchases of Target Subsidiary Bonds in connection with Change of Control Offers or the Alternate Target Subsidiary Bond Offers and (iv) Incremental Loans to fund the buildout of slot machine or video lottery operations and/or related racing operations at Borrower's facilities in the State of Pennsylvania upon receipt by Borrower of the requisite gaming licenses from the State of Pennsylvania to operate such slot machine operations.

(b) No Company is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock and no part of the proceeds of any extension of credit hereunder will be used directly or indirectly and whether immediately, incidentally or ultimately to purchase or carry any Margin Stock or

to extend credit to others for such purpose or to refund Indebtedness originally incurred for such purpose. Following application of the proceeds of each extension of credit hereunder, not more than 25 percent of the value of the assets (either of Borrower individually or of Consolidated Companies) will be Margin Stock. If requested by any Creditor, Borrower will furnish to Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in Regulation U.

SECTION 8.13. Subsidiaries. (a) The Subsidiaries listed on *Schedule 8.13(a)* constitute all the Subsidiaries of Borrower as of the Closing Date after giving effect to the Hollywood Acquisition. *Schedule 8.13(a)* sets forth as of the Closing Date and after giving effect to the Hollywood Acquisition the name and jurisdiction of incorporation or organization of each Subsidiary and, as to each such Subsidiary, the percentage and number of each class of Equity Interests owned by Borrower and its Subsidiaries. As of the Closing Date, each of Onward Development, LLC, Tennessee Downs, Inc. and HWCC-Argentina, Inc. are Immaterial Subsidiaries.

(b) Except as set forth on *Schedule 8.13(b)*, as of the Closing Date, there are no outstanding subscriptions, options, warrants, calls, rights or other agreements or commitments (other than stock options granted to employees or directors and directors' qualifying shares) of any nature relating to any Equity Interests of Borrower or any of its Subsidiaries. As of the Closing Date, none of Borrower or any of its Subsidiaries has issued, or authorized the issuance of, any Disqualified Capital Stock.

SECTION 8.14. Ownership of Property; Liens. (a) Borrower and each of its Restricted Subsidiaries has good and marketable title to, or a validly subsisting, marketable and insurable (with respect to Real Property) leasehold interest in, all material assets and Property (including Mortgaged Real Property) (tangible and intangible) owned by it (except insofar as marketability may be limited by any laws or regulations of any Governmental Authority affecting such assets), and all such assets and Property are free and clear of all Liens except Permitted Liens and, with respect to Mortgaged Real Property, Prior Liens (as defined in the applicable Mortgage). Except as may be disclosed to the Lenders and/or Collateral Agent prior to the date of the applicable Borrowing) substantially all of the assets and Property owned by, leased to or used by Borrower and each of its Restricted Subsidiaries in its respective businesses are in good operating condition and repair in all material respects, ordinary wear and tear excepted, are free and clear of any known material defects except such defects as do not substantially interfere with the continued use thereof in the conduct of normal operations, and are reasonably able to serve the function for which they are currently being used, except in each case where the failure of such asset to meet such requirements would not result in a Material Adverse Effect. Neither any Credit Document, nor any transaction contemplated under any such document, will affect any right, title or interest of Borrower or any of its Restricted Subsidiaries in or to any of such assets in a manner that would result in a Material Adverse Effect. Borrower and each of its Restricted Subsidiaries (or, with

respect to any Real Property leased by any Credit Party as tenant, the fee owner of such Real Property) holds all material licenses, certificates of occupancy or operation and similar certificates and clearances of municipal and other authorities necessary to own, lease and operate its properties in the manner and for the purposes currently operated by such party, except as would not result in a Material Adverse Effect. Each Mortgaged Real Property is suitable for its intended purposes and is served by such utilities as are necessary for the operation thereof, except as would not result in a Material Adverse Effect. To the knowledge of Borrower, there are no actual, threatened or alleged defaults of a material nature with respect to any leases of Real Property under which Borrower or any of its Restricted Subsidiaries is lessor or lessee.

(b) *Schedule 8.14(b)* sets for a true, complete and correct list of each of the Vessels owned, used or occupied by Borrower or a Restricted Subsidiary as of the date hereof, including the owner of the Vessel, the name of the Vessel, the official number of the Vessel and the location where such Vessel is docked or stored. Borrower or a Restricted Subsidiary owns all right, title and interest in and to each of the Vessels free of all Liens, except for Liens permitted pursuant to the applicable Ship Mortgage.

Borrower or the applicable Restricted Subsidiary is a U.S. citizen entitled to own and operate the applicable Vessel in the U.S. coastwise trade under the laws of the United States of America.

SECTION 8.15. Security Interest; Absence of Financing Statements; Etc. (a) The Security Documents, once executed and delivered, will create, in favor of Collateral Agent for the benefit of the Creditors, as security for the obligations purported to be secured thereby, a valid and enforceable, and upon filing or recording of the filings listed in *Schedule 7* of the Perfection Certificate with the appropriate Governmental Authorities (including payment of applicable filing and recording taxes) and delivery of the applicable documents to Collateral Agent in accordance with the provisions of the applicable Security Documents, for the benefit of the Secured Parties, a perfected security interest in and Lien upon all of the Collateral (and the proceeds thereof), superior to and prior to the rights of all third persons and subject to no other Liens except such Liens as are expressly permitted by the applicable Security Document. No filings or recordings are required in order to perfect the security interests created under any Security Document except for filings or recordings required in connection with any such Security Document which shall have been made prior to, contemporaneously with or promptly after the execution and delivery thereof (unless otherwise agreed to by Administrative Agent).

(b) The provisions of each Ship Mortgage are effective to create, and will create upon filing and/or recording of such Ship Mortgage with the appropriate Governmental Authorities (including payment of applicable filing and recording taxes), in favor of Collateral Agent for the ratable benefit of the Secured Parties a legal, valid and enforceable preferred mortgage over the whole of the applicable Vessel as collateral security for the payment and performance of the Loans and the other Obligations, and each Ship Mortgage, upon filing and recording in the National Vessel Documentation Center of the United States Coast Guard, creates on behalf of the Secured Parties a preferred mortgage upon the applicable Vessel under Chapter 313 of Title 46 of the United States Code, free of all Liens other than Liens permitted pursuant to the applicable Ship Mortgage.

(c) Except for Permitted Liens, and, with respect to Mortgaged Real Property, Prior Liens (as defined in the applicable Mortgage), there is no currently effective financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry, or other public office, that purports to cover, affect or give notice of any Lien on, or security interest in, any Property of Borrower or any of its Restricted Subsidiaries or rights thereunder, other than Liens under the Indebtedness being repaid on the Closing Date, with respect to which Borrower has delivered to Collateral Agent and has authorized Collateral Agent to file such releases or termination statements upon the closing of the Transactions.

SECTION 8.16. Licenses and Permits. Borrower and each of its Restricted Subsidiaries hold all material governmental permits, licenses, authorizations, consents and approvals necessary for Borrower and its Restricted Subsidiaries to own, lease, and operate their respective Properties and to operate their respective businesses as now being conducted (collectively, the "**Permits**"), except for Permits the failure of which to obtain would not have a Material Adverse Effect. None of the Permits has been modified in any way that would have a Material Adverse Effect. All Permits are in full force and effect except where the failure to be in full force and effect would not have a Material Adverse Effect. Neither Borrower nor any of its Restricted Subsidiaries has received written notice that any Gaming Authority has commenced proceedings to suspend, revoke or not renew any such Permits where such suspensions, revocations or failure to renew would have a Material Adverse Effect. No Gaming Authority currently has any grounds under any Gaming Law to revoke any such Permits where such revocation would have a Material Adverse Effect.

SECTION 8.17. True and Complete Disclosure. The information, reports, financial statements, exhibits and schedules furnished in writing by or on behalf of any Credit Party to any Creditor in connection with this Agreement and the other Credit Documents or included or delivered pursuant thereto, but in each case excluding all projections, whether prior to or after the date of this Agreement, when taken as a whole, do not, as of the date such information was furnished, contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements herein or therein, in light of the circumstances under which they were made, not materially misleading. The projections and pro forma financial information furnished at any time by any Credit Party to any Creditor pursuant to this Agreement have been prepared in good faith based on assumptions believed by Borrower to be reasonable at the time made, it being recognized by the Lenders that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount and no Credit Party, however, makes any representation as to the ability of any Company to achieve the results set forth in any such projections. As of the Closing Date, the representations and warranties contained in the Acquisition Agreement are true and correct in all material respects. There is no fact known to Borrower or any of its Restricted Subsidiaries that would have a Material Adverse Effect that has not been expressly disclosed herein, in the other Credit Documents, in the Confidential Information Memorandum or in any other documents, certificates and written statements furnished to Lead Arrangers, the Agents and the Lenders for use in connection with the transactions contemplated hereby and by the other Credit Documents. Each Credit Party understands that all such statements, representations and warranties shall be deemed to have been relied upon by the Lenders as a material inducement to make each extension of credit hereunder.

SECTION 8.18. Contracts. Neither Borrower nor any of its Restricted Subsidiaries is in default under any material contract or agreement to which it is a party or by which it is bound, nor, to Borrower's knowledge, does any condition exist that, with notice or lapse of time or both, would constitute such a default, excluding in any case such defaults that would not have a Material Adverse Effect.

SECTION 8.19. Solvency. As of each Funding Date immediately prior to and immediately following the consummation of the Transactions and the extensions of credit to occur on such date Borrower (on a consolidated basis with its Restricted Subsidiaries) are and will be Solvent (after giving effect to Section 6.08).

SECTION 8.20. Labor Matters. There is (i) no unfair labor practice complaint pending against any Credit Party or, to the best knowledge of Borrower, threatened against any Credit Party, before the National Labor Relations Board or any other Governmental Authority, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement is so pending against any Credit Party or, to the best knowledge of Borrower after due inquiry, threatened against any Credit Party, (ii) no strike, labor dispute, slowdown or stoppage pending against any Credit Party or, to the best knowledge of Borrower, threatened against any Credit Party and (iii) to the best knowledge of Borrower, no union representation question existing with respect to the employees of any Credit Party and, to the best knowledge of Borrower, no union organizing activities are taking place, except such as would not, with respect to any matter specified in clause (i), (h) or (iii) above, individually or in the aggregate, have a Material Adverse Effect.

SECTION 8.21. Subordinated Debt. The Obligations are senior debt with respect to all Indebtedness of Borrower or any of its Restricted Subsidiaries that is contractually subordinated in right of payment to any other Indebtedness of Borrower or any such Restricted Subsidiary and entitled to the full benefits of all subordination provisions therein and such subordination provisions are in full force and effect.

SECTION 8.22. Intellectual Property. Borrower and each of its Restricted Subsidiaries owns or possesses adequate licenses or otherwise has the right to use all of the patents, patent applications, trademarks, trademark applications, service marks, service mark applications, trade names, copyrights, trade secrets, know-how and processes (collectively, "Intellectual Property") that are necessary for the operation of its business as presently conducted except where failure to own or have such right would not have a Material Adverse Effect. As of the Closing Date, no claim is pending or, to the knowledge of Borrower, threatened to the effect that Borrower or any of its Restricted Subsidiaries infringes or conflicts with the asserted rights of any other person under any material Intellectual Property and, as of the Closing Date, to the best knowledge of Borrower, there is no reasonable basis for any such claim (whether or not pending or threatened) except for such claims that would not in the aggregate have a Material Adverse Effect. As of the Closing Date, no claim is pending or, to the knowledge of Borrower, threatened to the effect that any such material Intellectual Property owned or licensed by Borrower or any of its Restricted Subsidiaries or which Borrower or any of its Restricted Subsidiaries otherwise has the right to use is invalid or unenforceable except for such claims that would not in the aggregate have a Material Adverse Effect.

As of the Closing Date, each Credit Party owns or has the right to use all Intellectual Property listed in *Schedules 11(a), 11(b) and 11(c)* to the Perfection Certificate and the consummation of the transactions contemplated hereby will not alter or impair any such rights. All Intellectual Property owned by Borrower or any of its Restricted Subsidiaries is free and clear of all Liens except Permitted Liens.

SECTION 8.23. Existing Indebtedness. *Schedule 8.23(a)* sets forth a true and complete list of all Indebtedness of Borrower and its Restricted Subsidiaries as of the Closing Date (after giving effect to the Transactions) and *Schedule 8.23(b)* sets forth a true and complete list of all Indebtedness of the Companies that is to be paid off on the Closing Date, in each case showing the aggregate principal amount thereof and the name of each respective borrower and any other entity that directly or indirectly guaranteed such Indebtedness.

SECTION 8.24. Regulation H. Except for (i) Real Estate located in Biloxi, Mississippi and demised pursuant to the Tidelands Lease, doing business as Boomtown Casino, as amended, (ii) Real Property located in Bay St. Louis, Mississippi and described as the B, FI, FII, FIV, FV BSL and Lang Parcels in the title policy delivered to the Lenders pursuant to Section 7.01 (xi) hereof, (iii) Real Property located in Baton Rouge, Louisiana and doing business as Casino Rouge, and (iv) Real Property located in Tunica, Mississippi and doing business as Tunica Casino, as of the Closing Date, no Mortgage encumbers improved real property which is located in an area that has been identified by the Secretary of Housing and Urban Development as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968.

SECTION 8.25. Insurance. Borrower and each of its Restricted Subsidiaries is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged; and, as of the Closing Date, none of Borrower or any of its Restricted Subsidiaries (i) has received notice from any insurer or agent of such insurer that substantial capital improvements or other material expenditures will have to be made in order to continue such insurance or (ii) has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers at a cost that would not have a Material Adverse Effect.

SECTION 8.26. Real Estate. (a) *Schedule 8.26(a)* sets forth a true, complete and correct list of all Real Property used or occupied by Borrower or any of its Restricted Subsidiaries as of the date hereof, including a brief description thereof, including, in the case of leases, the street address (to the extent available) and landlord name. Borrower has delivered to Collateral Agent true, complete and correct copies of all such leases.

(b) Each parcel of Real Property and the current use thereof complies with all applicable Requirements of Law (including building and zoning ordinances and codes) and Borrower is not a non-conforming user of such Real Property, and any such Real Property that constitutes Mortgaged Real Property complies with all Insurance Requirements, except, in each such case, where noncompliance would not have a Material Adverse Effect.

(c) Except as set forth on *Schedule 8.26(c)*, as of the Closing Date, to the best of Borrower's knowledge no Taking has been commenced or is contemplated with respect to all or any portion of the applicable Real Property or for the relocation of roadways providing access to such Real Property.

(d) Except as set forth on *Schedule 8.29(d)*, as of the Closing Date, there are no current or, to the best knowledge of Borrower, pending or proposed special or other material assessments for public improvements, or otherwise affecting any Real Property in a material amount, nor are there any contemplated improvements to such Real Property (other than the construction work currently being conducted on the Charles Town Facility and the Bullwhackers Casino and construction work recently completed on the Aurora Casino), to the knowledge of Borrower, that may result in such special or other material assessments.

(e) As of the Closing Date, none of Borrower or any of its Restricted Subsidiaries has knowingly suffered, permitted or initiated the joint assessment of any parcel of Real Property with any other real property constituting a separate tax lot.

(f) Borrower and each of its Restricted Subsidiaries (or, with respect to Real Property leased by any Credit Party as tenant, the fee owner of such Real Property) has obtained all construction, building, occupancy and use permits, licenses, variances and certificates required by Requirements of Law to be obtained by such person and necessary to the use and operation of each parcel of Real Property, except as would not result in a Material Adverse Effect. The use being made of each parcel of Real Property is in conformity with the certificate of occupancy and/or such other permits, licenses, variances and certificates for such parcel of Real Property and any other restrictions, covenants or conditions affecting such parcel of Real Property, except where such nonconformity would not foreseeably materially impair or prohibit the use of any Real Property as now conducted.

(g) Except as set forth on *Schedule 8.26(g)*, each parcel of Real Property is free from structural defects and all building systems contained therein are in good working order and condition, ordinary wear and tear excepted, suitable for the purposes for which they are currently being used, except as would not result in a Material Adverse Effect.

(h) Except as set forth on *Schedule 8.26(h)(i)*, as of the Closing Date, no person has any possessory interest in any Real Property or right to occupy any Real Property except Borrower or its Restricted Subsidiaries (other than the landlord with respect to any leased Real Property). Except as set forth on *Schedule 8.26(h)(ii)* , as of the Closing Date, there are no outstanding options to purchase or rights of first refusal for the purchase of any Real Property affecting any Real Property that is owned by Borrower or a Restricted Subsidiary, except in favor of Borrower or a Restricted Subsidiary. Except as set forth on *Schedule 8.26(h)(iii)*, and except for standard transfer restrictions contained in any Lease relating to such Real Property as of the Closing Date there are no outstanding restrictions on transferability affecting any Real Property.

(i) Except as set forth on *Schedule 8.26(i)*, each parcel of Real Property has adequate rights of access to public ways to permit the Real Property to be used for its current use and is served by installed, operating and adequate water, electric, gas, telephone, sewer, sanitary sewer and storm drain facilities. All public utilities necessary to the continued use and enjoyment of each parcel of Real Property as used and enjoyed on the Closing Date are located in the public right-of-way abutting the premises or are furnished through recorded easements, and all such utilities are connected so as to serve such Real Property without passing over other property except for land of the utility company

providing such utility service and except where permitted by easement. All roads necessary for the full utilization of each parcel of Real Property for its current purpose have been completed and dedicated to public use and accepted by all Governmental Authorities or are the subject of access easements for the benefit of such Real Property. Except for public streets and sidewalks and minor intrusions and/or encroachments shown on the Surveys, none of Borrower or any of its Restricted Subsidiaries uses or occupies any real property other than such Real Property in connection with the use and operation of any Real Property.

(j) Except as set forth on *Schedule 8.26(j)*, no building or structure constituting a parcel of Real Property or any appurtenance thereto or equipment thereon, or the use, operation or maintenance thereof, violates in a material respect any restrictive covenant of record applicable to such Real Property or intrudes and/or encroaches on any easement or on any property owned by others, which violation, intrusion or encroachment interferes with the use or would materially adversely affect the value of such building, structure or appurtenance or which encroachment or intrusion is necessary for the operation of the business at any parcel of Real Property. All buildings, structures, appurtenances and equipment necessary for the use of each parcel of Real Property for the purpose for which it is currently being used as of the Closing Date are located on the real property encumbered by such Mortgage.

(k) As of the Closing Date, each parcel of Real Property has reasonably adequate available parking to meet operating requirements and (with respect to Real Property located in the State of Pennsylvania) legal requirements.

(l) As of the Closing Date, no portion of the Real Property has suffered any material damage by fire or other casualty loss that has not heretofore been repaired and restored to its original condition.

