PENN NATIONAL GAMING INC
Form 10-Q
May 04, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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.)

825 Berkshire Blvd., Suite 200

Wyomissing, PA 19610

(Address of principal executive offices) (Zip Code)

610-373-2400

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Title	Outstanding as of April 27, 2011
Common Stock, par value $.01 per share	78,823,600 (includes 435,027 shares of restricted stock)

Table of Contents

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may vary materially from expectations. Although Penn National Gaming, Inc. and its subsidiaries (collectively, the Company) believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that actual results will not differ materially from our expectations. Meaningful factors that could cause actual results to differ from expectations include, but are not limited to, risks related to the following: our ability to receive, or delays in obtaining, the regulatory approvals required to own, develop and/or operate our facilities, or other delays or impediments to completing our planned acquisitions or projects, including favorable resolution of any related litigation; our ability to secure state and local permits and approvals necessary for construction; construction factors, including delays, unexpected remediation costs, local opposition and increased cost of labor and materials; the passage of state, federal or local legislation (including referenda) that would expand, restrict, further tax, prevent or negatively impact operations in or adjacent to the jurisdictions in which we do business (such as a smoking ban at any of our facilities) or in jurisdictions where we seek to do business; the effects of local and national economic, credit, capital market, housing, and energy conditions on the economy in general and on the gaming and lodging industries in particular; the activities of our competitors and the emergence of new competitors; increases in the effective rate of taxation at any of our properties or at the corporate level; our ability to recover proceeds on significant insurance claims; our ability to identify attractive acquisition and development opportunities and to agree to terms with partners for such transactions; the costs and risks involved in the pursuit of such opportunities and our ability to complete the acquisition or development of, and achieve the expected returns from, such opportunities; our expectations for the continued availability and cost of capital; the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups; the outcome of pending legal proceedings; changes in accounting standards; our dependence on key personnel; the impact of terrorism and other international hostilities; the impact of weather; and other factors as discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as filed with the United States Securities and Exchange Commission. The Company does not intend to update publicly any forward-looking statements except as required by law.

Table of Contents

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION	4
ITEM 1.	FINANCIAL STATEMENTS	4
	Consolidated Balance Sheets March 31, 2011 and December 31, 2010	4
	Consolidated Statements of Income Three Months Ended March 31, 2011 and 2010	5
	Consolidated Statements of Changes in Shareholders Equity Three Months Ended March 31, 2011 and 2010	6
	Consolidated Statements of Cash Flows Three Months Ended March 31, 2011 and 2010	7
	Notes to the Consolidated Financial Statements	8
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (unaudited)	24
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	35
ITEM 4.	CONTROLS AND PROCEDURES	35
PART II.	OTHER INFORMATION	36
ITEM 1.	LEGAL PROCEEDINGS	36
ITEM 1A.	RISK FACTORS	36
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	36
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	36
ITEM 5.	OTHER INFORMATION	36
ITEM 6.	EXHIBITS	37
SIGNATURES		38
EXHIBIT INDEX		39

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Penn National Gaming, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 234,478	$ 246,385
Receivables, net of allowance for doubtful accounts of $3,838 and $3,332 at March 31, 2011 and December 31, 2010, respectively	41,512	44,463
Prepaid expenses	45,813	72,393
Deferred income taxes	21,624	25,206
Other current assets	77,727	77,506
Total current assets	421,154	465,953
Property and equipment, net	1,974,705	1,965,774
Other assets		
Investment in and advances to unconsolidated affiliates	72,006	64,120
Goodwill	1,184,418	1,185,756
Other intangible assets	418,050	415,152
Debt issuance costs, net of accumulated amortization of $48,275 and $45,234 at March 31, 2011 and December 31, 2010, respectively	24,701	27,742
Loan receivable	230,500	230,500
Other assets	109,253	107,882
Total other assets	2,038,928	2,031,152
Total assets	$ 4,434,787	$ 4,462,879
Liabilities		
Current liabilities		
Current maturities of long-term debt	$ 745,680	$ 357,927
Accounts payable	14,174	17,312
Accrued expenses	73,806	101,447
Accrued interest	18,757	36,597
Accrued salaries and wages	56,029	73,432
Gaming, pari-mutuel, property, and other taxes	41,243	46,449
Insurance financing	8,130	11,602
Other current liabilities	52,267	46,763
Total current liabilities	1,010,086	691,529
Long-term liabilities		
Long-term debt, net of current maturities	1,389,458	1,813,196
Deferred income taxes	141,562	134,572
Noncurrent tax liabilities	36,634	36,846
Other noncurrent liabilities	8,970	8,970

Total long-term liabilities		1,576,624		1,993,584
Shareholders equity				
Preferred stock ($.01 par value, 1,000,000 shares authorized, 12,275 shares issued and outstanding at March 31, 2011 and December 31, 2010)				
Common stock ($.01 par value, 200,000,000 shares authorized, 78,595,745 and 78,414,022 shares issued at March 31, 2011 and December 31, 2010, respectively)		781		779
Additional paid-in capital		1,458,052		1,446,932
Retained earnings		392,512		337,940
Accumulated other comprehensive loss		(3,268)		(7,885)
Total shareholders equity		1,848,077		1,777,766
Total liabilities and shareholders equity	$	4,434,787	$	4,462,879

See accompanying notes to the consolidated financial statements.

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2011	**2010**
Revenues		
Gaming	$ 609,111	$ 543,373
Food, beverage and other	85,289	80,432
Management service fee	3,317	3,194
Revenues	697,717	626,999
Less promotional allowances	(30,694)	(34,676)
Net revenues	667,023	592,323
Operating expenses		
Gaming	320,756	290,861
Food, beverage and other	68,592	63,220
General and administrative	103,476	94,516
Depreciation and amortization	53,158	51,180
Impairment losses		136
Hollywood Casino Joliet fire (gain) loss	(1,694)	59
Total operating expenses	544,288	499,972
Income from operations	122,735	92,351
Other income (expenses)		
Interest expense	(29,026)	(34,292)
Interest income	53	730
Loss from unconsolidated affiliates	(2,354)	(1,412)
Other	(1,643)	(1,321)
Total other expenses	(32,970)	(36,295)
Income from operations before income taxes	89,765	56,056
Taxes on income	38,237	19,901
Net income including noncontrolling interests	51,528	36,155
Less: Net loss attributable to noncontrolling interests		(9)
Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	$ 51,528	$ 36,164
Earnings per common share attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries:		
Basic earnings per common share	$ 0.53	$ 0.37
Diluted earnings per common share	$ 0.48	$ 0.34

See accompanying notes to the consolidated financial statements.

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(in thousands, except share data) (unaudited)

	Penn National Gaming, Inc. shareholders									
	Preferred Stock		Common Stock		Additional Paid-In		Accumulated Other		Total	
	Shares	Amount	Shares	Amount	Capital	Retained Earnings	Comprehensive (Loss) Income	Noncontrolling Interests	Shareholders Equity	Comprehensive Income (Loss)
Balance, December 31, 2009	12,500	$	78,972,256	$ 786	$ 1,480,476	$ 397,407	$ (26,028)	$ (565)	$ 1,852,076	
Repurchase of preferred stock	(225)				(11,200)				(11,200)	$
Stock option activity, including tax expense of $660			65,444	1	4,881				4,882	
Restricted stock activity			165,110		1,996				1,996	
Change in fair value of interest rate swap contracts, net of income taxes of $1,369							1,987		1,987	1,987
Change in fair value of corporate debt securities							(8)		(8)	(8)
Foreign currency translation adjustment							341		341	341
Net income (loss)						36,164		(9)	36,155	36,155
Balance, March 31, 2010	12,275	$	79,202,810	$ 787	$ 1,476,153	$ 433,571	$ (23,708)	$ (574)	$ 1,886,229	$ 38,475
Balance, December 31, 2010	12,275	$	78,414,022	$ 779	$ 1,446,932	$ 337,940	$ (7,885)	$	$ 1,777,766	
Stock option activity, including tax benefit of $1,576			181,723	2	10,035				10,037	$
Restricted stock activity					1,085				1,085	
Change in fair value of interest rate swap contracts, net of income taxes of $2,184							3,910		3,910	3,910
Change in fair value of corporate debt securities							332		332	332
Foreign currency translation adjustment							375		375	375
Cumulative-effect of adoption of amendments to ASC 924 regarding jackpot liabilities, net of income taxes of $1,166						3,044			3,044	
Net income						51,528			51,528	51,528
	12,275	$	78,595,745	$ 781	$ 1,458,052	$ 392,512	$ (3,268)	$	$ 1,848,077	$ 56,145

Balance, March 31, 2011	

See accompanying notes to the consolidated financial statements.