(m) The Mortgaged Real Property includes every parcel of Real Property owned by Borrower or any of its Restricted Subsidiaries (other than (i) the premises leased pursuant to the Lease Agreement dated October 25, 1991 between Jerry Brown and Harold Gene Reagin, as lessor, and Penn Bullwhackers, Inc. successor in interest to HP Inc., successor in interest to HP Black Hawk, L.P., as lessee (the "**Option Parcel**") of the Bullwhackers Casino, which shall be delivered on a post-closing basis) and (ii) the landfill owned by Mill Creek Land, Inc. and located in Plains Township, Pennsylvania) having a fair market value in excess of $5.0 million, as well as every material interest in Real Property consisting of a lease that expressly permits the tenant to mortgage its lease and that expressly permits the tenant to mortgage its leasehold estate.

SECTION 8.27. Leases. (a) Both before and after giving effect to the Hollywood Acquisition, each of Borrower and its Restricted Subsidiaries has paid all material payments required to be made by it under leases of Real Property where any of the Collateral is or may be located from time to time including, without limitation, the Ground Leases (other than any amount the validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of Borrower or such Restricted Subsidiary, as the case may be, and any amounts that are due but not yet delinquent); no landlord Lien has been filed as of the Closing Date, and, to the knowledge of Borrower, as of the Closing Date, no claim is being or threatened to be asserted, with respect to any such payments.

(b) Each of the material leases of Real Property listed on *Schedule 8.27(a)* is in full force and effect and is legal, valid, binding and enforceable in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws of general applicability from time to time in effect affecting the enforcement of creditors' rights and remedies and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). No such lease has been amended, modified or assigned in any materially adverse manner except as set forth on *Schedule 8.27(a)* . Except as set forth on *Schedule 8.27(b)*, to the best of Borrower's knowledge, there is

not, as of the Closing Date, under any such lease any existing breach, default, event of default or event that, with or without notice or lapse of time or both, would constitute a breach, default or an event of default by Borrower or any other party to such lease.

(c) As of the Closing Date, with respect to each Ground Lease: (i) the applicable Estoppel substantially in the form attached here as *Exhibit Q* (x) has been obtained from the ground lessor and such Estoppel does not reveal any breach or default by any party thereto or any facts which would constitute a Material

Adverse Effect, or (y) are listed on *Schedule 8.27(c)*, which Estoppels shall be obtained in accordance with the provisions of Section 9.13; and (ii) all necessary third party lease consents to the consummation of the Transactions contemplated by the Acquisition Agreement have been obtained.

(d) Except for the Ground Leases and the leases and other occupancy agreements set forth on *Schedule 8.26(h)(i)* and *Schedule 8.27(a)*, as of the date hereof, none of the Mortgaged Real Property is subject to any lease, sublease, license or other agreement granting to any person any right to the use, occupancy or enjoyment of the Mortgaged Real Property or any portion thereof.

(e) The interest of the tenant under the Ground Leases is vested in the applicable Credit Party as set forth on *Schedule 8.26(a)*. Borrower will, and will cause each applicable Restricted Subsidiary to, use its commercially reasonable efforts to obtain duly executed and delivered subordination, non-disturbance and attornment agreements ("**Lender SNDAs**") in the form attached hereto as *Exhibit R-2* by the fee mortgagees under the McDermott Lease, the Suarez Lease and the Desporte Lease, and obtain the agreement of the ground lessors under the Gollott Lease and the Cvitanovich Lease that they will obtain Lender SNDAs from any future fee mortgagees, any existing or future fee mortgage on all or any part of the Real Property encumbered by the Ground Leases is or will be at all times subject and subordinate to, and shall not attach to or encumber or otherwise affect, the lien of the applicable Mortgages. If at any time after the Closing Date, Borrower or any Restricted Subsidiary obtains knowledge of a fee mortgage encumbering the fee interest underlying any other Ground Lease, Borrower will, and will cause each Restricted Subsidiary to, use its commercially reasonable efforts to obtain a duly executed and delivered Lender SNDA by the fee mortgagee.

SECTION 8.28. New Jersey Joint Venture. (a) The ownership structure of the New Jersey Joint Venture as of the Closing Date is as set forth on *Schedule 8.28(a)*.

(b) There have been no amendments or other modifications of the Debt Service Maintenance Agreement as of the Closing Date. As of the Closing Date, the Credit Parties have made aggregate payments under the Debt Service Maintenance Agreement totaling $0 and the Credit Parties' total Debt Service Maintenance Obligations under and as defined in the Debt Service Maintenance Agreement equal to approximately $9,600,000.

SECTION 8.29. Mortgaged Real Property. Except as set forth on *Schedule 8.29*, with respect to each Mortgaged Real Property, (a) there has been issued a valid and proper certificate of occupancy or other local equivalent, if any, for the use then being made of such Mortgaged Real Property and that there is no outstanding citation, notice of violation or similar notice indicating that the Mortgaged Real Property contains conditions which are not in compliance with local codes or ordinances relating to building or fire safety or structural soundness, (b) except as set forth on *Schedule 8.26(c)*, as of the Closing Date, there has not occurred any "Taking or Destruction" (as such terms are defined in the applicable Mortgage) of any Mortgaged Real Property and (c) except as set forth on *Schedule 8.26(j)*, there are no material disputes regarding boundary lines, location, encroachment or possession of such Mortgaged Real Property and Borrower has no knowledge of any state of facts existing which could give rise to any such claim; *provided, however,* that with respect to any Mortgaged Real Property in which Borrower or a Restricted Subsidiary has a leasehold estate, the foregoing certificates shall be to Borrower's knowledge only.

ARTICLE IX

AFFIRMATIVE COVENANTS

Each Credit Party, for itself and on behalf of its Restricted Subsidiaries, covenants and agrees with the Creditors that, so long as any Commitment, Loan or L/C Liability is outstanding and until payment in full of all amounts payable by Borrower hereunder (and each Credit Party covenants and agrees that it will cause its Restricted Subsidiaries to observe and perform the covenants herein set forth applicable to any such Restricted Subsidiary):

SECTION 9.01. Existence; Business Properties. (a) Borrower and each of its Restricted Subsidiaries shall do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 10.05 or, in the case of any Restricted Subsidiary, where the failure to perform such obligations, individually or in the aggregate, would not result in a Material Adverse Effect.

(b) Borrower shall cause each of its Restricted Subsidiaries to, (i) maintain financial statements, accounting records and other corporate records and other documents separate from its Unrestricted Subsidiaries, (ii) maintain their own bank accounts in their own name, separate from its Unrestricted Subsidiaries and (iii) not pay or become liable for the Indebtedness of their Unrestricted Subsidiaries.

(c) Borrower and each of its Restricted Subsidiaries shall do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business except where the failure to do so, individually or in the aggregate, would not result in a Material Adverse Effect; maintain and operate such business in substantially the manner in which it is presently conducted and operated except where the failure to do so, individually or in the aggregate, would not result in a Material Adverse Effect; comply with all applicable Requirements of Law (including any and all Gaming Laws and any and all zoning, building, ordinance, code or approval or any building permits or any restrictions of record or agreements affecting the Real Property) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted, except where the failure to comply, individually or in the aggregate, would not result in a Material Adverse Effect; pay and perform its obligations under all material Leases, except where the failure to comply would not result in a Material Adverse Effect; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition (ordinary wear and tear excepted) and from time to time make, or cause to be made, all needful repairs, renewals, additions, improvements and replacements (including those necessary as a result of a Casualty Event) thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; *provided, however,* that nothing in this Section 9.01(b) shall prevent (i) sales of assets, consolidations or mergers by or involving any Company in accordance with Section 10.05; (ii) the withdrawal by any Company of its qualification as a foreign corporation in any jurisdiction where such withdrawal, individually or in the aggregate, would not result in a Material Adverse Effect; or (iii) the abandonment by any Company of any rights, permits, authorizations, copyrights, trademarks, trade names, franchises, licenses and patents that such Company reasonably determines are not useful to its business.

(d) Borrower and each of its Restricted Subsidiaries shall keep itself fully licensed with all licenses required to operate such person's business under applicable law, maintain such person's qualification to participate in the gaming industry in the manner in existence on the Closing Date, except to the extent that the loss or relinquishment of such qualification, individually or in the aggregate, would not result in a Material Adverse Effect. Borrower will promptly furnish or cause to be furnished to Collateral Agent copies of all reports and correspondence it or any Restricted Subsidiary sends or receives relating to any loss or revocation (or threatened loss or revocation) of any qualification described in this paragraph.

SECTION 9.02. Insurance. (a) Borrower and each of its Restricted Subsidiaries shall maintain with financially sound and reputable insurance companies insurance on all its Property (including, without limitation, all inventory, equipment and vehicles) in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to Administrative Agent with copies for each Secured Party, upon written request, full information as to the insurance carried; *provided* that in any event Borrower and each of its Restricted Subsidiaries will maintain to the extent available on commercially reasonable terms and subject to policy limitations and deductibles (i) property and casualty insurance on all Property on an all risks basis (including the perils of flood and quake, loss by fire, explosion and theft and such other risks and hazards as are covered by a standard extended coverage insurance policy), covering the repair or replacement cost of all such Property and consequential loss coverage for business interruption and extra expense (which shall include construction expenses and such other business interruption expenses as are otherwise generally available to similar businesses), (ii) public liability insurance, and (iii) building law and ordinance coverage in such amount as to address to the satisfaction of Administrative Agent any increased cost of construction, debris removal and/or demolition expenses incurred as a result of the application of any building law and/or ordinance. All such insurance with respect to Borrower and each of its Restricted Subsidiaries shall be provided by insurers or reinsurers which (x) in the case of United States insurers and reinsurers, have an A.M. Best policyholders rating of not less than A- with respect to primary insurance and B+ with respect to excess insurance and (y) in the case of non-United States insurers or reinsurers, the providers of at least 80% of such insurance have either an ISI policyholders rating of not less than A, an A.M. Best policyholders rating of not less than A- or a surplus of not less than $500,000,000 with respect to primary insurance, and an ISI policyholders rating of not less than BBB with respect to excess insurance, or, if the relevant insurance is not available from such insurers, such other insurers as Administrative Agent may approve in writing. All insurance shall (i) provide that no cancellation thereof shall be effective until at least 30 days after receipt by Administrative Agent of written notice thereof, (ii) if reasonably requested by Administrative Agent, include a breach of warranty clause, (iii) contain a "Replacement Cost Endorsement" with a waiver of depreciation and a waiver of subrogation against any Secured Party, (iv) contain a standard noncontributory mortgagee clause naming Administrative Agent (and/or such other party as may be designated by Administrative Agent) as the party to which all payments made by such insurance company shall be paid, and (v) be reasonably satisfactory in all other respects to Administrative Agent. Collateral Agent shall be named as an additional insured on all liability insurance policies of Borrower and each of its Restricted Subsidiaries and Collateral Agent shall be named as loss payee on all property insurance policies of each such Person.

(b) Borrower and each of its Restricted Subsidiaries shall deliver to Administrative Agent on behalf of the Secured Parties, (i) on the Closing Date, a certificate dated such date showing the amount and types of insurance coverage as of such date, (ii) promptly following receipt of notice from any insurer, a copy of any notice of cancellation or material change in coverage from that existing on the Closing Date, (iii) forthwith, notice of any cancellation or nonrenewal of coverage by Borrower or any of its Restricted Subsidiaries, and (iv) promptly after such information is available to Borrower or any of its Restricted Subsidiaries, full information as to any claim for an amount in excess of $500,000 with respect to any property and casualty insurance policy maintained by Borrower or any of its Restricted Subsidiaries.

(c) In the event that the proceeds of any insurance claim are paid after Collateral Agent has exercised its right to foreclose after an Event of Default such proceeds shall be paid to Collateral Agent to satisfy any deficiency remaining after such foreclosure. Collateral Agent shall retain its interest in the policies required to be maintained pursuant to this Section 9.02 during any redemption period.

SECTION 9.03. Taxes. Borrower and each of its Restricted Subsidiaries shall timely file all Tax Returns required to be filed by it (which Tax Returns shall be accurate in all material respects) and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien other than a Permitted Lien upon such properties or any part thereof; *provided, however,* that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and Borrower and each of its Restricted Subsidiaries shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Lien and, in the case of Collateral, Borrower and each of its Restricted Subsidiaries shall have otherwise complied with the provisions of the applicable Security Document in connection with such nonpayment.

SECTION 9.04. Financial Statements, Etc. Borrower shall deliver to Administrative Agent and each of the Lenders (and in the case of clause (f) only, the West Virginia Lottery Commission and the West Virginia Racing Commission):

(a) **Quarterly Financials.** As soon as available and in any event within 50 days after the end of each of the first three quarterly fiscal periods of each fiscal year beginning with the fiscal quarter ending March 31, 2003, consolidated statements of operations, cash flows and stockholders' equity of Consolidated Companies for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related consolidated balance sheet of Consolidated Companies as at the end of such period, setting forth in each case in comparative form (i) the corresponding consolidated statements of operations, cash flows and stockholders' equity for the corresponding period in the preceding fiscal year to the extent such financial statements are available and (ii) the corresponding budget or plan for such period, accompanied by a certificate of a Responsible Officer of Borrower, which certificate shall state that said consolidated financial statements fairly present in all material respects the consolidated financial condition, results of operations and cash flows of Consolidated Companies in accordance with GAAP, consistently applied, as at the end of, and for, such period (subject to normal year-end audit adjustments and except for the absence of footnotes);

(b) **Annual Financials.** As soon as available and in any event within 95 days after the end of each fiscal year beginning with the fiscal year ending December 31, 2002, consolidated and consolidating statements of operations, cash flows and stockholders' equity of Consolidated Companies for such year and the related consolidated and consolidating balance sheet of Consolidated Companies as at the end of such year, setting forth in each case in comparative form (i) the corresponding consolidated and consolidating information as of the end of and for the preceding fiscal year to the extent such financial statements are available and (ii) the corresponding budget or plan for such period, and, in the case of such consolidated financial statements, accompanied by an opinion, without a going concern or similar qualification or exception as to scope or other material qualification or exception, thereon of BDO Seidman LLP or other independent certified public accountants of recognized national standing reasonably acceptable to Lead Arrangers, which opinion shall state that said consolidated financial statements fairly present in all material respects the consolidated financial condition, results of operations and cash flows of Consolidated Companies as at the end of, and for, such fiscal year in conformity with GAAP, consistently applied; Borrower

shall supply such additional information and detail as to any item or items contained on any such statement that Lenders may reasonably require; all such information will be prepared in conformity with GAAP consistently applied;

(c) **Auditor's Certificate; Compliance Certificate.** (i) Concurrently with the delivery of the financial statements referred to in Section 9.04(b), a certificate (which certificate may be limited or eliminated to the extent required by accounting rules or guidelines) of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Event of Default relating to the Financial Maintenance Covenants, except as specified in such certificate; and

(ii) at the time it furnishes each set of financial statements pursuant to paragraph (a) or (b) above, (1) a certificate of a Responsible Officer of Borrower (I) to the effect that no Default has occurred and is continuing (or, if any Default has occurred and is continuing, describing the same in reasonable detail and describing the action that the Companies have taken and proposes to take with respect thereto) and (II) setting forth in reasonable detail the computations necessary to determine whether Borrower and its Restricted Subsidiaries are in compliance with Section 10.08 as of the end of the respective quarterly fiscal period or fiscal year, and (2) to the extent not previously disclosed to Administrative Agent, a listing of any state within the United States where any Credit Party keeps inventory or equipment and of any material licenses arising under the laws of the United States (or any jurisdiction therein) acquired by any Credit Party since the date of the most recent list delivered pursuant to this clause (2) (or, in the case of the first such list so delivered, since the Closing Date);

(d) **Other Financial Information.** Promptly upon filing, copies of all financial statements, proxy statements and reports which Borrower may make to or file with the SEC or any successor or analogous Governmental Authority;

(e) **Interest Rate Certificates.** From and after the Trigger Date, together with the financial statements delivered pursuant to clause (a) or (b) of this Section 9.04, an Interest Rate Certificate;

(f) **Notice of Default.** Promptly after any Company knows that any Default has occurred, a notice of such Default, breach or violation describing the same in reasonable detail and a description of the action that the Companies have taken and propose to take with respect thereto;

(g) **Environmental Matters.** Written notice of any Environmental Claim and any notice from any person of (i) the occurrence of any Release of any Hazardous Material that is reportable by Borrower or any of its Restricted Subsidiaries under any Environmental Law which could reasonably be expected to materially affect Borrower or any of its Restricted Subsidiaries, any Mortgaged Real Property or the operations of Borrower or any of its Restricted Subsidiaries, (ii) the commencement of or the obligation to commence any remediation pursuant to or in accordance with any Environmental Law of any Hazardous Material at, on, under or within the Mortgaged Real Property or any part thereof which could reasonably be expected to materially affect Borrower or any of its Restricted Subsidiaries, any Mortgaged Real Property or the operations of Borrower or any of its Restricted Subsidiaries, (iii) any matters relating to Hazardous Materials or Environmental Laws that may materially impair, or threaten to materially impair, Lenders' security interest in the Mortgaged Real Property or any Credit Party's ability to perform any of its obligations under this Agreement when such performance is due or (iv) any other condition, circumstance, occurrence or event arising under Environmental Law which would have, individually or in the aggregate, a Material Adverse Effect;

(h) **Annual Budgets.** Beginning with the fiscal year of Borrower commencing on January 1, 2003, as soon as practicable and in any event within 10 days after the approval thereof by the Board of Directors of Borrower (but not later than 90 days after the beginning of each fiscal year of Borrower), a consolidated plan and financial forecast for such fiscal year, including a forecasted consolidated balance sheet and forecasted consolidated statements of income and cash flows of Consolidated Companies for such fiscal year and for each quarter of such fiscal year, together with an Officer's Certificate containing an explanation of the assumptions on which such forecasts are based and stating that such plan and projections have been prepared using assumptions believed in good faith by management of Borrower to be reasonable at the time made;

(i) **Auditors' Reports.** Promptly upon receipt thereof, copies of all annual, interim or special reports issued to any Company by independent certified public accountants in connection with each annual, interim or special audit of such Company's books made by such accountants, including any management letter commenting on any Company's internal controls issued by such accountants to management in connection with their annual audit;

(j) **Lien Matters; Casualty and Damage to Collateral.** (A) Prompt written notice of (i) the incurrence of any Lien (other than a Permitted Lien) on, or claim asserted against any of the Collateral other than any Lien permitted to be incurred thereon pursuant to the applicable Security Documents, (ii) any Casualty Event or other insured damage to any material portion of the Collateral or the commencement of any Proceeding likely to result in a Casualty Event or (iii) the occurrence of any other event that in Borrower's judgment is reasonably likely to materially adversely affect the aggregate value of the Collateral;

(B) Furnish to Collateral Agent prompt written notice of any change (i) in any Credit Party's corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of any Credit Party's chief executive office or its principal place of business, (iii) in any Credit Party's identity or corporate structure, (iv) in any Credit Party's organizational identification number or (v) in any Credit Party's jurisdiction of organization. Borrower agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the UCC or otherwise that are required in order for Collateral Agent to continue at all times following such change to have a valid, legal security interest in all the Collateral. Borrower also agrees promptly to notify Collateral Agent if any material portion of the Collateral is subject to a Casualty Event; and

(C) Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to Section 9.01(b) hereof, deliver to Administrative Agent a certificate of a financial officer of Borrower (i) setting forth the information required pursuant to *Schedules 1, 2, 3, 4, 5, 8, 9, 10, 11(a) 11(b), 12, 13* and *14* of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Closing Date or the date of the most recent certificate delivered pursuant to this Section 9.04(j) and (ii) certifying that all UCC financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and re-registrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate

office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the security interests and Liens under the Security Documents for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period);

(k) **Notice of Material Adverse Effect.** Written notice of the occurrence of any Material Adverse Effect or any event or condition that could result in any Material Adverse Effect;

(l) **Governmental Filings and Notices.** Promptly upon request by Administrative Agent, copies of any other material reports or documents that were filed by Borrower or any of its Restricted Subsidiaries with any Governmental Authority and copies of any and all material notices and other material communications from any Governmental Authority with respect to Borrower or any of its Restricted Subsidiaries;

(m) **ERISA Information.** Promptly upon the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, would reasonably be expected to result in liability to Borrower and its Restricted Subsidiaries in an aggregate amount exceeding $ 1.0 million, a written notice specifying the nature thereof, what action the Companies or other ERISA Entity have taken, are taking or propose to take with respect thereto, and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor, PBGC or Multiemployer Plan sponsor with respect thereto;

(n) **ERISA Filings, Etc.** Upon request by Administrative Agent, copies of: (i) each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) filed by any Company or ERISA Entity with the Internal Revenue Service with respect to each Pension Plan; (ii) the most recent actuarial valuation report for each Pension Plan; (iii) all notices received by Borrower or any of its Restricted Subsidiaries or ERISA Entity from a Multiemployer Plan sponsor or any governmental agency concerning an ERISA Event; and (iv) such other documents or governmental reports or filings relating to any Employee Benefit Plan as Administrative Agent shall reasonably request; and

(o) **Miscellaneous.** Promptly, such financial and other information with respect to Borrower or any of its Restricted Subsidiaries (or prior to the Closing Date, Target, if available to any Company pursuant to the Acquisition Agreement), as any Creditor may from time to time reasonably request.

SECTION 9.05. Litigation, Etc. Borrower shall promptly give to Administrative Agent and each Lender notice of the institution of all Proceedings, and (except to the extent that any such notice would, in the reasonable opinion of Borrower, waive attorney client privilege) periodic updates (on at least a quarterly basis) as to any material development thereof, affecting Borrower or any of its Subsidiaries, except, in each case, Proceedings that would not have a Material Adverse Effect.

SECTION 9.06. Maintaining Records; Access to Properties and Inspections. Borrower and its Restricted Subsidiaries shall keep proper books of record and account in which full, true and correct entries in material conformity with GAAP and all material Requirements of Law are made of all dealings and transactions in relation to its business and activities. Borrower and its Restricted Subsidiaries will, subject to applicable Gaming Laws, permit any representatives designated by Administrative Agent or any Lender to visit and inspect the financial records and the property of Borrower or such Restricted Subsidiary at reasonable times, upon reasonable notice and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by Administrative Agent or any Lender to discuss the affairs, finances and condition of such Restricted Subsidiaries with the officers thereof and independent accountants therefor; provided that, in the absence of a continuing Default or Event of Default, only one such inspection by the Lenders (in their capacity as Lenders) shall be permitted in any fiscal year (at the Lenders' expense).

SECTION 9.07. Use of Proceeds. Use the proceeds of the Loans and request the issuance of Letters of Credit only for the purposes set forth in Section 8.12.

SECTION 9.08. Compliance with Environmental Law. Borrower and its Subsidiaries shall (a) comply with Environmental Law, and will keep or cause all Real Property to be kept free of any Liens under Environmental Law, unless, in each case, failure to do so would not have a Material Adverse Effect; (b) in the event of any Hazardous Material at, on, under or emanating from any Real Property which could result in liability under or a violation of any Environmental Law, in each case which would have a Material Adverse Effect, undertake, and/or cause any of their respective tenants or occupants to undertake, at no cost or expense to Administrative Agent or any Creditor, any action required pursuant to Environmental Law to mitigate and eliminate such condition; *provided, however,* that no Company shall be required to comply with any order or directive which is being contested in good faith and by proper proceedings so long as it has maintained adequate reserves with respect to such compliance to the extent required in accordance with GAAP; (c) promptly notify Administrative Agent of any event specified in clause (b) of this Section 9.08 and periodically thereafter keep Administrative Agent informed of any material actions taken in response to such event and the results thereof, and (d) at the written request of Administrative Agent, in its reasonable discretion, provide, at no cost or expense to Administrative Agent or any Creditor, an environmental site assessment (including, without limitation, the results of any soil or groundwater or other testing conducted at Administrative Agent's request) concerning any Real Property now or hereafter owned, leased or operated by Borrower or any of its Restricted Subsidiaries, conducted by an environmental consulting

firm proposed by such Credit Party and approved by Administrative Agent in its reasonable discretion indicating the presence or absence of Hazardous Material and the potential cost of any required action in connection with any Hazardous Material on, at, under or emanating from such Real Property; *provided, however,* that such request may be made only if (i) there has occurred and is continuing an Event of Default, or (ii) circumstances exist that reasonably could be expected to form the basis of an Environmental Action against such Company or any such Real Property which would have a Material Adverse Effect; if Borrower or any of its Restricted Subsidiaries fails to provide the same within 60 days after such request was made (or in such longer period as may be approved by Administrative Agent, in its reasonable discretion), Administrative Agent may but is under no obligation to conduct the same, and Borrower or its Restricted Subsidiary shall grant and hereby grants to Administrative Agent and its agents access at reasonable times, and upon reasonable notice to Borrower, to such Real Property and specifically grants Administrative Agent an irrevocable non-exclusive license, subject to the rights of tenants, to undertake such an assessment, all at no cost or expense to Administrative Agent or any Creditor. Administrative Agent will use its reasonable best efforts to obtain from the firm conducting any such assessment usual and customary agreements to secure liability insurance and to treat its work as confidential and shall promptly provide Borrower with all documents relating to such assessment.

SECTION 9.09. Equal Security for Loans and Notes; Pledge or Mortgage of Real Property; Landlord Consents. (a) Subject to compliance with applicable Gaming Laws, if any Credit Party shall acquire any Property after the Closing Date, including, without limitation, pursuant to any Permitted

Acquisition (other than any Property described in clause (b) or (c) of this Section 9.09 below), as to which Collateral Agent, for the benefit of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding), does not have a perfected Lien and as to which the Security Documents are intended to cover, such Credit Party shall promptly (i) execute and deliver to Collateral Agent such amendments to the Security Documents or such other documents as Collateral Agent deems necessary or advisable in order to grant to Collateral Agent, for the benefit of First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding), security interests in such Property and (ii) take all actions necessary or advisable to grant to Collateral Agent, for the benefit of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding), a perfected security interest, subject to Liens permitted to be incurred pursuant to the applicable Security Documents, in such Property, including without limitation, the filing of UCC financing statements in such jurisdictions as may be required by the Security Documents or by applicable law or as may be requested by Collateral Agent.

(b) If, after the Closing Date, any Credit Party (i) acquires a fee interest in the Option Parcel or (ii) acquires, including, without limitation, pursuant to any Permitted Acquisition, or holds a fee interest with a fair market value of $5.0 million or more in any other Real Property (other than to the extent such Real Property was financed through the incurrence of any Purchase Money Obligation permitted by Section 10.01(i) hereof), such Credit Party shall notify Collateral Agent and, if requested by Majority Lenders or Collateral Agent and subject to any applicable Gaming Laws, (i) take such actions and execute such documents as Collateral Agent shall reasonably require to confirm the Lien of an existing Mortgage, if applicable, or to create a new First Mortgage (and a Second Mortgage if at such time the Term C Facility Loans are outstanding) on such additional Real Property and (ii) cause to be delivered to Collateral Agent, for the benefit of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding), all documents and instruments reasonably requested by Collateral Agent or as shall be necessary in the opinion of counsel to the Creditors to create on behalf of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding) a valid perfected mortgage Lien, subject only to Liens of the type described in clauses (i)-(v) of the definition of Permitted Collateral Liens (as defined in the applicable Mortgage), and such other Liens acceptable

to Collateral Agent, in such Mortgaged Real Property (the "**Permitted Mortgage Liens**"), including, the following:

(1) a First Mortgage (and a Second Mortgage if at such time the Term C Facility Loans are outstanding) in favor of Collateral Agent, for the benefit of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding), in form for recording in the recording office of each jurisdiction where such Mortgaged Real Property is situated, together with such other documentation as shall be required to create a valid mortgage Lien under applicable law, which First Mortgage (and a Second Mortgage if at such time the Term C Loans are outstanding) and other documentation shall be reasonably satisfactory to Collateral Agent and shall be effective to create in favor of Collateral Agent for the benefit of the First Priority Secured Parties (and a Second Priority Secured Party if at such time the Term C Loans are outstanding) a Mortgage Lien on such Mortgaged Real Property subject to no Liens other than Permitted Mortgage Liens;

(2) commercially reasonable efforts to obtain such consents, lien waivers, approvals, estoppels, tenant subordination agreements or other instruments as necessary or as reasonably required by Collateral Agent to grant the Lien contemplated by the First Mortgage (and a Second Mortgage if at such time the Term C Facility Loans are outstanding); and

(3) the following documents and instruments:

(i) a Survey;

(ii) policies or certificates of insurance as required by the applicable Mortgage;

(iii) judgment, tax and other lien searches in form reasonably satisfactory to Administrative Agent;

(iv) evidence acceptable to Collateral Agent of payment by Borrower of all title insurance premiums (if any), search and examination charges, survey costs, mortgage recording taxes and related charges required for the recording of the First Mortgages (and Second Mortgages if at such time the Term C Facility Loans are outstanding) and issuance of the title insurance policies referred to in this Section 9.09;

(v) copies of all leases applicable thereto in which any Credit Party holds the landlord's interest; and

(vi) an Officer's Certificate that as of the date thereof there (A) has been issued and is in effect, to the extent required, a valid and proper certificate of occupancy of local or foreign equivalent (if any) for the use then being made of such Mortgaged Real Property, (B) except as otherwise disclosed to Collateral Agent, has not occurred any uncured material Casualty Event of such Mortgaged Real Property and (C) except as may be disclosed to Collateral Agent in the Survey of such Mortgaged Real Property delivered pursuant to subclause (3)(i) of this Section 9.09 above, are no material disputes regarding boundary lines, location, encroachment or possession of such Mortgaged Real Property and no state of facts existing which could reasonably be expected to give rise to any such claim;

(4) a policy (or commitment to issue a policy) of title insurance insuring (or committing to insure) the Lien of such First Mortgage (and a Second Mortgage if at such time the Term C Facility Loans are outstanding) on behalf of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding) a valid mortgage lien subject to no Liens other than the Permitted Mortgage Liens, on the Real Property and fixtures described therein in such amount as Collateral Agent may reasonably require (not to exceed 100% of the fair market value thereof) which policy (or commitment) shall (i) be issued by the Title Company or another title insurance company reasonably acceptable to Collateral Agent, (ii) include such reinsurance arrangements (with provisions for direct access) as shall be reasonably acceptable to Collateral Agent, (iii) have been supplemented by such endorsements (or where such endorsements are not available, opinions (or reports) of special counsel or other professionals

reasonably acceptable to Agents to the extent that such opinions (or reports) can be obtained at a cost which is reasonable with respect to the value of the Real Property subject so such First Mortgage (and Second Mortgage if at such time the Term C Facility Loans are outstanding) as shall be reasonably requested by Collateral Agent, (iv) include such affidavits and instruments of indemnifications by the applicable Credit Party as shall be reasonably required to induce the Title Company to issue the policy or policies (or commitment) and endorsements contemplated in this paragraph (4), and (v) contain no exceptions to title other than exceptions for Permitted Mortgage Liens; and

(5) an opinion of local counsel, substantially in the form of *Exhibit G-3* hereto.

(c) if reasonably requested by Administrative Agent or any Creditors, Borrower shall obtain and provide to Administrative Agent at no cost or expense to the Administrative Agent and as soon as practicable but in any event not later than 21 days prior to the closing date for such acquisition, environmental site assessment report, including, if necessary, a Phase I environmental site assessment from an environmental consulting firm reasonably acceptable to Administrative Agent with respect to any Real Property to be acquired by any Company. If any such environmental assessment indicates a reasonable likelihood of potential material liability under any Environmental Law associated with the acquisition of any such Real Property, then, if reasonably requested by Administrative Agent or any creditor, Borrower shall obtain and provide to Administrative Agent a Phase II environmental site assessment report addressing such potential material liability (including, without limitation, the results of soil and groundwater testing and the potential cost of any required Response Action) for such Real Property from an environmental consulting firm reasonably acceptable to Administrative Agent for such Real Property, at no cost or expense to Administrative Agent or any Creditor, not later than 7 days prior to the closing date for such acquisition.

(d) At its own expense, Borrower shall request, and use commercially reasonable efforts to obtain or cause to be obtained, (i) a consent a ("**Landlord Consent**"), substantially in the form of *Exhibit M* or such other form as may be reasonably satisfactory to Collateral Agent, from the landlord of each Real Property listed in *Schedule 9.09(c)*, copies of which consent, if obtained, shall be delivered to Collateral Agent by the Closing Date and (ii) prior to entering into a lease of a facility in which any material Inventory will be located on or after the Closing Date, a consent, substantially in the form of *Exhibit M* or such other form as may be reasonably satisfactory to Collateral Agent, from each landlord of any such facility.

(e) The costs of all actions taken by the parties in connection with this Section 9.09, including reasonable costs of counsel for Administrative Agent, shall be paid by the Credit Parties promptly following written demand.

SECTION 9.10. Security Interests; Further Assurances. Each Credit Party shall, promptly, upon the reasonable request of Collateral Agent, and assuming the request does not violate any Gaming Law or, if necessary, is approved by the Gaming Authority, at Borrower's expense, execute, acknowledge and deliver, or cause the execution, acknowledgment and delivery of, and thereafter register, file or record, or cause to be registered, filed or recorded, in an appropriate governmental office, any document or instrument supplemental to or confirmatory of the Security Documents or otherwise deemed by Collateral Agent reasonably necessary or desirable for the continued validity, perfection and priority of the Liens on the Collateral covered thereby subject to no Liens other than Liens permitted by the applicable Security Documents, or use commercially reasonable efforts to obtain any consents, including, without limitation, landlord or similar lien waivers and consents, as may be necessary or appropriate in connection therewith. Each Credit Party shall deliver or use its commercially reasonable efforts to cause to be delivered to Collateral Agent from time to time such other documentation, consents, authorizations, approvals and orders in form and substance reasonably satisfactory to Collateral Agent as Collateral Agent shall reasonably deem necessary to perfect or maintain the Liens on the Collateral pursuant to the Security Documents. Upon the exercise by Collateral Agent or the Lenders of any power, right, privilege or remedy pursuant to any Credit Document which requires any

consent, approval, registration, qualification or authorization of any Governmental Authority, Borrower and each of its Restricted Subsidiaries shall execute and deliver all applications, certifications, instruments and other documents and papers that Collateral Agent or the Lenders may be so required to obtain. If Collateral Agent reasonably determines that it is required by applicable law or regulation to have appraisals prepared in respect of the Real Property of any Credit Party constituting Collateral, Borrower shall provide to Collateral Agent appraisals that satisfy the applicable requirements of the Real Estate Appraisal Reform Amendments of FIRREA and are in form and substance reasonably satisfactory to Administrative Agent.

SECTION 9.11. Interest Rate Protection Agreements. On or within 90 days after the Closing Date, not less than 50% of the aggregate principal amount of then outstanding Consolidated Indebtedness shall be either (x) fixed rate debt or (y) debt subject to Interest Rate Protection Agreements having terms and conditions reasonably satisfactory to Administrative Agent and with one or more Lenders or their respective Affiliates, including, without limitation, the Interest Rate Protection Agreement listed on *Schedule 9.11* hereto or (z) any combination of (x) and (y) above.

SECTION 9.12. Additional Credit Parties. Upon (x) any Credit Party creating or acquiring any Subsidiary that is a Restricted Subsidiary after the Closing Date in accordance with Section 10.13, (y) any Restricted Subsidiary of a Credit Party ceasing to be an Immaterial Subsidiary or (z)any Unrestricted Subsidiary of a Credit Party becoming a Restricted Subsidiary, such Credit Party shall, assuming and to the extent that it does not violate any Gaming Law or, if necessary, assuming it obtains the approval of the Gaming Authority, (i) cause each such Restricted Subsidiary (other than a Foreign Subsidiary) to execute and deliver all such agreements, guarantees, documents and certificates (including a Joinder Agreement and any amendments to the Credit Documents) as Administrative Agent may reasonably request and do such other acts and things as Administrative Agent may reasonably request in order to have such Restricted Subsidiary become a Subsidiary Guarantor and (ii) promptly (I) execute and deliver to Collateral Agent such amendments to or additional Security Documents as Collateral Agent deems necessary or advisable in order to grant to Collateral Agent for the benefit of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Loans are outstanding), a perfected security interest in the Equity Interests and debt securities of such new Subsidiary which are owned by any Credit Party and required to be pledged pursuant to the Security Agreement, (II) deliver to Collateral Agent the certificates representing such Equity Interests and debt securities, together with (A) in the case of such Equity Interests, undated stock powers endorsed in blank, and (B) in the case of such debt securities, endorsed in blank, in each case executed and delivered by a Responsible Officer of Borrower or such Subsidiary, as the case may be, (III) cause such new Restricted Subsidiary to take such actions necessary or advisable (including executing and delivering a Joinder Agreement) to grant to Collateral Agent for the benefit of the First Priority Secured Parties (and the Second Priority Secured Parties if at such time the Term C Facility Loans are outstanding), a perfected security interest in the collateral described in the Security Agreement and all other Property of such Restricted Subsidiary in accordance with the provisions of Section 9.09 hereof with respect to such new Restricted Subsidiary, including the filing of UCC financing statements in such jurisdictions as may be required by the Security Agreement or by law or as may be reasonably requested by Collateral Agent, and (IV) deliver to Collateral Agent all legal opinions reasonably requested relating to the matters described above, which opinions shall be in form and substance, and from counsel, reasonably satisfactory to Administrative Agent.