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands) (unaudited)

	Three Months Ended March 31,	
	2011	2010
Operating activities		
Net income including noncontrolling interests	$ 51,528	$ 36,155
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	53,158	51,180
Amortization of items charged to interest expense and interest income	3,100	3,309
(Gain) loss on sale of fixed assets	(35)	64
Loss from unconsolidated affiliates	2,354	1,412
Hollywood Casino Joliet fire		59
Deferred income taxes	7,842	4,782
Charge for stock-based compensation	6,225	6,384
Impairment losses		136
Decrease, net of businesses acquired		
Accounts receivable	2,951	6,654
Insurance receivable		15,019
Prepaid expenses and other current assets	25,083	16,636
Other assets	561	9,590
Increase (decrease), net of businesses acquired		
Accounts payable	1,124	1,476
Accrued expenses	(23,431)	(26,167)
Accrued interest	(11,746)	(11,350)
Accrued salaries and wages	(17,403)	(14,420)
Gaming, pari-mutuel, property and other taxes	(5,206)	791
Other current and noncurrent liabilities	5,503	1,646
Other noncurrent tax liabilities	682	(9,620)
Net cash provided by operating activities	102,290	93,736
Investing activities		
Expenditures for property and equipment	(54,524)	(120,385)
Proceeds from sale of property and equipment	158	1,103
Proceeds from Hollywood Casino Joliet fire		4,821
Investment in Kansas Entertainment	(10,200)	(13,550)
Decrease in cash in escrow		10,982
Acquisition of businesses and licenses	(15,012)	
Net cash used in investing activities	(79,578)	(117,029)
Financing activities		
Proceeds from exercise of options	3,321	746
Repurchase of preferred stock		(11,200)
Proceeds from issuance of long-term debt, net of issuance costs	30,000	33,885
Principal payments on long-term debt	(66,044)	(65,874)
Payments on insurance financing	(3,472)	(4,215)
Tax impact from stock options exercised	1,576	(660)
Net cash used in financing activities	(34,619)	(47,318)
Net decrease in cash and cash equivalents	(11,907)	(70,611)
Cash and cash equivalents at beginning of year	246,385	713,118
Cash and cash equivalents at end of period	$ 234,478	$ 642,507

Supplemental disclosure				
Interest expense paid	$	38,357	$	43,234
Income taxes paid	$	1,166	$	7,271

See accompanying notes to the consolidated financial statements.

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

1. Organization and Basis of Presentation

Penn National Gaming, Inc. (Penn) and subsidiaries (collectively, the Company) is a diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. As of March 31, 2011, the Company owns, manages, or has ownership interests in twenty-three facilities in the following sixteen jurisdictions: Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Maryland, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting periods. Actual results could differ from those estimates. For purposes of comparability, certain prior year amounts have been reclassified to conform to the current year presentation.

Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2010 should be read in conjunction with these consolidated financial statements.

2. Summary of Significant Accounting Policies

Revenue Recognition and Promotional Allowances

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

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

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

Revenues are recognized net of certain sales incentives in accordance with Financial Accounting Standards Board (the FASB) Accounting Standards Codification (ASC) 605-50, Revenue Recognition Customer Payments and Incentives. The Company records sales incentives and points earned in point-loyalty programs as a reduction of revenue.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is primarily included in food, beverage and other expense. The amounts included in promotional allowances for the three months ended March 31, 2011 and 2010 are as follows:

Table of Contents

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Rooms	$ 5,211	$ 5,970
Food and beverage	23,228	26,104
Other	2,255	2,602
Total promotional allowances	$ 30,694	$ 34,676

The estimated cost of providing such complimentary services for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Rooms	$ 2,014	$ 2,284
Food and beverage	17,619	19,194
Other	1,354	1,729
Total cost of complimentary services	$ 20,987	$ 23,207

Earnings Per Share

The Company calculates earnings per share (EPS) in accordance with ASC 260, Earnings Per Share (ASC 260). Basic EPS is computed by dividing net income applicable to common stock, excluding net income attributable to noncontrolling interests, by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities such as stock options and unvested restricted shares.

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

The following table sets forth the allocation of net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries for the three months ended March 31, 2011 and 2010 under the two-class method:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
	$ 51,528	$ 36,164

Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries				
Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries applicable to preferred stock		9,785		6,931
Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries applicable to common stock	$	41,743	$	29,233

Table of Contents

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Determination of shares:		
Weighted-average common shares outstanding	78,162	78,563
Assumed conversion of dilutive employee stock-based awards	1,479	741
Assumed conversion of preferred stock	27,278	27,733
Diluted weighted-average common shares outstanding	106,919	107,037

Reflecting the issuance of the Preferred Stock and the repurchase of 225 shares of Preferred Stock during the year ended December 31, 2010, the Company is required to adjust its diluted weighted-average common shares outstanding for the purpose of calculating diluted EPS as follows: 1) when the price of the Company s Common Stock is less than $45, the diluted weighted-average common shares outstanding is increased by 27,277,778 shares (regardless of how much the stock price is below $45); 2) when the price of the Company s Common Stock is between $45 and $67, the diluted weighted-average common shares outstanding is increased by an amount which can be calculated by dividing $1.23 billion (face value) by the current price per share of the Company s Common Stock, which will result in an increase in the diluted weighted-average common shares outstanding of between 18,320,896 shares and 27,277,778 shares; and 3) when the price of the Company s Common Stock is above $67, the diluted weighted-average common shares outstanding is increased by 18,320,896 shares (regardless of how much the stock price exceeds $67).

Options to purchase 3,734,446 shares and 10,167,592 shares were outstanding during the three months ended March 31, 2011 and 2010, respectively, but were not included in the computation of diluted EPS because they were antidilutive.

The following table presents the calculation of basic and diluted EPS for the Company s Common Stock:

	Three Months Ended March 31,			
	2011		2010	
	(in thousands, except per share data)			
Calculation of basic EPS attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries:				
Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries applicable to common stock	$	41,743	$	29,233
Weighted-average common shares outstanding		78,162		78,563
Basic EPS	$	0.53	$	0.37
Calculation of diluted EPS attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries:				
Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	$	51,528	$	36,164
Diluted weighted-average common shares outstanding		106,919		107,037
Diluted EPS	$	0.48	$	0.34

Stock-Based Compensation

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

The fair value for stock options was estimated at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The risk-free interest rate was based on the U.S. Treasury spot rate with a term equal to the expected life assumed at the date of grant. Expected volatility was estimated based on the historical volatility of the Company s stock price over a period of 5.73 years, in order to match the expected life of the options at the grant date. There is no expected dividend yield since the Company has not paid any cash dividends on its Common Stock since its initial public offering in

Table of Contents

May 1994 and since the Company intends to retain all of its earnings to finance the development of its business for the foreseeable future. The weighted-average expected life was based on the contractual term of the stock option and expected employee exercise dates, which was based on the historical and expected exercise behavior of the Company s employees. Forfeitures are estimated at the date of grant based on historical experience. The following are the weighted-average assumptions used in the Black-Scholes option-pricing model at March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Risk-free interest rate	2.27%	2.80%
Expected volatility	48.02%	49.68%
Dividend yield		
Weighted-average expected life (years)	5.73	5.32
Forfeiture rate	5.00%	5.00%

Beginning in the fourth quarter of 2010, the Company issued cash-settled phantom stock unit awards which vest over a period of five years. Cash-settled phantom stock unit awards entitle employees to receive cash based on the fair value of the Company s Common Stock on the vesting date. These phantom stock unit awards are accounted for as liability awards and are remeasured at fair value each reporting period until they become vested with compensation expense being recognized over the requisite service period in accordance with ASC 718-30 Compensation Stock Compensation, Awards Classified as Liabilities. As of March 31, 2011, there was $7.4 million of total unrecognized compensation cost that will be recognized over the grants remaining vesting period. For the three months ended March 31, 2011, the Company recognized $0.4 million of compensation expense associated with these awards.

Additionally, in the first quarter of 2011, the Company issued stock appreciation rights to certain employees which vest over a period of 4 years. The Company s stock appreciation rights are accounted for as liability awards since they will be settled in cash. The fair value of these awards is calculated during each reporting period and estimated using the Black-Scholes option pricing model based on the various inputs discussed previously. As of March 31, 2011, there was $5.0 million of total unrecognized compensation cost that will be recognized over the awards remaining weighted average vesting period of 3.75 years. For the three months ended March 31, 2011, the Company recognized $0.3 million of compensation expense associated with these awards.

Accounting for Derivatives and Hedging Activities

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

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

Currently, the Company has a number of interest rate swap contracts in place. These contracts serve to mitigate income volatility for a portion of its variable-rate funding. In effect, these swap contracts synthetically convert the portion of variable-rate debt being hedged to the equivalent of fixed-rate funding. Under the terms of the swap contracts, the Company receives cash flows from the swap contract counterparties to offset the benchmark interest rate component of variable interest payments on the hedged financings, in exchange for paying cash flows based on the swap contracts fixed rates. These two respective obligations are net-settled periodically. The Company accounts for these swap contracts as cash flow hedges, which requires determining a division of hedge results deemed effective and deemed ineffective. However, most of the Company s hedges were designed in such a way so as to perfectly offset specifically-defined interest payments, such that no ineffectiveness has occurred nor would any ineffectiveness occur, as long as the forecasted cash flows of the designated hedged items and the associated swap contracts remain unchanged. The notional value of the Company s cash flow hedges totaled $840.0 million at March 31, 2011.