SECTION 9.13. Post-Closing Obligations. Borrower shall, and shall cause each of its Restricted Subsidiaries to, as expeditiously as possible, but in no event later than the number of days after the Closing Date applicable to each item set forth below (or, in each case, such longer period as Collateral Agent shall agree) deliver:

(a) within 30 days after the Closing Date, the requisite insurance necessary in order to bring the Property at Casino Rouge in compliance with the National Flood Insurance Act of 1968;

(b) subject to its ability to do so following commercially reasonable efforts, landlord estoppels and leasehold mortgages relating to (i) Suarez Lease, (ii) Smith Lease, (iii) KDL Lease, (iv) Branecki Lease, and (v) Perea Lease;

(c) as soon as practicable but in no event more than nine months after the Closing Date, Surveys relating to (i) parcels located in Blackhawk, Colorado owned by Penn Millsite, Inc. and leased by Penn Bullpen, Inc. and Penn Silver Hawk, Inc. and (ii) parcels located in Jefferson County, West Virginia owned by PNGI Charles Town Gaming Limited Liability Company and Penn National Gaming of West Virginia, Inc.;

(d) within 30 days of the Closing Date, collateral assignments of leases relating to (i) the Custom Pack Lease; *provided*, *however*, that if the Custom Pack Lease prohibits such collateral assignment, the obligation to deliver a collateral assignment with respect to such lease shall be limited to the use of commercially reasonable efforts, (ii) the City of Aurora Lease I, (iii) the City of Aurora Lease II, and (iv) the YWCA Lease;

(e) within 30 days after the Closing Date, judgment lien searches for (i) Hollywood Casino-Aurora, Inc. in Kane County, Illinois, and (ii) HWCC-Development Corporation in Kane County, Illinois;

(f) within 30 days after the Closing Date, tax lien search for Louisiana Casino Cruises, Inc. in Parish of East Baton Rouge, Louisiana;

(g) within 30 days after the Closing Date, tax and judgment lien searches for: (1) Hollywood Casino Corporation in Dallas County, Texas, (2) HWCC-Tunica, Inc. in Tunica County, Mississippi, (3) Mill Creek Land, Inc. in Luzerne County, Pennsylvania, (4) Mountainview Thoroughbred Racing Association in Berks County, Pennsylvania, (5) Mountainview Thoroughbred Racing Association in Cambria County, Pennsylvania, (6) Mountainview Thoroughbred Racing Association in Dauphin County, Pennsylvania, (7) Mountainview Thoroughbred Racing Association in Franklin County, Pennsylvania, (8) Mountainview Thoroughbred Racing Association in Lycoming County, Pennsylvania, (9) Penn National Gaming, Inc. in Berks County, Pennsylvania, (10) Pennsylvania National Turf Club, Inc. in Dauphin County, Pennsylvania, (11) Pennsylvania National Turf Club, Inc. in Franklin County, Pennsylvania, (12) Pennsylvania National Turf Club, Inc. in Lancaster County, Pennsylvania, (13) Pennsylvania National Turf Club, Inc. in Lebanon County, Pennsylvania, (14) Pennsylvania National Turf Club, Inc. in York County, Pennsylvania, (15) PNGI Charles Town Gaming Limited Liability Company in Jefferson County, West Virginia, (16) The Downs Racing, Inc in Erie County, Pennsylvania, (17) The Downs Racing, Inc in Lackawanna County, Pennsylvania, (18) The Downs Racing, Inc in Lehigh County, Pennsylvania, (19) The Downs Racing, Inc in Luzerne County, Pennsylvania, (20) The Downs Racing, Inc in Monroe County, Pennsylvania, (21) The Downs Racing, Inc in Potter County, Pennsylvania, (22) Backside, Inc. at Pennsylvania Secretary of State, (23) CSMC-Management Services, Inc. in Miami-Dade County, Florida, (24) P Acquisition Corp. at Delaware Secretary of State, (25) Penn National Race Course at Pennsylvania Secretary of State, (26) Penn National Race Course in Berks County, Pennsylvania, (27) Penn National Race Course in Cambria County, Pennsylvania, (28) Penn National Race Course in Dauphin County, Pennsylvania, (29) Penn National Race Course in Franklin County, Pennsylvania, (30) Penn National Race Course in Lancaster County, Pennsylvania, (31) Penn National Race Course in Lycoming County, Pennsylvania, (32) Penn National Race Course in York County, Pennsylvania, (33) PNGI Pocono, Inc. at Delaware Secretary of State, (34) Pocono Downs at Pennsylvania Secretary of State, (35) Pocono Downs in Erie County, Pennsylvania, (36) Pocono Downs in Lackawanna County, Pennsylvania, (37) Pocono Downs in Lehigh County, Pennsylvania, (38) Pocono Downs in Luzerne County, Pennsylvania, (39) Pocono Downs in Monroe County, Pennsylvania, (40) Pocono Downs in Potter County, Pennsylvania, (41) Sterling Aviation, Inc. at Delaware Secretary of State and (42) W-B Downs, Inc. at Pennsylvania Secretary of State;

(h) releases and discharges of all Liens disclosed in the lien searches referenced in clause (g) of this Section 9.13 that would not have been permitted as a "Permitted Lien" on the Closing Date;

(i) within 60 days after the Closing Date, opinion relating to the perfection of the security interests in the intellectual property collateral for which filings in the United States Patent and Trademark Office are to be made in form and substance reasonably acceptable to the Collateral Agent;

(j) within 30 days after the Closing Date, opinion of Canadian counsel with respect to perfection of the Collateral Agent's security interest in the pledged shares of CHC Casinos Canada Limited;

(k) within 60 days after the Closing Date, certificates representing the pledged membership interests in PNGI Charles Town Gaming Limited Liability Company, and PNGI Charles Town Food & Beverage Limited Liability Company. In the event that at any time Onward Development LLC has assets with an aggregate fair market value in excess of $2,500,000, Borrower shall deliver or cause to be delivered certificates representing the pledged membership interests in Onward Development LLC; and

(l) within 15 days after the Closing Date, make filings with the United States Patent and Trademark Office covering the trademarks of the Credit Parties being pledged pursuant to the Security Agreement.

ARTICLE X

NEGATIVE COVENANTS

Each Credit Party, for itself and on behalf of its Restricted Subsidiaries, covenants and agrees with the Creditors that, so long as any Commitment, Loan or L/C Liability is outstanding and until payment in full of all amounts payable by Borrower hereunder (and each Credit Party covenants and agrees that it will cause its Restricted Subsidiaries to observe and perform the covenants herein set forth applicable to any such Restricted Subsidiary):

SECTION 10.01. Indebtedness. Borrower and its Restricted Subsidiaries will not incur, create, assume or permit to exist, directly or indirectly, any Indebtedness, except:

(a) Indebtedness incurred pursuant to this Agreement and the other Credit Documents;

(b) Indebtedness actually outstanding on the Closing Date and listed on *Schedule 8.23(a)*, and in the case of such Indebtedness any Permitted Refinancings thereof;

(c) Indebtedness under Interest Rate Protection Agreements entered into in compliance with Section 9.11;

(d) Indebtedness under Secured Interest Rate Protection Agreements and unsecured Interest Rate Protection Agreements entered into in compliance with the terms of this Agreement;

(e) intercompany Indebtedness of Borrower and the Restricted Subsidiaries outstanding to the extent permitted by Section 10.04(f);

(f) in addition to any Indebtedness permitted by the preceding paragraph (d), Indebtedness of any Subsidiary to Borrower or another Subsidiary constituting the purchase price in respect of intercompany transfers of goods and services made in the ordinary course of business to the extent not constituting Indebtedness for borrowed money;

(g) Indebtedness in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety appeal or similar bonds, completion guarantees and trade-related letters

of credit provided by Borrower or any of its Restricted Subsidiaries in the ordinary course of its business;

(h) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided* that such Indebtedness is extinguished within five Business Days of its incurrence;

(i) Indebtedness (other than Indebtedness incurred pursuant to clause (b) above) in respect of Purchase Money Obligations and Capital Lease Obligations and refinancings or renewals thereof, in an aggregate principal amount not to exceed at any time outstanding $20.0 million at that time;

(j) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(k) guarantees by Borrower or Restricted Subsidiaries of Indebtedness otherwise permitted under this Agreement;

(l) Indebtedness of a person that becomes a Subsidiary of Borrower or any of its Restricted Subsidiaries after the date hereof in connection with a Permitted Acquisition; *provided* that such Indebtedness existed at the time such person became a Subsidiary and was not created in anticipation or contemplation thereof, and Permitted Refinancings thereof;

(m) in the event that Hollywood Shreveport becomes a Restricted Subsidiary Indebtedness represented by up to 15% of the aggregate principal amount of the Target Subsidiary Bonds;

(n) so long a no Default or Event of Default has occurred and is continuing, Permitted Subordinated Indebtedness and Permitted Refinancings thereof the proceeds of which shall be used (i) to refinance the Second Term B Facility Loans and Term C Facility Loans, or (ii) to fund in whole or in part any Change of Control Offers or Alternate Target Subsidiary Bond Offers or to otherwise repurchase or redeem not less than 85% of the outstanding principal amount of each issue of Target Subsidiary Bonds; *provided, however,* that in the case of a repurchase or redemption of the Target Subsidiary Bonds that is not deemed a Change of Control Offer or Alternate Target Subsidiary Bond Offer, the net proceeds of such Indebtedness shall not exceed in aggregate principal amount the lesser of (x) 7.0x Shreveport EBITDA (inclusive of all related fees and expenses) for the previous twelve-month period or (y) $175.0 million; *provided, further,* that upon the incurrence of such Indebtedness under this clause (n) (other than under clause (i) hereof) Shreveport shall cease to be an Unrestricted Subsidiary;

(o) so long a no Default or Event of Default has occurred and is continuing, Permitted Subordinated Indebtedness and Permitted Refinancings thereof in an aggregate amount not to exceed $300.0 million; and

(p) other unsecured Indebtedness of any Company or Disqualified Stock of Borrower not to exceed $25.0 million in aggregate principal amount at any time outstanding.

SECTION 10.02. Liens. Neither Borrower nor any Restricted Subsidiary shall create, incur, assume or permit to exist, directly or indirectly, any Lien on any Property now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except (the "**Permitted Liens**"):

(a) inchoate Liens for taxes, assessments or governmental charges or levies not yet due and payable or delinquent and Liens for taxes, assessments or governmental charges or levies, which (i) are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, which proceedings (or orders entered in connection

with such proceedings) have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien, or (ii) in the case of any such charge or claim that has or may become a Lien against any of the Collateral, such Lien and the contest thereof shall satisfy the Contested Collateral Lien Conditions;

(b) Liens in respect of property of Borrower or any Restricted Subsidiary imposed by law, which were incurred in the ordinary course of business and do not secure Indebtedness for borrowed money, such as carriers', warehousemen's, materialmen's, landlord's and mechanics' liens, maritime liens and other similar Liens arising in the ordinary course of business (i) for amounts not yet overdue or (ii) for amounts that are overdue and that are being contested in good faith by appropriate proceedings, so long as (A) adequate reserves have been established in accordance with GAAP, which proceedings (or orders entered in connection with such proceedings) have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien and (B) in the case of any such Lien that has or may become a Lien against any of the Collateral, such Lien and the contest thereof shall satisfy the Contested Collateral Lien Conditions;

(c) Liens in existence on the Closing Date and set forth on *Schedule 10.02* and Liens relating to any refinancing of the obligations secured by such Liens; *provided* that (i) the aggregate principal amount of the Indebtedness, if any, secured by such Liens does not increase; and (ii) such Liens do not encumber any Property other than the Property subject thereto on the Closing Date of Borrower or any Restricted Subsidiary;

(d) easements, rights-of-way, restrictions (including zoning restrictions), covenants, encroachments, protrusions and other similar charges or encumbrances, and minor title deficiencies on or with respect to any Real Property, in each case whether now or hereafter in existence, not (i) securing Indebtedness and (ii) individually or in the aggregate materially interfering with the conduct of the business of Borrower and its Restricted Subsidiaries at such Real Property;

(e) Liens arising out of judgments or awards not resulting in a Default and in respect of which such Borrower or such Restricted Subsidiary shall in good faith be prosecuting an appeal or proceedings for review in respect of which there shall be secured a subsisting stay of execution pending such appeal or proceedings; provided that the aggregate amount of all such judgments or awards (and any cash and the fair market value of any property subject to such Liens) does not exceed $10.0 million at any time outstanding; or the payment of which is covered in full by a bond or by third party insurance;

(f) Liens (other than any Lien imposed by ERISA) (i) imposed by law or deposits made in connection therewith in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, (ii) incurred in the ordinary course of business to secure the performance of tenders, statutory obligations (other than excise taxes), surety, stay, customs and appeal bonds, statutory bonds, bids, leases, government contracts, trade contracts, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money) or (iii) arising by virtue of deposits made in the ordinary course of business to secure liability for premiums to insurance carriers; provided that (x) with respect to clauses (i), (ii) and (iii) hereto such Liens are set amounts not yet due and payable or delinquent or, to the extent such amounts are so due and payable, such amounts are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, which proceedings for orders entered in connection with such proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien, (y) to the extent such Liens are not imposed by Law, such Liens shall in no event encumber any Property other than cash and Cash Equivalents and (z) in the case of any such Lien against any of the Collateral, such Lien and the contest thereof shall satisfy the

Contested Collateral Lien Conditions and the aggregate amount of deposits at any time pursuant to clause (ii) and clause (iii) shall not exceed $1.0 million in the aggregate;

(g) Leases with respect to the assets or properties of any Credit Party or its respective Subsidiaries, in each case entered into in the ordinary course of such Credit Party's or Subsidiary's business so long as (x) each Credit Party or Subsidiary shall use its commercially reasonable efforts to cause each of the Leases entered into after the date hereof to be made subordinate in all respects to the Liens granted and evidenced by the Security Documents, and (y) each of the Leases entered into after the date hereof are subordinate in all respects to the Liens granted and evidenced by the Security Documents and do not in the case of (x) or (y) above, individually or in the aggregate, (i) interfere in any material respect with the ordinary conduct of the business of any Credit Party or its Subsidiaries or (ii) materially impair the use (for its intended purposes) or the value of the property subject thereto;

(h) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by such Company in the ordinary course of business in accordance with the past practices of such Company;

(i) Liens arising pursuant to Purchase Money Obligations or Capital Lease Obligations incurred pursuant to Section 10.01(i)*; provided* that (i) the Indebtedness secured by any such Lien (including refinancings thereof) does not exceed 100% of the cost of the property being acquired or leased at the time of the incurrence of such Indebtedness and (ii) any such Liens attach only to the property being financed pursuant to such Purchase Money Obligations or Capital Lease Obligations (and directly related assets) and do not encumber any other property of Borrower or any Restricted Subsidiary (it being understood that all Indebtedness to a single lender shall be considered to be a single Purchase Money Obligation, whether drawn at one time or from time to time);

(j) bankers' Liens, rights of setoff and other similar Liens existing solely with respect to cash and Cash Equivalents on deposit in one or more accounts maintained by Borrower or any Restricted Subsidiary, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; *provided* that in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;

(k) Liens on assets of a person existing at the time such person is acquired or merged with or into or consolidated with Borrower or any Restricted Subsidiary (and not created in connection with or in anticipation or contemplation thereof); *provided* that such Liens do not extend to assets not subject to such Liens at the time of acquisition (other than improvements thereon) and are no more favorable to the lienholders than the existing Lien;

(l) Liens incurred in the ordinary course of business of Borrower or any Restricted Subsidiary with respect to obligations (other than Indebtedness) that do not in the aggregate exceed $2.5 million at any time outstanding;

(m) licenses of Intellectual Property granted by Borrower or any Restricted Subsidiary in the ordinary course of business and not interfering in any material respect with the ordinary conduct of the business of such Company;

(n) Liens pursuant to the Security Documents;

(o) Permitted Vessel Liens;

(p) Liens arising under applicable Gaming Laws, *provided* that no such Lien constitutes a Lien securing repayment of Indebtedness;

(q) Liens to secure Indebtedness and other obligations permitted under Section 10.01(c) to the extent that the secured party under such Indebtedness and other obligations is, as of the date entered into, one or more of the Lenders or any Affiliate of any Lender; and

(r) Liens to secure Indebtedness permitted under Section 10.01(d); and

(s) Prior Liens as defined in the applicable Security Documents with respect to the Collateral encumbered by such Security Document;

provided, *however*, that (except as provided in clause (p) above) no Liens shall be permitted to exist, directly or indirectly, on any Securities Collateral (as defined in the Security Agreement).

SECTION 10.03. Sale and Leaseback Transactions. Neither Borrower nor any Restricted Subsidiary will enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred unless (i) the sale of such property is permitted by Section 10.05 and (ii) any Liens arising in connection with its use of such property are permitted by Section 10.02.

SECTION 10.04. Investment, Loan and Advances. Neither Borrower nor any Restricted Subsidiary will directly or indirectly lend money or credit or make advances to any person, or purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any other person, or purchase or own a futures contract or otherwise become liable for the purchase or sale of currency or other commodities at a future date in the nature of a futures contract (all of the foregoing, collectively, "**Investments**"), except that the following shall be permitted:

(a) Borrower and its Restricted Subsidiaries may consummate the Transactions in accordance with the provisions of the Transaction Documents;

(b) Investments outstanding on the Closing Date and identified on *Schedule 10.04* and any Investments received in respect thereof without the payment of additional consideration (other than Qualified Capital Stock);

(c) Investments in Cash Equivalents;

(d) Borrower and the Restricted Subsidiaries may (i) acquire and hold cash and Cash Equivalents, (ii) endorse negotiable instruments for collection in the ordinary course of business and (iii) make lease, utility and other similar deposits in the ordinary course of business;

(e) Borrower may enter into Interest Rate Protection Agreements and Secured Interest Rate Protection Agreements and unsecured Interest Rate Protection Agreements to the extent permitted by Section 10.01(c) and 10.01(d), respectively and may enter into and perform its obligations under Swap Contracts entered into in the ordinary course of business and so long as any such Swap Contract is not speculative in nature;

(f) any Subsidiary Guarantor may make intercompany loans to Borrower or any other Subsidiary Guarantor and Borrower may make intercompany loans and advances to any Subsidiary Guarantor; *provided* that any promissory notes evidencing such intercompany loans shall be pledged (and delivered) by Borrower or the respective Subsidiary that is the lender of such intercompany loan as Collateral pursuant to the Security Agreement, to the extent permitted under applicable Gaming Laws;

(g) Borrower and the Restricted Subsidiaries may sell or transfer assets to the extent permitted by Section 10.05;

(h) Investments (i) by Borrower in any Restricted Subsidiary, (ii) in Borrower by any Restricted Subsidiary and (iii) by a Restricted Subsidiary in another Restricted Subsidiary;

(i) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers or in settlement of delinquent or overdue accounts in the ordinary course of business;

(j) Investments made by Borrower or any Restricted Subsidiary as a result of consideration received in connection with an Asset Sale made in compliance with Section 10.05;

(k) Investments consisting of moving, entertainment and travel expenses, drawing accounts and similar expenditures made to officers, directors and employees made in the ordinary course of business not to exceed $500,000 at any time outstanding;

(l) Investments permitted as Capital Expenditures pursuant to Section 10.08(d);

(m) Investments permitted as Permitted Acquisitions pursuant to Section 10.05;

(n) extensions of trade credit (including to gaming customers) in the ordinary course of business;

(o) Investments in Hollywood Shreveport to enable the consummation of the Change of Control Offers or the Alternate Target Subsidiary Bond Offers or otherwise repurchase or redeem the Target Subsidiary Bonds; *provided*, that in the event of such Investments under this clause (o), Shreveport shall cease to be an Unrestricted Subsidiary; and

(p) in addition to Investments otherwise expressly permitted by this Section 10.04, Investments by Borrower or any of its Restricted Subsidiaries not to exceed, as of the date made, an aggregate amount equal to $100.0 million, no more than $50.0 million of which shall be from the incurrence of Indebtedness, no more than $50.0 million of which shall be from an Equity Issuance (exclusive of the fees and expenses incurred in connection with the issuance of such Indebtedness or such Equity Issuance), of which no more than $5.0 million may be Investments in Hollywood Shreveport for so long as Hollywood Shreveport remains an Unrestricted Subsidiary (pro*vided* that the amount of Investments made under this clause (p) shall equal the aggregate amount of such Investments *minus* the amounts received by Borrower and its Restricted Subsidiaries with respect to such Investments, including principal, interest, dividends, distributions, sale proceeds or other amounts).

SECTION 10.05. Mergers, Consolidations, Sales of Assets and Acquisitions. Neither Borrower nor any Restricted Subsidiary will wind up, liquidate or dissolve its affairs or enter into any transaction of merger or consolidation (other than solely to change the jurisdiction of incorporation (to the extent done in compliance with the applicable provisions of the Security Agreement)), or convey, sell, lease or sublease (as lessor or sublessor), transfer or otherwise dispose of (or agree to do any of the foregoing at any future time) all or any part of its business, property or assets, or purchase or otherwise acquire (in one or a series of related transactions) all or substantially all the business, property or fixed assets of, or stock or other evidence of beneficial ownership of, any person or any division or line of business of any person (or agree to do any of the foregoing at any future time), except for:

(a) Capital Expenditures by Borrower and the Restricted Subsidiaries shall be permitted to the extent permitted by Section 10.08(d);

(b) (i) Asset Sales of used, worn out, obsolete or surplus Property by Borrower and the Restricted Subsidiaries in the ordinary course of business and the abandonment or other Asset Sale of Intellectual Property that is, in the reasonable judgment of Borrower, no longer economically practicable to maintain or useful in the conduct of the business of Borrower and its Restricted Subsidiaries taken as a whole shall be permitted; *provided, however,* that in each case the

proceeds thereof shall be reinvested in the business of Borrower or a Restricted Subsidiary within one year of such Asset Sale, and (ii) sales which would otherwise constitute Asset Sales but for the dollar thresholds contained in the definition of Asset Sales shall be permitted;

(c) so long as no Default then exists or would arise therefrom, any Asset Sale for fair market value shall be permitted so long as the aggregate amount of assets sold pursuant to this clause (c) does not exceed an amount of assets responsible for in excess of 5% of Consolidated EBITDA in any fiscal year; *provided, however,* that the Net Available Proceeds therefrom shall be applied as specified in Section 2.10(a)(iv);

(d) Investments may be made to the extent permitted by Section 10.04;

(e) Borrower and the Restricted Subsidiaries may sell Cash Equivalents in the ordinary course of business;

(f) each of Borrower and the Restricted Subsidiaries may lease (as lessee or lessor) real or personal property and may guaranty such lease in the ordinary course of business;

(g) the Transactions shall be permitted as contemplated by the Transaction Documents;

(h) licenses and sublicenses by Borrower or any of Restricted Subsidiaries of software, Intellectual Property and other general intangibles in the ordinary course of business shall be permitted that do not materially interfere with the ordinary conduct of business of Borrower or any such Restricted Subsidiary;

(i) Permitted Acquisitions in an aggregate amount not to exceed (A) if at the time of the Permitted Acquisition and after giving pro forma effect thereto the Consolidated Senior Leverage Ratio is greater than 2.50 to 1.00, $75.0 million *plus* amounts permitted under clause (j) below, (B) if at the time of the Permitted Acquisition and after giving pro forma effect thereto, the Consolidated Senior Leverage Ratio is 2.50 to 1.00 or less, but greater than 2.00 to 1.00, $100.0 million *plus* amounts permitted under clause (j) below, and (C) if at the time of the Permitted Acquisition and after giving pro forma effect thereto the Consolidated Senior Leverage Ratio is 2.00 to 1.00 or less, $125.0 million plus amounts permitted under clause (j) below;

(j) in addition to amounts permitted above, Permitted Acquisitions financed with the net proceeds of a substantially concurrent issuance of Qualified Capital Stock of Borrower or with such Qualified Capital Stock as consideration therefor, in an aggregate amount not to exceed $100.0 million; and

(k) Borrower or any Subsidiary Guarantor may transfer property or lease to or acquire or lease property from Borrower or any other Subsidiary Guarantor and any Restricted Subsidiary may transfer property to or lease property to Borrower or any Subsidiary Guarantor and any Restricted Subsidiary may be merged into Borrower (as long as Borrower is the surviving corporation of such merger) or any Subsidiary Guarantor and any Immaterial Subsidiary may be liquidated, wound up or dissolved; *provided, however,* that the Lien on and security interest in such property granted in favor of Administrative Agent under the Security Documents shall be maintained in accordance with the provisions of Section 10.02.

To the extent the Majority Lenders waive the provisions of this Section 10.05 with respect to the sale of any Collateral, or any Collateral is sold as permitted by this Section 10.05, such Collateral (unless sold to Borrower or its Subsidiaries) shall be sold free and clear of the Liens created by the Security Documents, and Collateral Agent shall take all actions appropriate in order to effect the foregoing at the sole cost and expense of Borrower and without recourse or warranty by Collateral Agent (including the execution and delivery of appropriate UCC-3 termination statements and such other instruments and releases as may be necessary and appropriate to effect such release).

SECTION 10.06. Dividends. Neither Borrower nor any of its Restricted Subsidiaries shall, directly or indirectly, declare or make any Dividend Payment at any time, except, without duplication, (x) any Restricted Subsidiary of Borrower may declare and make Dividend Payments to Borrower or any Wholly Owned Subsidiary of Borrower which is a Restricted Subsidiary, (y) any Restricted Subsidiary of Borrower, if such Restricted Subsidiary is not a Wholly Owned Subsidiary, may declare and make Dividend Payments to its equityholders generally so long as Borrower or its respective Restricted Subsidiary that owns the equity interest or interests in the Subsidiary making such Dividend Payments receives at least its proportionate share thereof (based upon its relative equity interests in the Restricted Subsidiary making such Dividend Payment), and (z) Borrower and its Restricted Subsidiaries may consummate the Transaction in accordance with the provisions of the Transaction Documents.

SECTION 10.07. Transactions with Affiliates. Neither Borrower nor any of its Restricted Subsidiaries shall enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of Property, the rendering of any service or the payment of any management, advisory or similar fees, with any Affiliate (other than Borrower or any Subsidiary Guarantor) unless such transaction is (a) otherwise permitted under this Agreement at the time entered into, (b) in the ordinary course of business of Borrower or such Restricted Subsidiary, as the case may be, and (c) upon fair and reasonable terms no less favorable

to Borrower or such Restricted Subsidiary, as the case may be, than it would obtain in a comparable arm's length transaction with a person that is not an Affiliate; *provided, however,* that notwithstanding the foregoing, Borrower and its Restricted Subsidiaries (i) may enter into indemnification and employment agreements and arrangements with directors, officers and employees and the transactions discussed in Borrower's SEC filings prior to the Closing Date and (ii) make Investments and Dividend Payments permitted hereunder.

SECTION 10.08. Financial Covenants.

(a) **Maximum Consolidated Total Leverage Ratio.** The Consolidated Total Leverage Ratio shall not, as of any Test Date (commencing with the first complete fiscal quarter ending after the Closing Date) during any period set forth in the table below, exceed the ratio set forth opposite such period in the table below:

Period	Ratio
January 1, 2003—March 31, 2003	5.25x
April 1, 2003—June 30, 2003	5.25x
July 1, 2003—September 30, 2003	5.25x
October 1, 2003—December 31, 2003	5.00x
January 1, 2004—March 31, 2004	5.00x
April 1, 2004—June 30, 2004	5.00x
July 1, 2004—September 30, 2004	5.00x
October 1, 2004—December 31, 2004	4.75x
January 1, 2005—March 31, 2005	4.75x
April 1, 2005—June 30, 2005	4.75x
July 1, 2005—September 30, 2005	4.75x
October 1, 2005—December 31, 2005	4.50x
January 1, 2006—March 31, 2006	4.50x
April 1, 2006—June 30, 2006	4.50x
July 1, 2006—September 30, 2006	4.50x
October 1, 2006—December 31, 2006	4.25x
January 1, 2007—March 31, 2007	4.25x
April 1, 2007—June 30, 2007	4.25x
July 1, 2007—September 30, 2007	4.25x
October 1, 2007 and thereafter	4.00x

(b) **Maximum Consolidated Senior Leverage Ratio.** The Consolidated Senior Leverage Ratio shall not, as of any Test Date (commencing with the first complete fiscal quarter ending after the Closing Date) during any period set forth in the table below, exceed the ratio set forth opposite such period in the table below:

Period	Ratio
January 1, 2003—March 31, 2003	3.50x
April 1, 2003—June 30, 2003	3.50x
July 1, 2003—September 30, 2003	3.50x
October 1, 2003—December 31, 2003	3.25x
January 1, 2004—March 31, 2004	3.25x
April 1, 2004—June 30, 2004	3.25x
July 1, 2004—September 30, 2004	3.25x
October 1, 2004—December 31, 2004	2.75x
January 1, 2005—March 31, 2005	2.75x
April 1, 2005—June 30, 2005	2.75x
July 1, 2005—September 30, 2005	2.75x
October 1, 2005—December 31, 2005	2.50x
January 1, 2006—March 31, 2006	2.50x
April 1, 2006—June 30, 2006	2.50x
July 1, 2006—September 30, 2006	2.50x
October 1, 2006 and thereafter	2.00x

(c) **Minimum Fixed Charge Coverage Ratio.** The Fixed Charge Coverage Ratio shall not, as of any Test Date (commencing with the first complete fiscal quarter ending after the Closing Date) during any period set forth in the table below, be less than the ratio set forth opposite such period in the table below:

Period	Ratio
January 1, 2003—March 31, 2003	1.20x
April 1, 2003—June 30, 2002	1.20x
July 1, 2003—September 30, 2003	1.20x
October 1, 2003—December 31, 2003	1.20x
January 1, 2004—March 31, 2004	1.20x
April 1, 2004—June 30, 2004	1.20x
July 1, 2004—September 30, 2004	1.20x
October 1, 2004—December 31, 2004	1.25x
January 1, 2005—March 31, 2005	1.25x

April 1, 2005—June 30, 2005	1.25x
July 1, 2005—September 30, 2005	1.25x
October 1, 2005—December 31, 2005	1.35x
January 1, 2006—March 31, 2006	1.35x
April 1, 2006—June 30, 2006	1.35x
July 1, 2006—September 30, 2006	1.35x
October 1, 2006 and thereafter	1.50x

(d) **Limitation on Capital Expenditures.** Borrower and its Restricted Subsidiaries shall not make or incur Capital Expenditures, except:

(i) Borrower and its Restricted Subsidiaries may make Maintenance Capital Expenditures in any fiscal year in an aggregate amount not to exceed 20% of Consolidated EBITDA for such fiscal year (the "**Maintenance CapEx Basket**"), *provided, however,* that an amount equal to 50% of the unused portion of the Maintenance CapEx Basket in any fiscal year may be carried forward to the following fiscal year; and, *provided, further, however,* that in any fiscal year credited with such carried forward amounts, the Company shall attribute any Maintenance Capital Expenditures first to the Maintenance CapEx Basket until such time as the Maintenance CapEx Basket is exhausted, before any Maintenance Capital Expenditures may be attributed to any such carried forward amounts.

(ii) Borrower and its Restricted Subsidiaries may make Expansion Capital Expenditures in any fiscal year in an aggregate amount not to exceed the sum of (A) $33.0 million at the Charles Town Facility; *provided, however,* that any Expansion Capital Expenditure at the Charles Town Facility shall not extend past December 31, 2004, (B) $40.0 million for the purpose of purchasing the leased real property located at the Boomtown Casino, Casino Rouge and Bullwhackers Casino; *provided, however,* that to the extent that an agreement can not be reached with respect to the purchase of the leased real property located at Boomtown Casino, $24.0 million of such Expansion Capital Expenditures under this clause (B) may be used for the purpose of the relocation of the Boomtown Casino, (C) the amount of actual borrowings under the Incremental Loans, if any, *plus* $100.0 million from the issuance of Equity Interests and (D) $10.0 million per annum, *provided, however,* that unutilized amounts for such fiscal year may be carried forward to the following fiscal year *provided, however*, any unutilized amounts carried forward shall only be used after the current years' amount has been utilized.

SECTION 10.09. Limitation on Modification of Indebtedness; Modifications of Certificate of Incorporation and Certain Other Agreements, Etc. Neither Borrower nor any of its Restricted Subsidiaries shall (i) amend or modify, or permit the amendment or modification of, any provision of

material Indebtedness ("**Material Indebtedness**") or of any agreement (including any purchase agreement, indenture, loan agreement or security agreement) relating thereto other than any amendments or modifications to Indebtedness that do not in any way materially adversely affect the interests of the Lenders and are otherwise permitted under Section 10.01(b); (ii) amend or modify, or permit the amendment or modification of, any other Transaction Document, in each case except for amendments or modifications which are not in any way adverse in any material respect to the interests of the Lenders; or (iii) amend, modify or change its articles of incorporation or other constitutive documents (including by the filing or modification of any certificate of designation) or bylaws, or any agreement entered into by it, with respect to its capital stock (including any shareholders' agreement), or enter into any new agreement with respect to its capital stock, other than any amendments, modifications, agreements or changes pursuant to this clause (iii) or any such new agreements pursuant to this clause (iii) which do not in any way materially adversely affect in any material respect the interests of the Lenders.

SECTION 10.10. Certain Payments of Indebtedness. (a) None of Borrower or any of its Restricted Subsidiaries will, nor will they permit any Restricted Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Indebtedness, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Indebtedness, except with respect to:

(i) Indebtedness created under the Credit Documents;

(ii) payment of regularly scheduled interest and principal payments as and when due in respect of any Indebtedness;

(iii) refinancings of Indebtedness to the extent permitted by Section 10.01 and Indebtedness incurred pursuant to Section 10.01(p);

(iv) payment of secured Indebtedness out of the proceeds of any sale or transfer of the property or assets securing such Indebtedness;

(v) so long as no Loans are then outstanding under the Term C Facility and the Total Consolidated Leverage Ratio is less than 3.00 to 1.00, payment of or repurchase, redemption, retirement, acquisition or cancellation of Borrower's and its Restricted Subsidiaries' Permitted Subordinated Indebtedness and/or Borrower Outstanding Bonds with all or any portion of the amounts by which Borrower offered to prepay the Term Loans *(pro rata* to the Term A Facility Loans and the Term B Facility Loans then outstanding) in accordance with Section 2.09(b)(iii) but that were declined in accordance with such Section 2.09(b)(iii);

(vi) payment of Indebtedness owing to Borrower or any Subsidiary Guarantor

(vii) redemptions, repurchases or acquisitions of the Target Subsidiary Bonds, the Target Non-Callable Bonds and Target's $50,000,000 Floating Rate Senior Secured Notes due 2006;

(viii) Capital Lease Obligations, Purchase Money Obligations and interest rate swaps otherwise permitted under the Credit Documents; and

(ix) conversions of Permitted Subordinated Indebtedness in accordance with the terms of such Permitted Subordinated Indebtedness.

SECTION 10.11. Limitation on Certain Restrictions Affecting Subsidiaries. None of Borrower or any of its Restricted Subsidiaries shall, directly or indirectly, create any consensual encumbrance or restriction on the ability of any Restricted Subsidiary of Borrower to (a) pay dividends or make any other distributions on such Restricted Subsidiary's Equity Interests or any other interest or participation

in its profits owned by Borrower or any of its Restricted Subsidiaries, or pay any Indebtedness or any other obligation owed to Borrower or any of its Restricted Subsidiaries, (b) make Investments in or to Borrower or any of its Restricted Subsidiaries, or (c) transfer any of its Property to Borrower or any of its Restricted Subsidiaries, *except* that each of the following shall be permitted (i) any such encumbrances or restrictions existing under or by reason of (x) applicable Law (including any Gaming Law and any regulations, order or decrees of any Gaming Authority) or (y) the Credit Documents, (ii) restrictions on the transfer of Property subject to a Permitted Lien permitted under Section 10.02, (iii) customary restrictions on subletting or assignment of any lease governing a leasehold interest of any Company, (iv) restrictions on the transfer of any Property subject to an Asset Sale permitted under this Agreement, (v) restrictions contained in existing Indebtedness, (vi) restrictions contained in Permitted Subordinated Indebtedness and Permitted Refinancings and other Indebtedness permitted under Section 10.01, and (vii) customary restrictions in joint venture arrangements.

SECTION 10.12. Limitation on the Issuance of Equity Interests. No Restricted Subsidiary of Borrower will issue any Equity Interest (including by way of sales of treasury stock) or any options or warrants to purchase, or securities convertible into, Equity Interests, except (i) for stock splits, stock dividends and additional Equity Interest issuances which do not decrease the percentage ownership of Borrower or any Restricted Subsidiary in any class of the Equity Interest of such Restricted Subsidiary; (ii) Restricted Subsidiaries of Borrower formed after the Closing Date pursuant to Section 10.13 may issue Equity Interests to Borrower or the respective Restricted Subsidiary of Borrower which is to own such stock; and (iii) the Restricted Subsidiaries may issue to Borrower and to other Restricted Subsidiaries of Borrower common stock that is Qualified Capital Stock. All Equity Interests issued to any Credit Party in accordance with this Section 10.12 shall, to the extent required by the Security Agreement, be delivered to Administrative Agent for pledge pursuant to the Security Agreement.

SECTION 10.13. Limitation on the Creation of Subsidiaries. Except as permitted by Section 10.04(g) and in connection with Acquisitions permitted hereunder, neither Borrower nor any Restricted Subsidiary shall establish, create or acquire any additional Subsidiaries without the prior written consent of Administrative Agent; *provided* that Borrower may establish or create one or more Subsidiaries of Borrower or one of its Subsidiaries without such consent so long as (i) 100% of the Equity Interest of any new Subsidiary (other than a Foreign Subsidiary) is upon the creation or establishment of any such new Subsidiary pledged and delivered to Administrative Agent for the benefit of the Secured Parties (as defined in the Security Agreement) under the Security Agreement and (ii) upon the creation or establishment of any such new Subsidiary such Subsidiary (other than a Foreign Subsidiary) executes a Joinder Agreement and becomes a party to the applicable Security Documents in accordance with Section 9.12 and the other Credit Documents.