Table of Contents

The fair value of the Company s interest rate swap contracts is measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation, subject to a credit adjustment to the LIBOR-based yield curve s implied discount rates. The credit adjustment reflects the Company s best estimate as to the Company s credit quality at March 31, 2011.

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

Under cash flow hedge accounting, derivatives are included in the consolidated balance sheets as assets or liabilities at fair value. The interest rate swap contract liabilities are included in accrued interest within the consolidated balance sheets at March 31, 2011 and December 31, 2010.

In addition, the Company has certain derivative instruments that were not designated to qualify for hedge accounting. The periodic change in the mark-to-market of these derivative instruments is recorded in current period earnings in interest expense in the consolidated statements of income. The notional value of these derivatives was $400.0 million at March 31, 2011.

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

3. New Accounting Pronouncements

In April 2010, the FASB issued guidance on accruing for jackpot liabilities. The guidance clarifies that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can legally avoid paying that jackpot (for example, by removing the gaming machine from the casino floor). Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base jackpots and the incremental portion of progressive jackpots. However, the guidance only affected the accounting for base jackpots, as the guidance uses the same principle that is applied by the Company to the incremental portion of progressive jackpots. The guidance was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. This guidance was applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. The Company adopted the guidance as of January 1, 2011, and as such, recorded a cumulative-effect adjustment, which increased retained earnings by $3.0 million.

4. Acquisition and Other Recent Business Ventures

On February 28, 2011, the Company completed its acquisition of Rosecroft Raceway in Oxon Hill, Maryland following the completion of a bankruptcy auction and approval of the purchase by a U.S. Bankruptcy Court judge. The Company intends to work with the legislature, local officials and Maryland horsemen to develop a financially viable long-term model for operating the track. Rosecroft Raceway, located approximately 13 miles south of Washington, D.C., is situated on approximately 125 acres just outside the Washington I-495 Beltway in Prince George s county. The Rosecroft facility features a 5/8-mile standardbred racing oval track with a seven race paddock, a 53,000 square foot

grandstand building, and a 96,000 square foot three story clubhouse building with dining facilities. The last live racing meet at Rosecroft Raceway was in 2008 and the facility ceased all pari-mutuel operations in June 2010.

In September 2010, the Company announced an agreement to enter into a joint venture that will own and operate the Sam Houston Race Park in Houston, Texas, the Valley Race Park in Harlingen, Texas, and a planned racetrack in Laredo, Texas. Under the terms of the joint venture, the Company will secure a 50% interest in the joint venture, which will have sole ownership of the above entities including interests in 323 acres at Sam Houston Race Park, 80 acres at Valley Race Park and an option to purchase 135 acres for the planned racetrack in Laredo, Texas. Sam Houston Race Park, opened in April 1994, is located in Northwest Houston along Beltway 8 near the intersection of Highway 249. Sam Houston Race Park hosts thoroughbred and quarter horse racing and offers daily simulcast operations, as well as hosts various special events, private parties and meetings, concerts and national touring festivals throughout the year. Valley Race Park, which was opened in 1990 and acquired by Sam Houston Race Park in 2000, is a 91,000 square foot dog racing and simulcasting facility located in Harlingen, Texas. The Company closed this venture on April 8, 2011 following final approval by the Texas Racing Commission. See Note 13 for further information.

Table of Contents

5. Property and Equipment

Property and equipment, net, consists of the following:

	March 31, 2011	December 31, 2010
	(in thousands)	
Land and improvements	$ 310,135	$ 298,482
Building and improvements	1,591,484	1,534,117
Furniture, fixtures, and equipment	962,685	938,443
Leasehold improvements	17,151	17,089
Construction in progress	72,514	106,963
Total property and equipment	2,953,969	2,895,094
Less accumulated depreciation	(979,264)	(929,320)
Property and equipment, net	$ 1,974,705	$ 1,965,774

Depreciation expense, for property and equipment, totaled $52.4 million and $49.5 million for the three months ended March 31, 2011 and 2010, respectively. Interest capitalized in connection with major construction projects was $0.8 million and $1.1 million for the three months ended March 31, 2011 and 2010, respectively.

6. Goodwill and Other Intangible Assets

In accordance with ASC 350, Intangibles-Goodwill and Other, the Company does not amortize goodwill, rather it is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the reporting units to their carrying amount. If the carrying amount of a reporting unit exceeds its fair value in step 1 of the impairment test, then step 2 of the impairment test is performed to determine the implied value of goodwill for that reporting unit. If the implied value of goodwill is less than the goodwill allocated for that reporting unit, an impairment loss is recognized. Additionally, the Company considers its gaming license, racing permit and trademark intangible assets as indefinite-life intangible assets that do not require amortization based on the Company s future expectations to operate its gaming facilities indefinitely as well as the Company s historical experience in renewing these intangible assets at minimal cost with various state gaming commissions.

A reconciliation of goodwill and accumulated goodwill impairment losses is as follows (in thousands):

Balance at December 31, 2010:	
Goodwill	$ 2,019,613
Accumulated goodwill impairment losses	(833,857)
Goodwill, net	$ 1,185,756
Other	(1,338)
Balance at March 31, 2011:	
Goodwill	$ 2,018,275

Accumulated goodwill impairment losses		(833,857)
Goodwill, net	$	1,184,418

Table of Contents

The table below presents the gross carrying value, accumulated amortization, and net book value of each major class of intangible asset at March 31, 2011 and December 31, 2010:

	March 31, 2011			December 31, 2010		
	(in thousands)					
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Indefinite-life intangible assets	$ 416,383	$	$ 416,383	$ 412,686	$	$ 412,686
Other intangible assets	49,600	47,933	1,667	49,600	47,134	2,466
Total	$ 465,983	$ 47,933	$ 418,050	$ 462,286	$ 47,134	$ 415,152

The Company s intangible asset amortization expense was $0.8 million and $1.7 million for the three months ended March 31, 2011 and 2010, respectively.

The following table presents expected intangible asset amortization expense based on existing intangible assets at March 31, 2011 (in thousands):

Remainder of 2011	$ 1,335
2012	237
2013	38
2014	38
2015	19
Total	$ 1,667

The Company s remaining goodwill and other intangible assets by reporting unit at March 31, 2011 is shown below (in thousands):

Reporting Unit	Remaining Goodwill and other intangible assets at March 31, 2011
Hollywood Casino Lawrenceburg	$ 362,491
Hollywood Casino Joliet	214,218
Hollywood Casino Aurora	207,207
Argosy Casino Riverside	159,296
Black Gold Casino at Zia Park	146,256
Argosy Casino Alton	135,511
Argosy Casino Sioux City	92,795
Hollywood Casino Baton Rouge	75,521
Others	209,173
Total	$ 1,602,468

Table of Contents

7. Long-term Debt and Derivatives

Long-term debt, net of current maturities, is as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Senior secured credit facility due October 2012	$ 1,553,125	$ 1,589,125
$250 million 6 ¾% senior subordinated notes due March 2015	250,000	250,000
$325 million 8 ¾% senior subordinated notes due August 2019	325,000	325,000
Other long-term obligations	3,840	3,782
Capital leases	3,173	3,216
	2,135,138	2,171,123
Less current maturities of long-term debt	(745,680)	(357,927)
	$ 1,389,458	$ 1,813,196

The following is a schedule of future minimum repayments of long-term debt as of March 31, 2011 (in thousands):

Within one year	$ 745,680
1-3 years	812,641
3-5 years	250,190
Over 5 years	326,627
Total minimum payments	$ 2,135,138

Senior Secured Credit Facility

The Company s senior secured credit facility had an outstanding balance of $1,553.1 million at March 31, 2011, consisting of a term loan of $1,518.1 million and an outstanding balance of $35.0 million under the revolving credit facility. Additionally, at March 31, 2011, the Company was contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating $35.3 million, resulting in $570.3 million of available borrowing capacity as of March 31, 2011. The term loan has a quarterly principal payment of $354.9 million in December 2011, followed by payments of $387.8 million in March 2012, June 2012 and October 2012. The revolving credit facility matures on July 3, 2012.

During the three months ended March 31, 2011, the senior secured credit facility amount outstanding decreased by $36.0 million primarily due to repayments on the revolving credit facility using available cash.

Covenants

The Company s senior secured credit facility and $325 million 83/4% and $250 million 63/4% senior subordinated notes require it, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, the Company s senior secured credit facility and $325 million 83/4% and $250 million 63/4% senior subordinated notes restrict, among other things, the Company s ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

At March 31, 2011, the Company was in compliance with all required financial covenants.

Interest Rate Swap Contracts

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

Table of Contents

The effect of derivative instruments on the consolidated statement of income for the three months ended March 31, 2011 was as follows (in thousands):

Derivatives in a Cash Flow Hedging Relationship	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate swap contracts	$ (340)	Interest expense	$ (4,548)	None	$
Total	$ (340)		$ (4,548)		$

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative
Interest rate swap contracts	Interest expense	$ (3)
Total		$ (3)

The effect of derivative instruments on the consolidated statement of income for the three months ended March 31, 2010 was as follows (in thousands):

Derivatives in a Cash Flow Hedging Relationship	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate swap contracts	$ (7,386)	Interest expense	$ (6,496)	None	$
Total	$ (7,386)		$ (6,496)		$

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative
Interest rate swap contracts	Interest expense	$ (34)
Total		$ (34)

In addition, during the three months ended March 31, 2011 and 2010, the Company amortized $1.9 million and $4.2 million, respectively, in OCI related to the derivatives that were de-designated as hedging instruments under ASC 815, Derivatives and Hedging.

In the coming twelve months, the Company anticipates that losses of approximately $8.7 million will be reclassified from OCI to earnings, as part of interest expense. As this amount represents effective hedge results, a comparable offsetting amount of incrementally lower interest expense will be realized in connection with the variable funding being hedged.

Table of Contents

The following table sets forth the fair value of the interest rate swap contract liabilities included in accrued interest within the consolidated balance sheets at March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	(in thousands)			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swap contracts	Accrued interest	$ 8,780	Accrued interest	$ 13,034
Total derivatives designated as hedging instruments		$ 8,780		$ 13,034
Derivatives not designated as hedging instruments				
Interest rate swap contracts	Accrued interest	$ 1,837	Accrued interest	$ 3,712
Total derivatives not designated as hedging instruments		$ 1,837		$ 3,712
Total derivatives		$ 10,617		$ 16,746

8. Commitments and Contingencies

Litigation

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

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

The Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including the Company s Hollywood Casino Joliet and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Hollywood Casino Joliet and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah s Joliet and the Grand Victoria Casino in Elgin (collectively, the Four Casinos), and filed suit in the Circuit Court of the Twelfth Judicial District in Will

County, Illinois (the Court), asking the Court to declare the law unconstitutional. Hollywood Casino Joliet and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the pendency of the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Hollywood Casino Joliet and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court s ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the Four Casinos filed a petition for certiorari, requesting the U.S. Supreme Court to hear the case. Seven amicus curiae briefs supporting the plaintiffs request were also filed. On June 8, 2009, the U.S. Supreme Court decided not to hear the case. On June 10, 2009, the Four Casinos filed a petition with the Court to open the judgment based on new evidence that came to light during the investigation of former Illinois Governor Rod Blagojevich that the 2006 law was procured by corruption. On August 17, 2009, the Court dismissed the Four Casinos petition to reopen the case, and the Four Casinos decided not to pursue an appeal of the dismissal. The monies paid into the protest fund have

Table of Contents

been transferred by the State of Illinois to the racetracks. However, the racetracks have been temporarily restrained from disbursing any funds pursuant to an order of the Seventh Circuit Court of Appeals issued in connection with the lawsuit described below.

On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the Four Casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the Four Casinos filed suit in the Court, asking it to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 was being paid into a protest fund where it accrued interest. The defendants filed a motion to dismiss, which was granted on August 17, 2009. The Four Casinos appealed the dismissal and filed motions to keep the payments in the protest fund while the appeal is being litigated. The motion to keep the monies in the protest fund was denied and the funds were released to the racetracks, however, the funds are subject to the order issued by the Seventh Circuit Court of Appeals described below. On January 27, 2011, the Illinois appellate court affirmed the trial court s dismissal of this case. Hollywood Casino Joliet and Hollywood Casino Aurora have asked the Illinois Supreme Court to hear an appeal of this dismissal and this request is pending.

On June 12, 2009, the Four Casinos filed a lawsuit in Illinois Federal Court naming former Illinois Governor Rod Blagojevich, his campaign fund, racetrack owner John Johnston, and his two racetracks as defendants alleging a civil conspiracy in violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §1962(c),(d) (RICO), based on an illegal scheme to secure the enactment of the 3% tax surcharge legislation in exchange for the payment of money by Johnston and entities controlled by him. The Four Casinos also seek to impose a constructive trust over all funds paid under the tax surcharge, and therefore all of the Illinois racetracks are named as parties to the lawsuit. The defendants in the RICO case filed motions to dismiss. On December 7, 2009, the district court denied the motions to dismiss the RICO count, but it granted the motion to dismiss the constructive trust count, stating that it did not have jurisdiction in this case to impose the constructive trust. The Four Casinos have appealed this dismissal to the Seventh Circuit Court of Appeals. The appellate court has ordered that any monies disbursed to the tracks be maintained by the tracks in a constructive trust until the appeal has been decided. Since the passing of House Bill 1918 into law, Hollywood Casino Joliet and Hollywood Casino Aurora have recognized approximately $52.2 million in expense as a result of the 3% tax surcharge, including $2.5 million during the three months ended March 31, 2011. The 3% tax surcharge is included in gaming expense within the consolidated statements of income.

On July 16, 2008, the Company was served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of the Company s Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that the Company s disclosure practices relative to the proposed transaction with Fortress Investment Group LLC and Centerbridge Partners, L.P. and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint was amended, among other things, to add three new named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. The Company filed a motion to dismiss the complaint in November 2008, and the court granted the motion and dismissed the complaint with prejudice. The plaintiffs filed a motion for reconsideration, which was denied on October 21, 2009. The plaintiffs subsequently appealed the dismissal to the Fourth Circuit Court of Appeals and an oral argument was heard on October 26, 2010. On March 14, 2011, the Fourth Circuit Court of Appeals affirmed the decision of the lower court.

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the County) filed suit against Kansas Penn Gaming, LLC (KPG, a wholly-owned subsidiary of Penn created to pursue a development project in Cherokee County, Kansas) and the Company in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and currently seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. The defendants have filed motions to dissolve and reduce the attachment. Those motions were denied. Discovery is now underway.

On September 23, 2008, KPG filed an action against HV Properties of Kansas, LLC (HV) in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the Contract) that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against the Company claiming the Company is liable to HV for KPG s alleged breach based on a Guaranty Agreement signed by the Company. Both cases were consolidated. Following extensive discovery and briefings, on July 23, 2010, the court granted KPG s motion for summary judgment and dismissed HV s claim. KPG has filed a motion requesting reimbursement of the attorney s fees and costs incurred in litigating this case pursuant to the terms of the Contract. HV has opposed this motion and is appealing the ruling of the district court.

Table of Contents

On March 11, 2011, CD Gaming Ventures, LLC, a wholly-owned subsidiary of the Company and developer of the Columbus casino, filed suit in U.S. District Court against the City of Columbus, Columbus officials, Franklin County and County officials. The lawsuit alleges that the city of Columbus, Franklin County and various city and county officials violated the Company s rights under the U.S. and Ohio Constitutions, principally by removing preexisting sewer and water service in an effort to force annexation of the constitutionally-authorized casino site into the city of Columbus. CD Gaming Ventures, LLC, asked the court for an injunction preventing the city and the county from denying water and sewer service to the casino site and also seeks monetary damages. CD Gaming Ventures, LLC has subsequently amended its complaint, requested injunctive relief and requested expedited discovery. The court has granted CD Gaming Ventures, LLC s request for expedited discovery and has tentatively set a hearing date for late May 2011.

9. Subsidiary Guarantors

Under the terms of the senior secured credit facility, many of Penn s subsidiaries are guarantors under the agreement. Each of the subsidiary guarantors is directly or indirectly 100% owned by Penn. In addition, the guarantees provided by such subsidiaries under the terms of the senior secured credit facility are full and unconditional, joint and several. There are no significant restrictions within the senior secured credit facility on the Company s ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn s ability to obtain funds from its subsidiaries.

Condensed consolidating balance sheets at March 31, 2011 and December 31, 2010 and condensed consolidating statements of income and cash flows for the three months ended March 31, 2011 and 2010 for Penn, the subsidiary guarantors of the senior secured credit facility and the subsidiary non-guarantors are presented below.

The Company s $250 million 63/4% senior subordinated notes and $325 million 83/4% senior subordinated notes are not guaranteed by the Company s subsidiaries.