SECTION 10.14. Limitation on Lines of Business. Neither Borrower nor any Restricted Subsidiary shall directly or indirectly engage to any material extent in any line or lines of business activity other than the business of the type conducted or proposed to be conducted by the Companies as of the Closing Date (after giving effect to the Transactions) and any other businesses reasonably related or incidental thereto.

SECTION 10.15. Limitation on Accounting Changes; Limitation on Investment Company Status. Neither Borrower nor any Restricted Subsidiary shall (i) make or permit any change in accounting policies or reporting practices from those in effect for Borrower on the date hereof, except changes that would not result in a Material Adverse Effect, those required by the SEC or as required or permitted by GAAP, or (ii) change its fiscal year end (December 31 of each year). No Credit Party shall be or become an investment company subject to the registration requirements under the United States Investment Company Act of 1940, as amended.

ARTICLE XI

EVENTS OF DEFAULT

SECTION 11.01. Events of Default. If one or more of the following events (herein called "**Events of Default**") shall occur and be continuing:

(a) any representation or warranty made or deemed made pursuant to any Credit Document or the borrowings or issuances of Letters of Credit hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished pursuant to any Credit Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of (i) any principal of any Loan or the reimbursement with respect to any Reimbursement Obligation when and as the same shall become due and payable (whether at the stated maturity upon prepayment or repayment or by acceleration thereof or otherwise) and (ii) any interest on any Loans when and as the same shall become due and payable, and such default shall continue unremedied for a period of three Business Days;

(c) default shall be made in the payment of any fee or any other amount (other than an amount referred to in (b) above) due under any Credit Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five Business Days;

(d) default shall be made in the due observance or performance by any Company of any covenant, condition or agreement contained in Section 9.01(a), 9.04(f), 9.07 or in Article X;

(e) default shall be made in the due observance or performance by Borrower or any of its Restricted Subsidiaries of any covenant, condition or agreement contained in any Credit Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied or shall not be waived for a period of 30 days after written notice thereof from Administrative Agent or any Lender to Borrower;

(f) Borrower or any of its Restricted Subsidiaries shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness (other than the Obligations), when and as the same shall become due and payable (after giving effect to any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness or any event or condition occurs, if the effect of any failure or occurrence referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice but giving effect to applicable grace periods) to cause, such Indebtedness to become due prior to its stated maturity; *provided* that it shall not constitute an Event of Default pursuant to this paragraph (f) unless the aggregate amount of all such Indebtedness referred to in clauses (i) and (ii) exceeds $10.0 million at any one time;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of Borrower or any of its Restricted Subsidiaries, or of a substantial part of the property or assets of Borrower or any of its Restricted Subsidiaries,

under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal, state or foreign bankruptcy, insolvency, receivership or similar law; (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Borrower or any of its Restricted Subsidiaries or for a substantial part of the property or assets of Borrower or any of its Restricted Subsidiaries; or (iii) the winding-up or liquidation of Borrower or any of its Restricted Subsidiaries; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) Borrower or any of its Restricted Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal, state or foreign bankruptcy, insolvency, receivership or similar law; (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above; (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Borrower or any of its Restricted Subsidiaries or for a substantial part of the property or assets of Borrower or any of its Restricted Subsidiaries; (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding; (v) make a general assignment for the benefit of creditors; (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due; (vii) take any action for the purpose of effecting any of the foregoing; or (viii) wind up or liquidate (except as permitted hereunder);

(i) one or more judgments for the payment of money in an aggregate amount in excess of $10.0 million (to the extent not covered by third party insurance) shall be rendered against Borrower or any of its Restricted Subsidiaries or any combination thereof and the same shall remain undischarged for a period of 60 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of Borrower or any of its Subsidiaries to enforce any such judgment;

(j) an ERISA Event shall have occurred that, when taken together with all other such ERISA Events, is reasonably likely to result in a liability of Borrower or any of its Subsidiaries in an aggregate amount exceeding $10.0 million;

(k) with respect to any Collateral, any security interest and Lien purported to be created by any Security Document shall cease to be in fall force and effect, or shall cease to give Collateral Agent, for the benefit of the Secured Parties, the Liens, rights, powers and privileges purported to be created and granted under such Security Documents (including (a) for the benefit of the First Priority Secured Parties a perfected first priority security interest in and Lien on all of the collateral thereunder and (b) for the benefit of the Second Priority Secured Parties a perfected second priority security interest in and Lien on all of the Collateral thereunder (except as otherwise expressly provided in this Agreement or such Security Documents)) in favor of Collateral Agent, or shall be asserted by Borrower, any other Credit Party or anyone else not to be a valid, perfected, first priority or second priority, as the case may be (except as otherwise expressly provided in this Agreement or such Security Document), security interest in or Lien on the Collateral covered thereby;

(l) any Guarantee shall cease to be in full force and effect or any of the Subsidiary Guarantors repudiates, or attempts to repudiate, any of its obligations under any of the Guarantees (except to the extent such Guarantee ceases to be in effect in connection with (i) a merger of one Subsidiary Guarantor into another Subsidiary Guarantor permitted pursuant to Section 10.05(j)), (ii) the liquidation, winding up or dissolution of an Immaterial Subsidiary) or (iii) the sale of a Subsidiary Guarantor permitted hereunder;

(m) any Credit Document or any material provisions thereof shall at any time and for any reason be declared by a court of competent jurisdiction to be null and void, or a proceeding shall be commenced by any Credit Party or any other person, or by any Governmental Authority, seeking to establish the invalidity or unenforceability thereof (exclusive of questions of interpretation of any provision thereof), or any Credit Party shall repudiate or deny that it has any liability or obligation for the payment of principal or interest or other obligations purported to be created under any Credit Document;

(n) there shall have occurred a Change of Control; or

(o) there shall have occurred a License Revocation by any Gaming Authority in a jurisdiction in which Borrower or any of its Restricted Subsidiaries owns or operates a Gaming Facility which, individually or in the aggregate, could reasonably be expected to result in a reduction of more than 5% of the gross revenues of the Borrower and its Restricted Subsidiaries on a consolidated basis; *provided* that such License Revocation continues for at least thirty (30) consecutive days;

then, and in every such event (other than an event described in paragraph (g) or (h) above with respect to Borrower), and at any time thereafter during the continuance of such event, Administrative Agent, at the request of the Majority Lenders, shall, by notice to Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued fees and all other liabilities of Borrower accrued hereunder and under any other Credit Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by Borrower, anything contained herein or in any other Credit Document to the contrary notwithstanding; and in any event described in paragraph (g) or (h) above with respect to Borrower, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued fees and all other liabilities of Borrower accrued hereunder and under any other Credit Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by Borrower, anything contained herein or in any other Credit Document to the contrary notwithstanding.

ARTICLE XII

AGENTS

SECTION 12.01. General Provisions. Each of the Lenders, Agents, Swingline Lender and L/C Lender hereby irrevocably appoints Administrative Agent as its agent and authorizes Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to Administrative Agent by

the terms hereof and the Security Documents, together with such actions and powers as are reasonably incidental thereto. Administrative Agent agrees to give promptly to each Lender a copy of each notice or other document received by it pursuant to any Credit Document (other than any that are required to be delivered to the Lenders by any Credit Party). Notwithstanding any of the foregoing, the Majority Lenders may replace Administrative Agent at any time in the event of willful misconduct or gross negligence by Administrative Agent in the administration of the duties and obligations expressly authorized herein as determined by a court of competent jurisdiction.

The Lender or other financial institution serving as any Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not such Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with any Company or other Affiliate thereof as if it were not such Agent hereunder.

No Agent shall have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) no Agent shall be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) no Agent shall have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that such Agent is required to exercise in writing by the Majority Lenders (or such other number or percentage of the Lenders as shall be required by Section 13.04), and (c) except as expressly set forth herein, no Agent shall have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Company that is communicated to or obtained by the financial institution serving as such Agent or any of its Affiliates

in any capacity. No Agent shall be liable for any action taken or not taken by it with the consent or at the request of the Majority Lenders (or such other number or percentage of the Lenders as shall be required by Section 13.04) or in the absence of its own gross negligence or willful misconduct. No Agent shall be deemed to have knowledge of any Default unless and until written notice thereof is given to Administrative Agent and such Agent by Borrower or a Lender, and no Agent shall be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Credit Document, (ii) the contents of any certificate, report or other document delivered hereunder or under any other Credit Document or in connection herewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (iv) the validity, enforceability, effectiveness or genuineness of any Credit Document or any other agreement, instrument or document, (v) the satisfaction of any condition set forth in Article VII or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to such Agent or (vi) making a determination that any condition precedent set forth in Article VII that is to be to such Agent's satisfaction is satisfied.

Each Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper person. Each Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper person, and shall not incur any liability for relying thereon. Each Agent may consult with legal counsel (who may be counsel for Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts. Each Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with such Agent. Each Agent shall be fully justified in failing or refusing to take any action under any Credit Document unless it shall first receive such advice or concurrence of the Majority Lenders (or, if so specified by this Agreement, all Lenders or such other number or percentage of the Lenders as shall be required by Section 13.04) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action (it being understood that this provision shall not release Administrative Agent from performing any action with respect to Borrower expressly required to be performed by it pursuant to the terms hereof) under this Agreement. Each Agent shall in all cases be fully protected in acting, or in refraining from acting, under any Credit Document in accordance with a request of the Majority Lenders *provided*, *however*, that any Agent shall be required to act or refrain from acting at the request of all of the Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

Each Agent may perform any and all of its duties and exercise its rights and powers by or through any one or more sub-agents appointed by such Agent and reasonably acceptable to Borrower. Each Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers through their respective Affiliates, directors, officers, employees, agents and advisors ("**Agent Related Parties**"). The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Agent Related Parties of each Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities of such Agent.

Subject to the appointment and acceptance of a successor Agent as provided in this paragraph, any Agent may resign at any time by notifying the Lenders, L/C Lender (with respect to Administrative Agent only) and Borrower. Upon any such resignation, the Majority Lenders shall have the right to appoint a successor which, so long as no Event of Default is continuing, shall be reasonably acceptable to Borrower. If no successor shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then

the retiring Agent may, on behalf of the Lenders and L/C Lender, appoint a successor Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank which, so long as no Event of Default is continuing, shall be reasonably acceptable to Borrower. Upon the acceptance of its appointment as Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. The fees payable by Borrower to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between Borrower and such successor. After Agent's resignation hereunder, the provisions of this Article XII shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Agent Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as such Agent.

Subject to compliance with applicable Gaming Laws, Lead Arrangers may replace Collateral Agent at any time for any reason with another institution with the consent of Borrower (which will not be unreasonably withheld or delayed and shall not be required during the continuance of an Event of Default). The appointment of any successor Collateral Agent shall be effective upon the acceptance of such appointment.

The Lenders identified in this Agreement as the Syndication Agent and the Documentation Agents shall not have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders. Without limiting the foregoing, none of the Syndication Agent or the

Documentation Agents shall have or be deemed to have a fiduciary relationship with any Lender. Each Lender hereby makes the same acknowledgments with respect to the Syndication Agent and the Documentation Agents as it makes with respect to the Administrative Agent or any other Lender in this Article XII.

Each Lender acknowledges that it has, independently and without reliance upon any Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder. No Agent shall be deemed a trustee or other fiduciary on behalf of any party.

SECTION 12.02. Indemnification. Each Lender agrees to indemnify and hold harmless each Agent (to the extent not reimbursed under Section 13.03, but without limiting the obligations of any Credit Party under Section 13.03), ratably in accordance with the aggregate principal amount of the respective Commitments of and/or Loans and Reimbursement Obligations held by the Lenders (or, if all of the Commitments shall have been terminated or expired, ratably in accordance with the aggregate outstanding amount of the Loans and Reimbursement Obligations held by the Lenders), for any and all liabilities (including pursuant to any Environmental Law), obligations, losses, damages, penalties, actions, judgments, deficiencies, suits, costs, expenses (including reasonable attorney's fees) or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against such Agent (including by any Lender) arising out of or by reason of any investigation in or in any way relating to or arising out of any Credit Document or any other documents contemplated by or referred to therein for any action taken or omitted to be taken by such Agent under or in respect of any of the Credit Documents or other such documents or the transactions contemplated thereby (including the costs and expenses that the Credit Parties are obligated to pay under Section 13.03, and including also any payments under any indemnity granted pursuant to Section 12.04 of the Security Agreement, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; *provided, however,* that no Lender shall be liable for

any of the foregoing to the extent resulting from the gross negligence, bad faith or willful misconduct of the party to be indemnified. The agreements set forth in this Section 12.02 shall survive the payment of all Loans and other obligations hereunder and shall be in addition to and not in lieu of any other indemnification agreements contained in any other Credit Document.

SECTION 12.03. Consents Under Other Credit Documents. Except as otherwise provided in the Credit Documents including, without limiting Section 13.04 hereof Administrative Agent may, with the prior consent of the Majority Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the other Credit Documents.

SECTION 12.04. Collateral Sub-Agents. Each Lender by its execution and delivery of this Agreement agrees, as contemplated by Article VIII of the Security Agreement, that, in the event it shall hold any Cash Equivalents referred to therein, upon the written request of Administrative Agent following the occurrence of an Event of Default and the execution and delivery by Administrative Agent, such Lender and the applicable Credit Party of a mutually acceptable control agreement with respect to such Cash Equivalent (it being understood that no Lender is obligated to enter into any such control agreement), such Cash Equivalents shall be held in the name and under the control of such Lender, and such Lender shall hold such Cash Equivalents as a collateral sub-agent for Administrative Agent thereunder. Each Credit Party by its execution and delivery of this Agreement hereby consents to the foregoing. In such event, such Lender acting in the capacity of a sub-agent shall be afforded all protections set forth in this Article XII as if acting as Administrative Agent with respect to such holdings. Notwithstanding anything in this Agreement or any other Credit Document to the contrary, except as set forth in Section 4.07 hereof, no Lender (other than Administrative Agent acting in such capacity) which is acting as a Financial Intermediary (as defined in the Security Agreement) with respect to any Securities Collateral (as defined in the Security Agreement) shall have any duty or obligation (whether express or implied) to the other Lenders in respect of such Securities Collateral or the disposition thereof unless such Lender, Administrative Agent and the applicable Credit Party have entered into a Financial Account Consent Agreement (as defined in the Security Agreement) or other control or similar agreement with respect to such Securities Collateral (it being understood that no Lender shall have any obligation to enter into any such agreement).

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01. Waiver. No failure on the part of any Creditor to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under any Credit Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

SECTION 13.02. Notices. All notices, requests and other communications provided for herein and under the Security Documents (including any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including by facsimile) delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof (or any Subsidiary Guarantor, as so specified for Borrower) or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by facsimile or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid. Any Notice of Borrowing or Notice of Continuation/Conversion shall be deemed to have been received when actually received.

SECTION 13.03. Expenses, Indemnification, Etc. (a) The Credit Parties, jointly and severally, agree to pay or reimburse:

(i) Agents and the Swingline Lender for all of their reasonable out-of-pocket costs and expenses (including the reasonable fees and expenses of Cahill Gordon & Reindel (and one local counsel in each jurisdiction reasonably deemed necessary by Agents)) in connection with (1) the negotiation, preparation, execution and delivery of the Credit Documents and the extension and syndication of credit hereunder, (2) the negotiation, preparation,

execution and delivery of any modification, supplement, amendment or waiver of any of the terms of any Credit Document (whether or not consummated or effective) requested by the Credit Parties, (3) following the occurrence and during the continuance of an Event of Default, the enforcement of any Credit Document, and (4) the syndication of the Loans and Commitments;

(ii) each Creditor for all reasonable out-of-pocket costs and expenses of such Creditor (including the reasonable fees and expenses of one legal counsel for Lenders and Agents) in connection with (1) any enforcement or collection proceedings resulting from any Default, including all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated), (2) the enforcement of this Section 13.03 and (3) any documentary taxes; and

(iii) Administrative Agent for all reasonable costs, expenses, taxes, assessments and other charges (including reasonable fees and disbursements of counsel) incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by any Credit Document or any other document referred to therein.

Without limiting the rights of any Lender under this Section 13.03(a), each Lender, upon request of Borrower from time to time, will advise Borrower of an estimate of any amount anticipated to be recovered under this Section 13.03(a).

(b) The Credit Parties, jointly and severally, hereby agree to indemnify each Creditor and their respective Affiliates, directors, trustees, officers, employees and agents (each, an "**Indemnitee**") from, and hold each of them harmless against, and that no Indemnitee will have any liability for, any and all Losses incurred by any of them (including any and all Losses incurred by any Agent, the Swingline Lender or L/C Lender to any Lender, whether or not any Creditor is a party thereto) directly or indirectly arising out of or by reason of or relating to the negotiation, execution, delivery, performance, administration or enforcement of any Credit Document, any of the transactions contemplated by the Credit Documents (including the Transactions), any breach by any Company of any representation, warranty, covenant or other agreement contained in any Credit Document in connection with any of the Transactions, the use or proposed use of any of the Loans or Letters of Credit, the issuance of or performance under any Letter of Credit or the use of any collateral security for the Loans (including the exercise by any Creditor of the rights and remedies or any power of attorney with respect thereto and any action or inaction in respect thereof), including all amounts payable by any Lender pursuant to Section 12.02, but excluding any such Losses to the extent finally determined by a court of competent jurisdiction to have arisen solely from the gross negligence, bad faith or willful misconduct of the Indemnitee.

Without limiting the generality of the foregoing, the Credit Parties, jointly and severally, will indemnify each Creditor and each other Indemnitee from, and hold each Creditor and each other Indemnitee harmless against, any Losses described in the preceding sentence arising under any Environmental Law as a result of (i) the past, present or future operations of any Company (or any predecessor in interest to any Company), (ii) the past, present or future condition of any site or facility owned, operated, leased or used at any time by any Company (or any such predecessor in interest) to

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the extent such Losses arise from or relate to the parties relationship under the Credit Documents or to any Company's (or such predecessor in interest's) (A) ownership, operation, lease or use of such site or facility or (B) any aspect of the respective business or operations of such parties, and, in each case shall include, without limitation, any and all such Losses for which any Company could be found liable, or (iii) any Release or threatened Release of any Hazardous Materials at, on, under or from any such site or facility to the extent such Losses arise from or relate to the parties relationship under the Credit Documents or to any Company's (or such predecessor in interest's) (A) ownership, operation, lease or use of such site or facility or (B) any aspect of the respective business or operations of such parties, and, in each case shall include, without limitation, any and all such Losses for which any Company could be found liable, including any such Release or threatened Release that shall occur during any period when any Creditor shall be in possession of any such site or facility following the exercise by such Creditor of any of its rights and remedies hereunder or under any of the Security Documents; *provided, however,* that the indemnity hereunder shall be subject to the exclusions from indemnification set forth in the preceding sentence.