Table of Contents

Senior Secured Credit Facility	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
At March 31, 2011					
Condensed Consolidating Balance Sheet					
Total current assets	$ 38,863	$ 258,913	$ 110,117	$ 13,261	$ 421,154
Property and equipment, net	14,769	1,763,683	196,253		1,974,705
Total other assets	3,914,636	5,032,606	181,628	(7,089,942)	2,038,928
Total assets	$ 3,968,268	$ 7,055,202	$ 487,998	$ (7,076,681)	$ 4,434,787
Total current liabilities	$ 781,088	$ 201,246	$ 14,493	$ 13,259	$ 1,010,086
Total long-term liabilities	1,339,102	3,153,902	47,036	(2,963,416)	1,576,624
Total shareholders' equity	1,848,078	3,700,054	426,469	(4,126,524)	1,848,077
Total liabilities and shareholders' equity	$ 3,968,268	$ 7,055,202	$ 487,998	$ (7,076,681)	$ 4,434,787
Three Months Ended March 31, 2011					
Condensed Consolidating Statement of Income					
Net revenues	$	$ 628,989	$ 38,034	$	$ 667,023
Total operating expenses	26,012	482,242	36,034		544,288
(Loss) income from operations	(26,012)	146,747	2,000		122,735
Other income (expenses)	8,906	(39,101)	(2,775)		(32,970)
(Loss) income from operations before income taxes	(17,106)	107,646	(775)		89,765
Taxes on income	(9,376)	47,339	274		38,237
Net (loss) income	$ (7,730)	$ 60,307	$ (1,049)	$	$ 51,528
Three Months Ended March 31, 2011					
Condensed Consolidating Statement of Cash Flows					
Net cash provided by operating activities	$ 47,103	$ 35,294	$ 19,893	$	$ 102,290
Net cash used in investing activities	(535)	(41,579)	(37,464)		(79,578)
Net cash used in financing activities	(34,575)	(21)	(23)		(34,619)
Net increase (decrease) in cash and cash equivalents	11,993	(6,306)	(17,594)		(11,907)
Cash and cash equivalents at beginning of year	6,276	157,992	82,117		246,385
Cash and cash equivalents at end of period	$ 18,269	$ 151,686	$ 64,523	$	$ 234,478

Senior Secured Credit Facility	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
At December 31, 2010					
Condensed Consolidating Balance Sheet					
Total current assets	$ 31,422	$ 261,768	$ 131,204	$ 41,559	$ 465,953
Property and equipment, net	15,328	1,775,913	174,533		1,965,774
Total other assets	3,848,412	5,042,516	167,466	(7,027,242)	2,031,152
Total assets	$ 3,895,162	$ 7,080,197	$ 473,203	$ (6,985,683)	$ 4,462,879
Total current liabilities	$ 355,018	$ 293,588	$ 1,370	$ 41,553	$ 691,529
Total long-term liabilities	1,762,379	3,159,736	45,024	(2,973,555)	1,993,584
Total shareholders' equity	1,777,765	3,626,873	426,809	(4,053,681)	1,777,766
Total liabilities and shareholders' equity	$ 3,895,162	$ 7,080,197	$ 473,203	$ (6,985,683)	$ 4,462,879
Three Months Ended March 31, 2010					

Condensed Consolidating Statement of Income					
Net revenues	$	$ 585,378	$ 6,945	$	$ 592,323
Total operating expenses	22,878	470,833	6,261		499,972
(Loss) income from operations	(22,878)	114,545	684		92,351
Other income (expenses)	11,407	(46,873)	(829)		(36,295)
(Loss) income from operations before income taxes	(11,471)	67,672	(145)		56,056
Taxes on income	(9,902)	33,627	(3,824)		19,901
Net (loss) income including noncontrolling interests	(1,569)	34,045	3,679		36,155
Less: Net loss attributable to noncontrolling interests			(9)		(9)
Net (loss) income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	$ (1,569)	$ 34,045	$ 3,688	$	$ 36,164
Three Months Ended March 31, 2010					
Condensed Consolidating Statement of Cash Flows					
Net cash provided by (used in) operating activities	$ 68,158	$ 33,155	$ (7,577)	$	$ 93,736
Net cash used in investing activities	(792)	(36,644)	(79,593)		(117,029)
Net cash used in financing activities	(47,299)	(19)			(47,318)
Net increase (decrease) in cash and cash equivalents	20,067	(3,508)	(87,170)		(70,611)
Cash and cash equivalents at beginning of year	6,385	145,519	561,214		713,118
Cash and cash equivalents at end of period	$ 26,452	$ 142,011	$ 474,044	$	$ 642,507

Table of Contents

10. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Investment in Corporate Debt Securities

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

Loan Receivable

In 2010, the Company acquired all of the outstanding bank and subordinated debt of The M Resorts LLC for $230.5 million. The Company does not anticipate receiving cash proceeds on the loan but rather intends to convert the loan into ownership of The M Resorts LLC, a casino located approximately ten miles from the Las Vegas strip in Henderson, Nevada. The fair value of the loan approximates its carrying amount.

Long-term Debt

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

Interest Rate Swap Contracts

The fair value of the Company s interest rate swap contracts is measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation, subject to a credit adjustment to the LIBOR-based yield curve s implied discount rates. The credit adjustment reflects the Company s best estimate as to the Company s credit quality at March 31, 2011. The interest rate swap contracts are measured at fair value on a recurring basis.

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

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 234,478	$ 234,478	$ 246,385	$ 246,385
Investment in corporate debt securities	6,143	6,143	5,828	5,828
Loan receivable	230,500	230,500	230,500	230,500
Financial liabilities:				
Long-term debt				
Senior secured credit facility	1,553,125	1,553,125	1,589,125	1,589,125
Senior subordinated notes	575,000	612,875	575,000	612,875
Other long-term obligations	3,840	3,840	3,782	3,782
Interest rate swap contracts	10,617	10,617	16,746	16,746

Table of Contents

11. Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3: Unobservable inputs that reflect the reporting entity s own assumptions, as there is little, if any, related market activity.

The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

The following tables set forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the consolidated balance sheets at March 31, 2011 and December 31, 2010 (in thousands):

	Balance Sheet Location	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	March 31, 2011 Total
Assets:					
Investment in corporate debt securities	Other assets	$ 6,143	$	$	$ 6,143
Liabilities:					
Interest rate swap contracts	Accrued interest		10,617		10,617

	Balance Sheet Location	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2010 Total
Assets:					
Investment in corporate debt securities	Other assets	$ 5,828	$	$	$ 5,828

Liabilities:			
Interest rate swap contracts	Accrued interest	16,746	16,746

The valuation technique used to measure the fair value of the investment in corporate debt securities and interest rate swap contracts was the market approach. See Note 10 for a description of the inputs used in calculating the fair value measurements of investment in corporate debt securities and interest rate swap contracts. Although the Company has determined that the majority of the inputs used to value its interest rate swap contracts fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with it utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate swap contracts and has determined that the credit valuation adjustments are not significant to the overall valuation. As a result, the Company has determined that its interest rate swap contracts are classified in Level 2 of the fair value hierarchy.

12. Hollywood Casino Joliet Fire

On March 20, 2009, the Company s Hollywood Casino Joliet, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and the Company began construction of a new land-based pavilion. In December 2010, the first phase of the new permanent land-based pavilion was opened to the public and in January 2011 the final phase, including a sports bar, was completed.

Table of Contents

At the time of the fire, the Company carried a builders risk insurance policy for the on-going renovations with a policy limit of $57 million, inclusive of $14 million for delay in completion and $43 million for property damage. The builders risk insurance policy included a $50,000 property damage deductible and a 30-day delay in completion deductible for the peril of fire. In addition, the Company carried comprehensive business interruption and property damage insurance for the operational components of Hollywood Casino Joliet with an overall limit of $228 million. The operational insurance policy included a $2.5 million property damage deductible and a 48-hour business interruption deductible for the peril of fire.

To date, the Company has received $64.3 million in insurance proceeds related to the fire at Hollywood Casino Joliet, with $1.7 million received in the first quarter of 2011. As the insurance recovery amount exceeded the net book value of assets believed to be damaged, destroyed or abandoned and other costs incurred as a result of the fire at Hollywood Casino Joliet in 2010, the Company recorded a pre-tax gain of $1.7 million during the three months ended March 31, 2011.

13. Subsequent Events

On April 8, 2011, the Company announced that following approval by the Texas Racing Commission it had closed on the joint venture to own and operate the Sam Houston Race Park in Houston, Texas, the Valley Race Park in Harlingen, Texas and a planned racetrack in Laredo, Texas. The Company will work collaboratively to strengthen and enhance the existing racetrack operations as well as pursue other opportunities, including the potential for gaming operations at the pari-mutuel facilities, to maximize the overall value of the business. See Note 4 for further information.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Operations

We are a leading, diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. As of March 31, 2011, we own, manage, or have ownership interests in twenty-three facilities in the following sixteen jurisdictions: Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Maryland, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario. We believe that our portfolio of assets provides us with diversified cash flow from operations.

We have made significant acquisitions in the past, and expect to continue to pursue additional acquisition and development opportunities in the future. In 1997, we began our transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, we have continued to expand our gaming operations through strategic acquisitions (including the acquisitions of Hollywood Casino Bay St. Louis and Boomtown Biloxi, CRC Holdings, Inc., the Bullwhackers properties, Hollywood Casino Corporation, Argosy Gaming Company, Black Gold Casino at Zia Park, and Sanford-Orlando Kennel Club), greenfield projects (such as at Hollywood Casino at Penn National Race Course and Hollywood Slots Hotel and Raceway, and most recently Hollywood Casino Perryville, which opened on September 27, 2010 and was Maryland s first casino, as well as our proposed facilities in Ohio and joint venture in Kansas) and property expansions (such as Hollywood Casino at Charles Town Races and Hollywood Casino Lawrenceburg).

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

Key performance indicators related to gaming revenue are slot handle and table game drop (volume indicators) and win or hold percentage. Our typical property slot win percentage is in the range of 6% to 10% of slot handle, and our typical table game win percentage is in the range of 12% to 25% of table game drop.

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

We continue to expand our gaming operations through the implementation and execution of a disciplined capital expenditure program at our existing properties, the pursuit of strategic acquisitions and the development of new gaming properties, particularly in attractive regional markets. Current capital projects are ongoing at several of our new and existing properties, including our facilities under construction in Ohio and our joint venture in Kansas. Additional information regarding our capital projects is discussed in detail in the section entitled Liquidity and Capital Resources Capital Expenditures below.

Executive Summary

Although economic conditions appear to be improving, they continue to impact the overall domestic gaming industry as well as operating results at certain of our properties. We believe that the current economic conditions, including, but not limited to, high unemployment levels, low levels of consumer confidence, weakness in the housing and consumer credit markets and increased stock market volatility, have resulted in reduced levels of discretionary consumer spending compared to historical levels. In order to mitigate the impact of these conditions, we have increasingly focused on cost management, such as monitoring staff levels and establishing effective marketing programs, to continue to generate strong cash flow.

Even though the current economic environment has been challenging, we believe our strengths include our relatively low leverage ratios compared to the regional casino companies that we directly compete with and the ability of our operations to generate positive cash flow. These two factors have allowed us to develop what we believe to be attractive future growth opportunities in new regional gaming markets. We have also made investments in joint ventures and certain racetrack operations that we believe may allow us to capitalize on increased gaming opportunities in certain states if legislation or referenda are passed that permit and/or expand gaming in these jurisdictions.

Table of Contents

Financial Highlights:

The major factors affecting our results for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, were:

- Opening of table games in July 2010 at Hollywood Casino at Charles Town Races and Hollywood Casino at Penn National Race Course, which led to increased attendance levels at these properties and table game revenues of $33.3 million and $9.6 million, respectively, during the three months ended March 31, 2011.

- Opening of Hollywood Casino Perryville on September 27, 2010, which had net revenues and income from operations of $27.8 million and $3.0 million, respectively, for the three months ended March 31, 2011.

- Acquisition of Beulah Park on July 1, 2010, which had net revenues and loss from operations of $3.8 million and $0.9 million, respectively, for the three months ended March 31, 2011.

- Management s continued focus on cost management which contributed to improved operating margins at 12 of our 15 gaming facilities.

- Insurance gain of $1.7 million during the three months ended March 31, 2011 related to the fire at Hollywood Casino Joliet in 2009.

- Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries increased by $15.4 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to the variances explained above, as well as decreased interest expense and increased income taxes.

Other Developments:

The following are recent developments that have had or will have an impact on us:

- We announced on October 8, 2010 that we had purchased all of the outstanding bank and subordinated debt of The M Resorts LLC (the M Resort) for $230.5 million, which we intend to convert into ownership of the M Resort pursuant to an asset purchase agreement entered

into on February 17, 2011. This transaction is subject to review and approval by the Nevada Gaming Commission and the Nevada Gaming Control Board. Opened in March 2009, the M Resort, located approximately ten miles from the Las Vegas strip in Henderson, Nevada, is situated on over 90 acres on the southeast corner of Las Vegas Boulevard and St. Rose Parkway. The resort features over 92,000 square feet of gaming space. M Resort also offers 390 guest rooms and suites, nine restaurants and five destination bars, more than 60,000 square feet of meeting and conference space, a 4,700 space parking facility, a spa and fitness center and a 100,000 square foot events piazza. We expect to close this transaction in June 2011.

- We closed the transaction to enter into a joint venture that owns and operates the Sam Houston Race Park in Houston, Texas, the Valley Race Park in Harlingen, Texas and a planned racetrack in Laredo, Texas on April 8, 2011 following final approval by the Texas Racing Commission and the satisfaction of certain closing conditions. The joint venture will work collaboratively to strengthen and enhance the existing racetrack operations as well as pursue other opportunities, including the potential for gaming operations at the pari-mutuel facilities to maximize the overall value of the business.

- We completed our acquisition of Rosecroft Raceway in Oxon Hill, Maryland on February 28, 2011 following the completion of a bankruptcy auction and approval of the purchase by a United States (U.S.) Bankruptcy Court judge. We intend to work with the legislature, local officials and Maryland horsemen to develop a financially viable long-term model for operating the track. Rosecroft Raceway, located approximately 13 miles south of Washington, D.C., is situated on approximately 125 acres just outside the Washington I-495 Beltway in Prince George s county. The Rosecroft facility features a 5/8-mile standardbred racing oval track with a seven race paddock, a 53,000 square foot grandstand building, and a 96,000 square foot three story clubhouse building with dining facilities. The last live racing meet at Rosecroft Raceway was in 2008 and the facility ceased all pari-mutuel operations in June 2010.

- Hollywood Casino Joliet, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility on March 20, 2009. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and we began construction of a new land-based

Table of Contents

pavilion. In December 2010, the first phase of the new permanent land-based pavilion was opened to the public and in January 2011 the final phase, including a sports bar, was completed. At the time of the fire, we carried a builders risk insurance policy for the on-going renovations with a policy limit of $57 million, inclusive of $14 million for delay in completion and $43 million for property damage. The builders risk insurance policy included a $50,000 property damage deductible and a 30-day delay in completion deductible for the peril of fire. In addition, we carried comprehensive business interruption and property damage insurance for the operational components of Hollywood Casino Joliet with an overall limit of $228 million. The operational insurance policy included a $2.5 million property damage deductible and a 48-hour business interruption deductible for the peril of fire. To date, we have received $64.3 million in insurance proceeds related to the fire at Hollywood Casino Joliet, with $1.7 million received in the first quarter of 2011. As the insurance recovery amount exceeded the net book value of assets believed to be damaged, destroyed or abandoned and other costs incurred as a result of the fire at Hollywood Casino Joliet in 2010, we recorded a pre-tax gain of $1.7 million during the three months ended March 31, 2011. We continue to work with our insurance providers to settle the claims related to the fire and we anticipate additional proceeds in future periods.

- On October 5, 2010, the Ontario Lottery and Gaming Commission (OLGC) issued a Request for Pre-Qualification inviting gaming operators to bid on a new five year term for management of the Casino Rama facility, which included a cap on management fees of $5 million per year. While we intend to participate in the bid process, there can be no assurance that the OLGC will select us to manage the property beyond August 1, 2011, when our current arrangement expires. The OLGC expects to make its decision in 2011, with the new term beginning in early 2012. We are in the process of negotiating a short-term extension to our existing agreement with the OLGC to provide for the continued management of the facility during the interim period.

- CD Gaming Ventures,LLC (CD Ventures), a wholly-owned subsidiary of the Company and developer of the Columbus casino, filed suit in U.S. District Court against the City of Columbus, Columbus officials, Franklin County and County officials in March 2011. The lawsuit alleges that the city of Columbus, Franklin County and various city and county officials violated our rights under the U.S. and Ohio Constitutions, principally by removing preexisting sewer and water service in an effort to force annexation of the constitutionally-authorized casino site into the city of Columbus. CD Ventures asked the court for an injunction preventing the city and the county from denying water and sewer service to the casino site and also seeks monetary damages. CD Ventures has subsequently amended its complaint, requested injunctive relief and requested expedited discovery. The court has granted CD Ventures request for expedited discovery and has tentatively set a hearing date for late May 2011.

- The Hollywood Casino Columbus project, a $400 million Hollywood-themed casino in Columbus, Ohio, inclusive of $50 million in licensing fees, is in development, with a planned casino opening of up to 3,000 slot machines, 70 table games and 30 poker tables, structured and surface parking, as well as food and beverage outlets and an entertainment lounge. We remain hopeful that Hollywood Casino Columbus will be completed as originally contemplated in the fourth quarter of 2012. Construction is underway for Hollywood Casino Toledo, a $300 million Hollywood-themed casino in Toledo, Ohio, inclusive of $50 million in licensing fees, with a planned casino opening of 2,000 slot machines, 60 table games and 20 poker tables, structured and surface parking, as well as food and beverage outlets and an entertainment lounge. Hollywood Casino Toledo is anticipated to be completed in the first half of 2012.

- Kansas Entertainment, LLC (Kansas Entertainment) received in February 2010 the final approval under the Kansas Expanded Lottery Act, along with its gaming license from the Kansas Racing and Gaming Commission, to proceed with the development of an approximately $411 million Hollywood-themed destination facility overlooking Turn 2 at Kansas Speedway. Kansas Entertainment began construction of the facility in the second quarter of 2010 and has a planned opening in the first quarter of 2012. The approximately $411 million facility, inclusive of licensing fees, is expected to feature a 82,000 square foot casino with approximately 2,000 slot machines, 52 table games and 12 poker tables, a 1,253 space parking structure, as well as a variety of dining and entertainment amenities. We, along with our partner in Kansas Entertainment, International Speedway Corporation (International Speedway), will share equally the cost of developing and constructing the proposed facility. We estimate that our share of the project will be approximately $155 million.