To the extent that the undertaking to indemnify and hold harmless set forth in this Section 13.03 or any other provision of any Credit Document providing for indemnification is unenforceable because it is violative of any law or public policy or otherwise, the Credit Parties, jointly and severally, shall contribute the maximum portion that each of them is permitted to pay and satisfy under applicable law to the payment and satisfaction of all indemnified liabilities incurred by any of the persons indemnified hereunder.

The Credit Parties also agree that no Indemnitee shall have any liability (whether direct or indirect, in contract or tort or otherwise) for any Losses to any Credit Party or any Credit Party's security holders or creditors resulting from, arising out of, in any way related to or by reason of any matter referred to in any indemnification or expense reimbursement provisions set forth in any Credit Document, except to the extent that any Loss is determined by a court of competent jurisdiction in a final nonappealable judgment to have resulted from the gross negligence, bad faith or willful misconduct of such Indemnitee.

The Credit Parties agree that, without the prior written consent of Administrative Agent, Lead Arrangers and the Majority Lenders, which consent shall not be unreasonably withheld, no Credit Party will settle, compromise or consent to the entry of any judgment in any pending or threatened Proceeding in respect of which indemnification is reasonably likely to be sought under the indemnification provisions of this Section 13.03 (whether or not any Indemnitee is an actual or potential party to such Proceeding), unless such settlement, compromise or consent includes an unconditional written release of each Indemnitee from all liability arising out of such Proceeding and does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of any Indemnitee and does not involve any payment of money or other value by any Indemnitee or any injunctive relief or factual findings or stipulations binding on any Indemnitee.

SECTION 13.04. Amendments, Etc. (i) No provision of any Credit Document may be amended, modified or supplemented except by an instrument in writing signed by the Credit Parties party thereto and the Majority Lenders, or by the Credit Parties party thereto and Administrative Agent acting with the written consent of the Majority Lenders, and no provision of any Credit Document may be waived except by an instrument in writing signed by the Credit Parties party thereto and the Majority Lenders, or by the Credit Parties party thereto and Administrative Agent acting with the written consent of the Majority Lenders; *provided, however,* that:

(a) no amendment, modification, supplement or waiver shall, unless by an instrument signed by each Lender or by Administrative Agent acting with the written consent of each Lender (with the consent of Lenders having Obligations directly affected thereby in the case of clauses (II) (it being understood that the consent of no other Lender or Agent is needed in each such case)):

(I) extend the scheduled final maturity of any Loan or Note, or extend the expiration date of any Letter of Credit beyond the R/C Maturity Date, or reduce the rate of interest (other than any waiver of any increase in the interest rate applicable to any of the Loans pursuant to clause (b) of Section 3.02) or fees thereon, or extend the time of payment of interest or fees thereon (other than in connection with the extension of any scheduled payment hereunder otherwise permitted hereby), or reduce the principal amount thereof, or make any change to the definition of Applicable Margin or Applicable Fee Percentage (or *Annex B*) (it being understood that any increase in the rate of interest or fee applicable to the Loans only requires the consent of the Majority Lenders and any increase in a Lender's Commitment shall require the consent of such Lender), or, subject to Section 13.04(iv), make any change to the penultimate sentence of the first paragraph of Section 2.09, or reduce the Reimbursement Obligation in respect of any Letter of Credit, (II) extend the final maturity of any of the Commitments or amend Section 2.04(a), (III) change the currency in which any Obligation is payable, (IV) amend the terms of this Section 13.04 or clause (iv) of Section 13.06(b), Section 4.02, 4.07, Article V or 12.03, (V) reduce the percentages specified in the definition of the term "Majority Lenders" or amend any provision of any Credit Document requiring the consent of all the Lenders or reduce any other percentage of the Lenders required to make any determinations or waive any rights hereunder or to modify any provision hereof (it being understood, however, that only the consent of the Lenders included in such percentage need be obtained), (VI) release all or substantially all of the Subsidiary Guarantors from their obligations under Article VI (unless permitted by this Agreement), (VII) consent to the assignment or transfer by Borrower of any of its rights and obligations under any Credit Document (except that in a transaction permitted by Section 10.05 resulting in any Credit Party (except Borrower) assigning its rights and obligations under the Credit Documents to any other Credit Party no consent of any Lender or Agent need be obtained), (VIII) release all or substantially all the Collateral or terminate the Lien under any Credit Document in respect of all or substantially all the Collateral (except as permitted by the Credit Documents) or agree to additional obligations (other than the Obligations and any other extensions of credit under this Agreement (or any other agreement) consented to by the Majority Lenders) being secured by the Collateral, (IX) amend Section 13.03 or any other indemnification and expense reimbursement provision set forth in any Credit Document in any manner adverse to any Creditor or (X) provide for Interest Periods with a longer period than the then longest available Interest Period;

(b) no such amendment or waiver shall increase the Commitments of any Lender over the amount thereof then in effect without the consent of such Lender (it being understood that amendments or waivers of conditions precedent, covenants or Defaults shall not constitute an increase of the Commitment of any Lender);

(c) any modification or supplement of or waiver with respect to Article XII which affects any Agent in its capacity as such shall require the consent of such Agent;

(d) no consent of any Lender need be obtained, and Administrative Agent is hereby authorized, to release any Lien securing the Obligations on Property which is the subject of any disposition permitted by the Credit Documents and to release any Guarantee of a Subsidiary upon the sale of a majority of the Equity Interests of such Subsidiary in accordance with the Credit Documents;

(e) subject to clause (a)(I) of the proviso to this Section 13.04(i), the consent of all of the Lenders of the affected Term Facility (but no other Lender or Agent) shall be required with respect to any extension of any scheduled Amortization Payment or any reduction in the amount of any scheduled Amortization Payment (except in accordance with Section 2.09 or Section 2.10);

(f) subject to Section 13.04(iv), no modification, supplement or waiver shall alter the provisions of the first paragraph of Section 2.10(b) in a manner that would reduce the proportion

of any prepayment under Section 2.10(a) to be allocated to any Tranche or the order of application among the Tranches or the order of application to Loans within a Tranche or change the right of any Tranche to decline or to accept prepayments pursuant to Section 2.09(b) or 2.10(b), in each case without the consent of the Requisite Tranche Lenders of the Tranche proposed to be allocated a lesser prepayment or to have its order of priority changed or have the order of application within such Tranche changed as a result thereof (it being understood that the increase of any Tranche or the addition of a new tranche of credit that is afforded substantially the same rights under Section 2.10(b) as the Tranches of the same type are then treated under Section 2.10(b) shall only require the consent of the Majority Lenders); *provided* that no such consent is required in connection with the Incremental Loan Facility;

(g) no reduction of the percentage specified in the definition of "Majority Revolving Lenders" shall be made without the consent of each Revolving Lender (it being understood that no consent of any other Lender or Agent is needed);

(h) no reduction of the percentage specified in any subclause of the definition of "Requisite Tranche Lenders" shall be made without the consent of each Lender of the Tranche contemplated by such subclause (it being understood that no consent of any other Lender or Agent is needed);

(i) no amendment or waiver shall affect the rights or duties of L/C Lender in its capacity as such or alter the obligation of any Revolving Lender pursuant to Section 2.03(e) or 2.03(f) without the consent of L/C Lender;

(j) no amendment or waiver shall affect the rights or duties of the Swingline Lender in its capacity as such or alter the obligations of the Swingline Lender pursuant to Section 2.01(g) without the consent of the Swingline Lender;

(k) no consent of any Lender need be obtained to effect any amendment of any Credit Document necessary to comply with Section 9.09 or Section 9.12;

(l) no amendment, modification, supplement or waiver may be made to any condition precedent to any extension of credit under the Revolving Facility set forth in subsection 7.02 without the written consent of the Majority Revolving Lenders, it being understood that amendments to or waivers of any representation or warranty or any covenant contained in any Credit Document, or of any Default, shall be deemed to be effective for purposes of determining whether the conditions precedent set forth in subsection 7.02 to the making of any extension of credit under the Revolving Loans have been satisfied regardless of whether the Majority Revolving Lenders shall have consented to such amendment or waiver;

(m) so long as any Term A Facility Loans, Revolving Loans, Incremental Loans (to the extent they are revolving loans), Swingline Loans or L/C Liabilities are outstanding or any Revolving Commitments are in effect, the date then in effect for any scheduled Amortization Payment or the scheduled

final maturity of any Term B Facility Loans, Term C Facility Loans or Incremental Loans (if such Incremental Loan is a Term Loan) having the terms thereof may not be made earlier than the date then in effect and the then applicable amount of any such Amortization Payment (other than the last Amortization Payment thereon) may not be increased without the consent of the Lenders holding a majority of the sum of the Revolving Loans, L/C Liabilities, Swingline Exposure, Unutilized R/C Commitments then in effect and Term A Facility Loans (such Lenders holding such credit exposure, the "**Majority Pro Rata Lenders**") then outstanding;

(n) no material change shall be made to the definition of "Eligible Person" or to Section 2.11(b) if such change violates any Gaming Law or if any applicable Gaming Authority prohibits such change; and

(o) no amendment, modification, supplement or waiver may be made to any covenants set forth in Section 10.08(a), (b) and (c) (excluding any component definitions relating thereof) without the written consent of (i) the Revolving Majority Lenders (including such Incremental Loans that are Revolving Loans) and (ii) with respect to those Lenders having Term A Facility Loans and Term A Facility Commitments, Term B Facility Loans and Term B Facility Commitments, Term C Facility Loans and Term C Facility Commitments, and any Incremental Loans or Incremental Loan Facility Commitments that are term loans, Lenders having at least a majority of the aggregate sum of the Term A Facility Loans and Term A Facility Commitments then outstanding, the Term B Facility Loans and Term B Facility Commitments then outstanding, the Term C Facility Loans and Term C Facility Commitments then outstanding, and the Incremental Loans that are term loans and Incremental Loan Facility Commitments that are term loans then outstanding.

(ii) If, in connection with any proposed change, waiver, discharge or termination to any of the provisions of this Agreement as contemplated by Section 13.04(i)(a), the consent of the Majority Lenders is obtained but the consent of one or more of such other Lenders whose consent is required is not obtained, then Borrower shall have the right to replace one or more of such non-consenting Lender or Lenders with one or more Replacement Lenders pursuant to Section 2.11 so long as at the time of such replacement each such Replacement Lender consents to the proposed change, waiver, discharge or termination.

(iii) Notwithstanding anything herein to the contrary, (A) with the consent of the Majority Lenders, other additional extensions of credit pursuant to this Agreement may be included in the determination of the Majority Lenders, Majority Revolving Lenders and Requisite Tranche Lenders without notice to or consent of any other Lender or Agent on substantially the same basis as the Commitments (and related extensions of credit) are included on the Closing Date, and (B) it is agreed and understood that, subject to clauses (f), (m) and (n) of Section 13.04(i), any prepayment required by Section 2.10 (and any corresponding reduction of the Revolving Commitments) may be modified, supplemented or waived by the Majority Lenders.

(iv) Notwithstanding anything herein to the contrary, upon any additional extensions of credit under this Agreement being approved by the written consent of the Majority Lenders, Lead Arrangers, Administrative Agent and the Credit Parties are hereby authorized to effect amendments (without notice to or the consent of any other Lender or Agent) to (i) Sections 1.01 and 1.03 for the purpose of including such appropriate defined terms as may be necessary and apply to such additional extensions of credit being incorporated into this Agreement to identify it as a separate Class of Loans (and within the definition of "Commitments," "Loans," etc.) hereunder (if necessary), and to include it in the various defined terms relating to required percentages of outstanding extensions of credit hereunder for purposes of amendments and waivers to the Credit Documents (e.g., "Majority Lenders," "Requisite Tranche Lenders") so long as treated on substantially the same terms as other Classes of Loans are then treated; (ii) Section 2.08 to effect conforming changes to reflect such new Class; (iii) Section 2.09 to treat any such new Class that is a term extension of credit on substantially the same terms as the Term Facilities are then treated (including, for any new Class held by lenders similar to the Lenders of the Term B Facility and Incremental Loan Facilities having the terms thereof, the provisions of Section 2.09(b)) (it being understood that the order of application of optional prepayments to amortization payments for such new Class shall be as agreed between the Credit Parties and the lenders extending such new credit in their sole discretion) and to treat any such new Class that is a revolving facility on substantially the same terms as the Revolving Facility is then treated; (iv) Section 2.10(b) to treat any such new Class that is a term extension of credit on substantially the same terms as the Term Facilities are then treated (including, for any new Class held by lenders similar to the Lenders of the Term B Facility and Incremental Loan Facilities having the terms thereof, the provisions of the last sentence of Section 2.10(b)(i)) (it being understood that the order of application

of mandatory prepayments to amortization payments for such new Class shall be as agreed between the Credit Parties and the lenders extending such new credit in their sole discretion) and to treat any such new Class that is a revolving facility on substantially the same terms as the Revolving Facility is then treated; and (v) Section 3.01(b) to provide for the amortization for such new Class of Loans as provided for by the lenders thereof and the Credit Parties in their sole discretion so long as the Weighted Average Life to Maturity of any new term extension of credit is not less than that of the then existing Term B Facility Loans and the Weighted Average Life to Maturity of any revolving extension of credit is not less than that of the Revolving Commitments then in effect.

SECTION 13.05. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

SECTION 13.06. Assignments and Participations. (a) No Credit Party may assign its respective rights or obligations hereunder or under the Notes or any other Credit Document without the prior written consent of all of the Lenders.

(b) Each Lender may assign (which may be non-*pro rata* among Loans and Commitments) to any Eligible Person any of its Loans, its Notes, its L/C Interests and its Commitments, *provided* that (i) no such assignment to any such Eligible Person (other than any Lender, any Affiliate of any Lender or any Approved Fund) shall be in an aggregate principal amount of less than $1.0 million other than in the case of an assignment of all of a Lender's interests under this Agreement, unless otherwise agreed by Borrower and Administrative Agent, (ii) in the case of any assignment of Revolving Commitments (other than to a Lender or an Affiliate of a Lender) the consent of Borrower and Administrative Agent shall be required, (iii) no consent shall be required for any assignment by Administrative Agent or any of its Affiliates, (iv) in the case of any assignment of Term Loans the consent of Administrative Agent shall be required, (v) no consent of Borrower shall be required for an assignment by the Swingline Lender of the Swingline Loans, (vi) each assignment, other than to a Lender or any Lender's Affiliate or an Approved Fund of any Lender and other than any assignment effected by Lead Arrangers or any of their respective Affiliates in connection with the syndication of the Commitments and/or Loans or otherwise, shall not reduce the assignor's Loans and Commitments to less than $1.0 million (unless reduced to $0 or otherwise agreed to by Administrative Agent and, in the case of Revolving Loans and Swingline Loans, Borrower) and (vii) in no event

may any such assignment be made to any Credit Party or any of its Affiliates without consent of all Lenders unless the Assignee agrees in writing that its Loans or Notes shall not be deemed outstanding for any matter under Section 13.04 or any other vote or consent of the Lenders under the Credit Documents; and *provided, further* that any consent of Borrower otherwise required under this clause (b) shall not be required if a Default or Event of Default has occurred and is continuing. Any assignment of a Loan shall be effective only upon appropriate entries with respect thereto being made in the Register (and each Note shall expressly so provide). Any assignment or transfer of a Loan shall be registered on the Register only upon surrender for registration of assignment or transfer of the Note evidencing such Loan (if a Note was issued in respect thereof), accompanied by a Notice of Assignment, and upon consent thereto by Borrower and Administrative Agent to the extent required above (none of which consents to be unreasonably withheld, delayed or conditioned), one or more new Notes (if requested by the new Lender) in the same aggregate principal amount shall be issued to the designated assignee (or its nominee) and the old Notes shall be returned by Administrative Agent to Borrower marked "canceled". Upon execution and delivery by the assignee to Borrower and Lead Arrangers of a Notice of Assignment, and upon consent thereto by Borrower, Lead Arrangers and L/C Lender to the extent required above (none of which consents to be unreasonably withheld, delayed or conditioned), and in the case of a Loan, upon appropriate entries being made in the Register the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with the consent of Administrative Agent), the obligations, rights and benefits of a Lender hereunder holding the Commitment(s), Loans (or portions thereof) and L/C Interests assigned to it (in addition to the

Commitment(s), L/C Interests and Loans, if any, theretofore held by such assignee) and the assigning Lender shall, to the extent of such assignment, be released from the Commitment(s) (or portion(s) thereof) so assigned. Upon any such assignment, certain rights and obligations of the assigning Lender shall survive as set forth in Section 13.07. Each assignment shall be made pursuant to an agreement substantially in the form of *Exhibit N*.

(c) Within 45 days after the effective date of any assignment of Loans, Notes, L/C Interests or Commitments that required the consent of Borrower, Borrower shall give notice of such assignment to the West Virginia Lottery Commission and the West Virginia Racing Commission.

(d) A Lender (other than the Swingline Lender) may sell or agree to sell without notice to or consent of Borrower and Administrative Agent to one or more other persons a participation in all or any part of any Loans and L/C Interests held by it, or in its Commitments, in which event each purchaser of a participation (a "**Participant**") shall be entitled to the rights and benefits of the provisions of Article V (*provided, however,* that no Participant shall be entitled to receive any greater amount pursuant to Article V than the transferor Lender would have been entitled to receive in respect of the participation effected by such transferor Lender had no participation occurred) with respect to its participation in such Loans, L/C Interests and Commitments as if such Participant were a "Lender" for purposes of said Section, but, except as otherwise provided in Section 4.07(c), shall not have any other rights or benefits under any Credit Document (the Participant's rights against such Lender in respect of such participation to be those set forth in the agreements executed by such Lender in favor of the Participant). All amounts payable by Borrower to any Lender under Article V in respect of Loans, L/C Interests and its Commitments shall be no greater than the amount that would have applied if such Lender had not sold or agreed to sell any participation in such Loans, L/C Interests and Commitments, and as if such Lender were funding each of such Loan, L/C Interests and Commitments in the same way that it is funding the portion of such Loan, L/C Interests and Commitments in which no participations have been sold. In no event shall a Lender that sells a participation agree with the Participant to take or refrain from taking any action hereunder or under any other Credit Document, except that such Lender may agree with the Participant that it will not, without the consent of the Participant, agree to any modification or amendment set forth in subclauses (I), (II), (III) or (VIII) of clause (a) of the proviso to Section 13.04(i) to the extent such Lender's consent is required therefor.

(e) In addition to the assignments and participations permitted under the foregoing provisions of this Section 13.06, any Lender may assign and pledge all or any portion of its Loans and its Notes to any United States Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank and, in the case of a Lender that is a fund that invests in bank loans, any such Lender may assign or pledge all or any portion of its Loans and its Notes to any holders of obligations owed, or securities issued, by such fund, as security for such obligations or securities, or to any trustee for, or any other representative of, such holders, in each case, without notice to or consent of Borrower, Administrative Agent, Lead Arrangers or L/C Lender. Any transfer as a result of the foreclosure on such pledge shall be subject to Section 13.06(b). No such assignment shall release the assigning Lender from its obligations hereunder.

(f) A Lender may furnish any information concerning any Company in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants) subject, however, to and so long as the recipient agrees to be bound by the provisions of Section 13.11. In addition, each Agent may furnish any information concerning any Credit Party or any of its Affiliates in such Agent's possession to any Affiliate of such Agent, subject, however, to the provisions of Section 13.11. To the extent the Loans are not fully syndicated prior to the Closing Date, the Credit Parties shall assist Lead Arrangers in the granting participations in, or selling assignments of

all or a portion of, the commitments or the loans under the Credit Facilities pursuant to arrangements reasonably satisfactory to Lead Arrangers.

SECTION 13.07. Survival. The obligations of the Credit Parties under Sections 5.01, 5.05, 5.06 and 13.03, the obligations of each Subsidiary Guarantor under Section 6.03, and the obligations of the Lenders under Sections 5.06 and 12.02, shall survive the repayment of the Loans and Reimbursement Obligations and the termination of the Commitments and, in the case of any Lender that may assign any interest in its Commitments, Loans or L/C Interest hereunder, shall (to the extent relating to such time as it was a Lender) survive the making of such assignment, notwithstanding that such assigning Lender may cease to be a "Lender" hereunder. In addition, each representation and warranty made, or deemed to be made by a notice of any extension of credit, herein or pursuant hereto shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the Notes and the making of any extension of credit hereunder, regardless of any investigation made by any such other party or on its behalf and notwithstanding that Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty.

SECTION 13.08. Captions. The table of contents and captions and Section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

SECTION 13.09. Counterparts; Interpretation; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the Fee Letter and the Administrative Agent's Fee Letter constitute the entire contract among the parties thereto relating to the subject matter hereof and supersede any

and all previous agreements and understandings, oral or written, relating to the subject matter hereof, other than the Fee Letter and the provisions of Section 2 of the Commitment Letter, which are not superseded and survive solely as to the parties thereto. This Agreement shall become effective when the Closing Date shall have occurred and this Agreement shall have been executed and delivered by the Credit Parties and each Agent and when Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement. Upon the effectiveness of this Agreement, all commitments to provide any financing pursuant to the Commitment Letter shall permanently terminate.

SECTION 13.10. Governing Law; Submission to Jurisdiction; Waivers; Etc. (a) Pursuant to Section 5-1401 of the General Obligations Laws of the State of New York, each Credit Document shall be governed by, and construed in accordance with, the law of the State of New York (except in the case of the other Credit Documents, to the extent otherwise expressly stated therein). Each Credit Party hereby irrevocably and unconditionally: (I) submits for itself and its Property in any Proceeding relating to any Credit Document to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Supreme Court of the State of New York sitting in New York County, the courts of the United States of America for the Southern District of New York, and appellate courts thereof; (II) consents that any such Proceeding may be brought in any such court; (III) agrees that service of process in any such Proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to Borrower at its address set forth on the signature page hereto or at such other address of which Administrative Agent shall have been notified pursuant thereto; and (IV) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(b) EACH CREDIT PARTY, EACH AGENT AND EACH LENDER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY AND FOR ANY COUNTERCLAIM THEREIN.

SECTION 13.11. Confidentiality. Each Lender agrees to keep information obtained by it pursuant to the Credit Documents confidential in accordance with such Lender's customary practices and agrees that it will only use such information in connection with the transactions contemplated hereby and not disclose any of such information other than (a) to such Lender's employees, representatives, directors, attorneys, auditors, agents, professional advisors, trustees or affiliates who are advised of the confidential nature thereof or to any direct or indirect creditor or contractual counterparty in swap agreements or such creditor, contractual counterparty's professional advisor (so long as such contractual counterparty or professional advisor to such contractual counterparty agrees to be bound by the provision of this Section 13.11, such Lender being liable for any breach of confidentiality by any person described in this clause (a) and with respect to disclosures to Affiliates to the extent disclosed by such Lender to such Affiliate), (b) to the extent such information presently is or hereafter becomes available to such Lender on a non-confidential basis from a person not an Affiliate of such Lender not known to such Lender to be violating a confidentiality obligation by such disclosure, (c) to the extent disclosure is required by any Law, subpoena or judicial order or process (*provided* that notice of such requirement or order shall be promptly furnished to Borrower unless such notice is legally prohibited) or requested or required by bank, securities, insurance or investment company regulations or auditors or any administrative body or commission (including the Securities Valuation Office of the NAIC) to whose jurisdiction such Lender is subject, (d) to any rating agency to the extent required in connection with any rating to be assigned to such Lender, *provided* that notice thereof is promptly furnished to Borrower, (e) to assignees or participants or prospective assignees or participants who agree in writing to be bound by the provisions of this Section 13.11, (f) to the extent required in connection with any litigation between any Credit Party and any Creditor with respect to the Loans or any Credit Document or (g) with Borrower's prior written consent.

SECTION 13.12. Independence of Representations, Warranties and Covenants. The representations, warranties and covenants contained herein shall be independent of each other and no exception to any representation, warranty or covenant shall be deemed to be an exception to any other representation, warranty or covenant contained herein unless expressly provided, nor shall any such exception be deemed to permit any action or omission that would be in contravention of applicable law.

SECTION 13.13. Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

SECTION 13.14. Gaming Laws. (a)This Agreement and the other Credit Documents are subject to the Gaming Laws and the laws involving the sale, distribution and possession of alcoholic beverages (the "**Liquor Laws**"). Without limiting the foregoing, each of Administrative Agent, Lead Arrangers, Syndication Agent, Documentation Agents, Lenders and Participants acknowledges that (i) it is the subject of being called forward by the Gaming Authority or Governmental Authority enforcing the Liquor Laws (the "**Liquor Authorities**"), in their discretion, for licensing or a finding of suitability or to file or provide other information, and (ii) all rights, remedies and powers under this Agreement and the other Credit Documents, including with respect to the entry into and ownership and operation of the Gaming Facilities, and the possession or control of gaming equipment, alcoholic beverages or a

gaming or liquor license, may be exercised only to the extent that the exercise thereof does not violate any applicable provisions of the Gaming Laws and Liquor Laws and only to the extent that required approvals (including prior approvals) are obtained from the requisite Governmental Authorities.

(b) Each of Administrative Agent, Lead Arrangers, Syndication Agent and Documentation Agents and Lenders agrees to cooperate with the Gaming Authority (or to be subject to Section 2.11) in connection with the provisions of such documents or other information as may be requested by such Gaming Authority or Liquor Authorities relating to Borrower and its Subsidiaries or to the Credit Documents.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

PENN NATIONAL GAMING, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

Address for Notices:

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

Contact person: Robert S. Ippolito
Telecopier No.: (610) 376-2842
Telephone No.: (610) 378-8384

SUBSIDIARY GUARANTORS:
BSL, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

BTN, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

BACKSIDE, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

CHC CASINOS CORP.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

CRC HOLDINGS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

THE DOWNS RACING, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

EBETUSA.COM, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

LOUISIANA CASINO CRUISES, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

MILL CREEK LAND, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

NORTHEAST CONCESSIONS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: Penn National Gaming of West Virginia, Inc.,
Its Managing Member

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PNGI CHARLES TOWN FOOD & BEVERAGE LIMITED LIABILITY COMPANY

By: /s/ RICHARD MOORE

Name: Richard Moore
Title: Manager

PNGI POCONO, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN BULLPEN, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN BULLWHACKERS, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN MILLSITE, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN NATIONAL GSFR, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN NATIONAL HOLDING COMPANY

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN NATIONAL SPEEDWAY, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENN SILVER HAWK, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

PENNSYLVANIA NATIONAL TURF CLUB, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

STERLING AVIATION, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

W-B DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

WILKES BARRE DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

HOLLYWOOD CASINO CORPORATION

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

HOLLYWOOD MANAGEMENT, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

HWCC-TUNICA, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

HOLLYWOOD CASINO-AURORA, INC.

By: /s/ KEVIN DESANCTIS

Name: Kevin DeSanctis
Title: President

HWCC-TRANSPORTATION, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

HWCC DEVELOPMENT CORPORATION

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

HWCC-HOLDINGS, INC.,

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

HWCC-GOLF COURSE PARTNERS, INC.,

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

BEAR, STEARNS & CO. INC.,
as Joint Lead Arranger and Joint Bookrunner

By: /s/ KEITH C. BARNISH

Name: Keith C. Barnish
Title: Senior Managing Director

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED,
as Joint Lead Arranger, Joint Bookrunner
and Syndication Agent

By: /s/ DENNIS DEE

Name: Dennis Dee
Title: Vice President

Address for Notices:

Merrill Lynch, Pierce Fenner & Smith
Incorporated
4 World Financial Center
250 Vesey Street
New York, New York 10080
Attention: Michael O'Brien

Telecopier No.: (212) 449-4877
Telephone No.: (212) 449-0948

BEAR STEARNS CORPORATE LENDING INC.,
as Administrative Agent, Swingline Lender,
and Collateral Agent

By: /s/ KEITH C. BARNISH

Name: Keith C. Barnish
Title: Executive Vice President

Address for Notices:

Bear Stearns Corporate Lending Inc.
383 Madison Avenue
New York, New York 10179
Attention: Stephen O'Keefe

Telecopier No.: (212) 272-9184
Telephone No.: (212) 272-9430

SOCIETE GENERALE,
as Joint Documentation Agent

By: /s/ CARINA T. HUYNH

Name: Carina T. Huynh
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH,
as Joint Documentation Agent

By: /s/ FRANK HERRERA

Name: Frank Herrera
Title: Vice President

LENDERS

BEAR STEARNS CORPORATE LENDING INC.,
as a Lender

By: /s/ KEITH C. BARNISH

Name: Keith C. Barnish
Title: Executive Vice President

MERRILL LYNCH CAPITAL CORPORATION,
as a Lender

By: /s/ MICHAEL E. O'BRIEN

Name: Michael E. O'Brien
Title: Vice President

Address for Notices:

4 World Financial Center
c/o Merrill Lynch & Co.
250 Vesey Street
New York, New York 10080
Attention: Michael E. O'Brien

Telecopier No.: (212) 449-4877
Telephone No.: (212) 449-0948

COMMERCE BANK, N.A.,
as a Lender

By: /s/ GERARD L. GRADY

Name: Gerard L. Grady
Title: Vice President

WELLS FARGO BANK, N.A.,
as a Lender

By: /s/ CANDACE BORREGO

Name: Candace Borrego
Title: Vice President

WACHOVIA BANK, N.A.,
as a Lender

By: /s/ SHARON MUELLER

Name: Sharon Mueller
Title: Vice President

HIBERNIA NATIONAL BANK,
as a Lender

By: /s/ LAURA K. WATTS

Name: Laura K. Watts
Title: Vice President

THE PEOPLES BANK, BILOXI, MISSISSIPPI,
as a Lender

By: /s/ CHEVIS C. SWETMAN

Name: Chevis C. Swetman
Title: President & CEO

Annex A

COMMITMENTS

ON FILE WITH ADMINISTRATIVE AGENT

	Allocation					
Institution	Revolving Commitments	Term A Facility Commitments	Initial Term B Facility Commitments	Second Term B Facility Commitments	Term C Facility Commitments	Total
Total	$ 100,000,000	$ 100,000,000	$ 600,000,000	$ 100,000,000	$ 100,000,000	$ 1,000,000,000

Annex B

Applicable Margin and Applicable Fee Percentage

	Term A Facility Loans and Revolving Loans		Term B Facility Loans		Term C Facility Loans		
Consolidated Total Leverage Ratio	LIBOR+	ABR+	LIBOR+	ABR+	LIBOR+	ABR+	Applicable Fee Percentage(1)
Level I							
>5.00x	3.50%	2.50%	4.25%	3.25%	5.25%	4.25%	0.750%
Level II							
>4.50x	3.25%	2.25%	**4.00%**	3.00%	**5.00%**	4.00%	0.625%
Level III							
>4.00x	3.25%	2.25%	4.00%	3.00%	*5.00%*	4.00%	0.500%
Level IV							
>3.50x	3.00%	2.00%	4.00%	3.00%	*5.00%*	4.00%	0.500%
Level V							
>3.00x	2.75%	1.75%	4.00%	3.00%	*5.00%*	4.00%	0.375%
Level VI							
>2.50x	2.50%	1.50%	4.00%	3.00%	*5.00%*	4.00%	0.375%
Level VII							
>2.50x	2.25%	1.25%	4.00%	3.00%	*5.00%*	4.00%	0.375%

(1) Applies to Revolving Facility, Second Term B Facility and Term C Facility.

Each change in the Applicable Margin or Applicable Fee Percentage resulting from a change in the Consolidated Total Leverage Ratio shall be effective with respect to all Loans and Letters of Credit outstanding on and after the date of delivery to Administrative Agent of the Interest Rate Certificate required by Section 9.04(e); *provided* that in the event Borrower or any of its Restricted Subsidiaries issues Permitted Subordinated Indebtedness, any change in the Consolidated Senior Leverage Ratio resulting therefrom shall be effective to adjust the Applicable Margin immediately upon delivery of an Interest Rate Certificate evidencing such change (which may be delivered upon of after giving effect to such issuance notwithstanding anything herein to the contrary), indicating such change until the date immediately preceding the next date of delivery of such Certificate indicating another such change. Any change in the Applicable Margin triggered by the occurrence of the conditions set forth in the second sentence of the definition of Applicable Margin shall be immediately effective with respect to all Loans and Letters of Credit then outstanding.

Annex C

AMORTIZATION PAYMENTS

DATE*	TERM A FACILITY LOANS**	INITIAL TERM B FACILITY LOANS**	SECOND TERM B FACILITY LOANS**	TERM C FACILITY LOANS**
June 2003	$ 5,000,000	$ 1,500,000	$ 250,000	$ 250,000
September 2003	5,000,000	1,500,000	250,000	250,000
December 2003	5,000,000	1,500,000	250,000	250,000
March 2004	5,000,000	1,500,000	250,000	250,000
June 2004	5,000,000	1,500,000	250,000	250,000
September 2004	5,000,000	1,500,000	250,000	250,000
December 2004	5,000,000	1,500,000	250,000	250,000
March 2005	5,000,000	1,500,000	250,000	250,000
June 2005	5,000,000	1,500,000	250,000	250,000
September 2005	5,000,000	1,500,000	250,000	250,000
December 2005	5,000,000	1,500,000	250,000	250,000
March 2006	5,000,000	1,500,000	250,000	250,000

June 2006	5,000,000	1,500,000	250,000	250,000
September 2006	5,000,000	1,500,000	250,000	250,000
December 2006	5,000,000	1,500,000	250,000	250,000
March 2007	5,000,000	1,500,000	250,000	250,000
June 2007	5,000,000	1,500,000	250,000	250,000
September 2007	15,000,000	574,500,000	95,750,000	95,750,000
Total	$ 100,000,000	$ 600,000,000	$ 100,000,000	$ 100,000,000

* Unless otherwise indicated, such date is the first Business Day of the specified month.

** Assumes that the maturity date is September 1, 2007.

SCHEDULE 1.01(a)

[Mortgaged Real Property]

SCHEDULE 1.01(b)

[Subsidiary Guarantors]

QuickLinks

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Exhibit 21

Subsidiaries of Penn National Gaming, Inc.

Name of Subsidiary	State or Other Jurisdiction of Organization
BSL, Inc.	Mississippi
BTN, Inc.	Mississippi
Backside, Inc.	Pennsylvania
CHC Casinos Canada Limited	Nova Scotia
CHC Casinos Corp.	Florida
CHC Casino Manitoba Limited	Ontario
CHC (Ontario) Supplies Limited	Nova Scotia
CRC Holdings, Inc.	Florida
Casino Rama Services, Inc.	Ontario
The Downs Racing, Inc.	Pennsylvania
eBetUSA.com, Inc.	Delaware
Louisiana Casino Cruises, Inc.	Louisiana
Mill Creek Land, Inc.	Pennsylvania
Mountainview Thoroughbred Racing Association	Pennsylvania
Northeast Concessions, Inc.	Pennsylvania
PNGI Charles Town Gaming Limited Liability Company	West Virginia
PNGI Charles Town Food & Beverage Limited Liability Company	West Virginia
PNGI Pocono, Inc.	Delaware
Penn Bullpen, Inc.	Colorado
Penn Bullwhackers, Inc.	Colorado
Penn Millsite, Inc.	Colorado
Penn National Gaming of West Virginia, Inc.	West Virginia
Penn National GSFR, Inc.	Delaware
Penn National Holding Company	Delaware
Penn National Speedway, Inc.	Pennsylvania
Penn Silver Hawk, Inc.	Colorado
Pennsylvania National Turf Club, Inc.	Pennsylvania
Sterling Aviation, Inc.	Delaware
Tennessee Downs, Inc.	Tennessee
W-B Downs, Inc.	Pennsylvania
Wilkes Barre Downs, Inc.	Pennsylvania
Hollywood Casino Corporation	Delaware
Hollywood Casino—Aurora, Inc.	Illinois
Hollywood Casino Shreveport	Louisiana
Shreveport Capital Corporation	Louisiana
Hollywood Management, Inc.	Texas
HCS I, Inc.	Louisiana
HCS II, Inc.	Louisiana
HCS—Golf Course, L.L.C.	Louisiana
HWCC Development Corporation	Texas
HWCC—Golf Course Partners, Inc.	Delaware
HWCC—Holdings, Inc.	Texas
HWCC—Louisiana, Inc.	Louisiana
HWCC—Shreveport, Inc.	Louisiana
HWCC Transportation, Inc.	Texas
HWCC—Tunica, Inc.	Texas

QuickLinks

Exhibit 21

Subsidiaries of Penn National Gaming, Inc.

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Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Penn National Gaming, Inc.
Wyomissing, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (no. 33-98640 and 333-61684) of Penn National Gaming, Inc. and subsidiaries of our report dated January 30, 2003 except for Note 15, which is as of March 14, 2003, relating to the consolidated financial statements, which appear in this Form 10-K.

/s/ BDO Seidman, LLP BDO Seidman, LLP
Philadelphia, Pennsylvania
March 24, 2003

QuickLinks

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter M. Carlino, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ PETER M. CARLINO

Peter M. Carlino
Chairman and Chief Executive Officer
March 27, 2003

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Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Clifford, Senior Vice President-Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ WILLIAM J. CLIFFORD

William J. Clifford
Senior Vice President-Finance and
Chief Financial Officer
March 27, 2003

QuickLinks

Exhibit 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002