- A new approximately $445 million casino is expected to open in the second half of 2011 in Des Plaines, Illinois. Hollywood Casino Joliet and Hollywood Casino Aurora will face additional competition as the facility will be located in the suburban area northwest of Chicago, however, the 3% tax surcharge that these casinos pay to subsidize local racing horse interests will no longer be incurred once the new facility opens.

- A proposed $400 million casino in Cincinnati, Ohio, which is a major feeder market for our Lawrenceburg property, is anticipated to open in 2013. The opening of this casino is expected to negatively impact the financial results of

Table of Contents

Hollywood Casino Lawrenceburg. In addition, zoning was approved by voters in November 2010 for a proposed casino complex at the Arundel Mills mall in Anne Arundel, Maryland. Construction of a temporary facility in 2012 is being targeted by the developer and dependent on market conditions, followed by the construction of a permanent casino. The opening of this casino is expected to negatively impact the financial results of Hollywood Casino at Charles Town Races.

- The new Hollywood Casino Perryville in Cecil County, Maryland opened to the public on September 27, 2010. The new 75,000 square foot Hollywood-themed facility features 1,500 video lottery terminals, food and beverage offerings, and parking.

- In July 2010, table games and poker tables were added to Hollywood Casino at Charles Town Races and the facility transitioned to the Hollywood Casino brand. Also in July 2010, table games and poker tables were added to Hollywood Casino at Penn National Race Course, following the passage of legislation permitting table games for gaming licensees in January 2010.

Critical Accounting Policies

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

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

For further information on our critical accounting policies and estimates, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. There has been no material change to these policies for the three months ended March 31, 2011 other than the adoption of the new accounting guidance related to jackpot liabilities as discussed in Note 3.

Results of Operations

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

- The fact that most of our properties operate in mature competitive markets. As a result, we expect a majority of our future growth to come from prudent acquisitions of gaming properties, jurisdictional expansions (such as the property opening in Maryland, and the anticipated openings in Kansas and Ohio), expansions of gaming in existing jurisdictions (such as the introduction of table games in July 2010 at Hollywood Casino at Charles Town Races and Hollywood Casino at Penn National Race Course) and expansions/improvements of existing properties.

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

- The fact that a number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for instance, in Kansas where we anticipate opening a casino through a joint venture in the first quarter of 2012, in Ohio where we have plans to open two casinos, one in Toledo in the first half of 2012 and the other in Columbus which we hope to open in the fourth quarter of 2012, and in Maryland where we opened Hollywood Casino Perryville on September 27, 2010, the first casino in the state) and potential competitive threats to business at our existing properties (such as the potential introduction of commercial casinos in Kansas, Maryland, Ohio, and Kentucky, an additional gaming license in Illinois, anticipated gaming expansion in Baton Rouge, Louisiana, and the introduction of tavern licenses in several states). Legalized gaming from Native American casinos can also have a significant competitive effect.

Table of Contents

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

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

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

The results of operations for the three months ended March 31, 2011 and 2010 are summarized below:

	2011	2010
	(in thousands)	
Revenues:		
Gaming	$ 609,111	$ 543,373
Food, beverage and other	85,289	80,432
Management service fee	3,317	3,194
Revenues	697,717	626,999
Less promotional allowances	(30,694)	(34,676)
Net revenues	667,023	592,323
Operating expenses:		
Gaming	320,756	290,861
Food, beverage and other	68,592	63,220
General and administrative	103,476	94,516
Depreciation and amortization	53,158	51,180
Impairment losses		136
Hollywood Casino Joliet fire	(1,694)	59
Total operating expenses	544,288	499,972
Income from operations	$ 122,735	$ 92,351

Table of Contents

The results of operations by property for the three months ended March 31, 2011 and 2010 are summarized below:

	Net Revenues		Income (loss) from Operations	
	2011	2010	2011	2010
	(in thousands)			
Hollywood Casino at Charles Town Races (1)	$ 139,892	$ 103,215	$ 38,705	$ 22,081
Hollywood Casino Lawrenceburg	110,976	111,046	27,259	24,286
Hollywood Casino at Penn National Race Course (1)	82,856	75,610	11,930	6,816
Hollywood Casino Aurora	42,287	43,989	12,843	10,999
Hollywood Casino Joliet	39,002	36,044	6,227	6,021
Argosy Casino Riverside	48,190	48,719	14,395	14,340
Hollywood Casino Baton Rouge	30,631	30,549	11,124	9,491
Argosy Casino Alton	18,230	18,618	3,665	2,786
Hollywood Casino Tunica	20,535	22,362	4,515	4,979
Hollywood Casino Bay St. Louis	21,811	21,330	1,949	482
Argosy Casino Sioux City	15,070	14,674	4,878	4,425
Boomtown Biloxi	18,853	18,207	2,647	2,188
Hollywood Slots Hotel and Raceway	15,289	16,225	(122)	(407)
Bullwhackers	2,963	4,883	(71)	(600)
Black Gold Casino at Zia Park	22,590	20,626	6,655	6,034
Hollywood Casino Perryville (2)	27,755		2,961	(138)
Casino Rama management service contract	3,317	3,194	3,025	2,809
Raceway Park	1,355	1,311	(223)	(238)
Sanford-Orlando Kennel Club	1,602	1,721	212	67
Beulah Park (3)	3,819		(884)	
Rosecroft Raceway (4)			(332)	
Corporate overhead			(28,623)	(24,070)
Total	$ 667,023	$ 592,323	$ 122,735	$ 92,351

(1) Results for the three months ended March 31, 2011 were favorably impacted by the introduction of table games in July 2010 at these locations which led to higher attendance figures and improved financial results compared to the corresponding period in the prior year.

(2) Hollywood Casino Perryville opened to the public on September 27, 2010.

(3) Beulah Park was acquired on July 1, 2010.

(4) Rosecroft Raceway was acquired on February 28, 2011. The Company is currently in the process of developing a financially viable long-term plan for operating the track.

Revenues

Revenues for the three months ended March 31, 2011 and 2010 were as follows (in thousands):

	2011	2010	Variance	Percentage Variance
Gaming	$ 609,111	$ 543,373	$ 65,738	12.1%
Food, beverage and other	85,289	80,432	4,857	6.0%
Management service fee	3,317	3,194	123	3.9%
Revenues	697,717	626,999	70,718	11.3%
Less promotional allowances	(30,694)	(34,676)	3,982	11.5%
Net revenues	$ 667,023	$ 592,323	$ 74,700	12.6%

Table of Contents

In our business, revenue is driven by discretionary consumer spending, which has been impacted by weakened general economic conditions such as, but not limited to, high unemployment levels, low levels of consumer confidence, weakness in the housing market and increased stock market volatility.

We have no certain mechanism for determining why consumers choose to spend more or less money at our property from period to period and as such cannot quantify a dollar amount for each factor that impacts our customers spending behaviors. However, based on our experience, we can generally offer some insight into the factors that we believe were likely to account for such changes. In instances where we believe one factor may have had significantly greater impact than the other factors, we have noted that as well. However, in all instances, such insights are based only on our reasonable judgment and professional experience, and no assurance can be given as to the accuracy of our judgments.

Gaming revenue

Gaming revenue increased by $65.7 million, or 12.1%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to the introduction of table games in July 2010 at Hollywood Casino at Charles Town Races and Hollywood Casino at Penn National Race Course and the opening of Hollywood Casino Perryville in September 2010.

Gaming revenue at Hollywood Casino at Charles Town Races increased by $34.1 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to the introduction of table games in July 2010, which added $33.3 million of table game revenue for the three months ended March 31, 2011.

Gaming revenue at Hollywood Casino Perryville was $26.4 million for the three months ended March 31, 2011, as the casino opened on September 27, 2010.

Gaming revenue at Hollywood Casino at Penn National Race Course increased by $7.6 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to the introduction of table games in July 2010, which added $9.6 million of table game revenue for the three months ended March 31, 2011, partially offset by a decline in electronic table game revenue.

Food, beverage and other revenue

Food, beverage and other revenue increased by $4.9 million, or 6.0%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to the acquisition of Beulah Park in July 2010, which had $3.8 million in food, beverage and other revenue for the three months ended March 31, 2011, and an increase in food, beverage and other revenue at Hollywood Casino at Charles Town Races of $3.6 million primarily due to the additional attendance levels as a result of the introduction of table games in July 2010.

Promotional allowances

Promotional allowances decreased by $4.0 million, or 11.5%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to efforts by management to rationalize our promotional spending levels to improve operating margins.

Operating Expenses

Operating expenses for the three months ended March 31, 2011 and 2010 were as follows (in thousands):

	2011	2010	Variance	Percentage Variance
Gaming	$ 320,756	$ 290,861	$ 29,895	10.3%
Food, beverage and other	68,592	63,220	5,372	8.5%
General and administrative	103,476	94,516	8,960	9.5%
Depreciation and amortization	53,158	51,180	1,978	3.9%
Impairment losses		136	(136)	(100.0)%
Hollywood Casino Joliet fire	(1,694)	59	(1,753)	(2,971.2)%
Total operating expenses	$ 544,288	$ 499,972	$ 44,316	8.9%

Table of Contents

Gaming expense

Gaming expense increased by $29.9 million, or 10.3%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to the opening of Hollywood Casino Perryville in September 2010 and an increase at Hollywood Casino at Charles Town Races, both of which were partially offset by decreases at Hollywood Casino Lawrenceburg and Hollywood Casino Aurora.

Gaming expense at Hollywood Casino Perryville was $20.0 million for the three months ended March 31, 2011, as the casino opened on September 27, 2010.

Gaming expense at Hollywood Casino at Charles Town Races increased by $16.9 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to an increase in gaming taxes resulting from higher table game revenue, and to a lesser extent an increase in payroll expense, for the introduction of table games in July 2010.

Gaming expense at Hollywood Casino Lawrenceburg decreased by $3.0 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to a decrease in gaming taxes resulting from lower taxable gaming revenue, as well as to a lesser extent decreased payroll and marketing costs resulting from increased cost management efforts.

Gaming expense at Hollywood Casino Aurora decreased by $2.8 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to a decrease in gaming taxes resulting from lower taxable gaming revenue, as well as to a lesser extent decreased payroll and marketing costs resulting from increased cost management efforts.

Food, beverage and other

Food, beverage and other expenses increased by $5.4 million, or 8.5%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to the acquisition of Beulah Park in July 2010, which had food, beverage and other expenses of $3.4 million for the three months ended March 31, 2011, and an increase at Hollywood Casino at Charles Town Races of $1.9 million primarily due to higher food and beverage revenues.

General and administrative expense

General and administrative expense at the properties includes expenses such as compliance, facility maintenance, utilities, property and liability insurance, surveillance and security, and certain housekeeping services, as well as all expenses for administrative departments such as accounting, purchasing, human resources, legal and internal audit. General and administrative expense also includes lobbying expenses.

General and administrative expense increased by $9.0 million, or 9.5%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to increases in corporate overhead expense and increases at Hollywood Casino Joliet and the opening of Hollywood Casino Perryville in September 2010.

Corporate overhead expense increased by $3.7 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to increased payroll costs and cash-settled stock based compensation related costs of $0.7 million during the three months ended March 31, 2011.

General and administrative expense at Hollywood Casino Perryville increased by $2.0 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, due to the casino opening on September 27, 2010.

General and administrative expense at Hollywood Casino Joliet increased by $1.5 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to increased insurance expense of $0.8 million related to several large claims in 2011 and to a lesser extent increased real estate taxes of $0.3 million and payroll and benefits expense of $0.3 million primarily due to the opening of the new pavilion in late December 2010.

Hollywood Casino Joliet fire

To date, we have received $64.3 million in insurance proceeds related to the fire at Hollywood Casino Joliet, with $1.7 million received in the first quarter of 2011. As the insurance recovery amount exceeded the net book value of assets believed to be damaged, destroyed or abandoned and other costs incurred as a result of the fire at Hollywood Casino Joliet in 2010, we recorded a pre-tax gain of $1.7 million during the three months ended March 31, 2011.

Table of Contents

Other income (expenses)

Other income (expenses) for the three months ended March 31, 2011 and 2010 were as follows (in thousands):

	2011	2010	Variance	Percentage Variance
Interest expense	$ (29,026)	$ (34,292)	$ 5,266	(15.4)%
Interest income	53	730	(677)	(92.7)%
Loss from unconsolidated affiliates	(2,354)	(1,412)	(942)	66.7%
Other	(1,643)	(1,321)	(322)	24.4%
Total other expenses	$ (32,970)	$ (36,295)	$ 3,325	(9.2)%

Interest expense

Interest expense decreased by $5.3 million, or 15.4%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to a deferred loss on certain terminated cash flow hedges being fully amortized as well as the expiration of certain receive-variable pay-fixed interest rate hedges, which increased interest expense in the prior year due to the low interest rate environment.

Loss from unconsolidated affiliates

Loss from unconsolidated affiliates increased by $0.9 million, or 66.7%, for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, primarily due to our share of losses in the joint venture that owns and operates the Maryland Jockey Club, which we entered into on July 1, 2010.

Taxes

Our effective tax rate (income taxes as a percentage of income from operations before income taxes) increased to 42.6% for the three months ended March 31, 2011, as compared to 35.5% for the three months ended March 31, 2010, primarily due to receiving a favorable resolution for an uncertain tax position during the three months ended March 31, 2010.

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

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 totaled $102.3 million and $93.7 million for the three months ended March 31, 2011 and 2010, respectively. The increase in net cash provided by operating activities of $8.6 million for the three months ended March 31, 2011 compared to the corresponding period in the prior year is comprised primarily of an increase in cash receipts from customers of $71.1 million and decreases in interest and income taxes payments of $4.9 million and $6.1 million, respectively, which were partially offset by an increase in cash paid to suppliers and vendors of $55.8 million and cash paid to employees of $15.6 million. The increase in cash receipts collected from our customers of $71.1 million for the three months ended March 31, 2011 compared to the corresponding period in the prior year was primarily due to the previously discussed improvements at our Hollywood Casino properties at Penn National Race Course and Charles Town Races as well as the opening of Hollywood Casino Perryville in September 2010. Additionally, the increase in higher cash payments for operating expenses of $55.8 million for the three months ended March 31, 2011 compared to the corresponding period in the prior year was primarily due to increased expenses related to those properties mentioned above as well as less insurance proceeds received in 2011 for the fire at Hollywood Casino Joliet, which were partially offset by expense management initiatives to help mitigate the impact of the difficult operating environment.

Net cash used in investing activities totaled $79.6 million and $117.0 million for the three months ended March 31, 2011 and 2010, respectively. Net cash used in investing activities for the three months ended March 31, 2011 included expenditures for property and equipment totaling $54.5 million, acquisition of businesses and gaming licenses of $15.0 million, and investment in Kansas Entertainment of $10.2 million, all of which were partially offset by proceeds from the sale of property and equipment totaling

Table of Contents

$0.1 million. The decrease in net cash used in investing activities of $37.4 million for the three months ended March 31, 2011 compared to the corresponding period in the prior year is primarily due to decreased expenditures for property and equipment related to the purchase of land for our proposed facility in Columbus, Ohio in 2010, which was partially offset by the acquisition of Rosecroft Raceway and costs incurred in Ohio to obtain gaming licenses in 2011 and a decrease in cash in escrow in 2010.

Net cash used in financing activities totaled $34.6 million and $47.3 million for the three months ended March 31, 2011 and 2010, respectively. Net cash used in financing activities for the three months ended March 31, 2011 included principal payments on long-term debt and on insurance financing totaling $66.0 million and $3.5 million, respectively. Both of these were partially offset by proceeds from the exercise of options totaling $3.3 million, proceeds from the issuance of long-term debt of $30.0 million, and the tax benefit from stock options exercised totaling $1.6 million. The decrease in net cash used in financing activities of $12.7 million for the three months ended March 31, 2011 compared to the corresponding period in the prior year is primarily due to the repurchase of preferred stock in 2010.

Capital Expenditures

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

The following table summarizes our expected capital project expenditures by property for the fiscal year ending December 31, 2011, and actual expenditures for the three months ended March 31, 2011 (excluding licensing fees). The table below should not be utilized to predict future expected capital project expenditures subsequent to 2011.

Property	Expected for Year Ending December 31, 2011	Expenditures for Three Months Ended March 31, 2011 (in millions)	Balance to Expend in 2011
Hollywood Casino Toledo	$ 152.5	$ 18.6	$ 133.9
Hollywood Casino Columbus	82.9	2.4	80.5
Hollywood Casino at Charles Town Races	15.8	5.0	10.8
Hollywood Casino Joliet (1)	14.9	8.2	6.7
Other	15.9	5.6	10.3
Total	$ 282.0	$ 39.8	$ 242.2

(1) Net of anticipated amounts to be received from insurance proceeds.

The table above excludes our share of the anticipated commitments related to our joint venture with International Speedway to develop a casino at Kansas Speedway since these amounts will be recorded within investments in and advances to unconsolidated affiliates on our consolidated balance sheet.

In November 2009, the Ohio Jobs and Growth Plan, a casino ballot proposal calling for an amendment to Ohio s Constitution to authorize casinos in the state s four largest cities, Cincinnati, Cleveland, Columbus and Toledo, was approved. Construction is underway for Hollywood Casino Toledo, a $300 million Hollywood-themed casino in Toledo, Ohio, inclusive of $50 million in licensing fees, with a planned casino opening of 2,000 slot machines, 60 table games and 20 poker tables, structured and surface parking, as well as food and beverage outlets and an entertainment lounge. The Hollywood Casino Columbus project, a $400 million Hollywood-themed casino in Columbus, Ohio, inclusive of $50 million in licensing fees, is in development, with a planned casino opening of up to 3,000 slot machines, 70 table games and 30 poker tables, structured and surface parking, as well as food and beverage outlets and an entertainment lounge. Hollywood Casino Toledo is anticipated to be completed in the first half of 2012 and Hollywood Casino Columbus is anticipated to be completed in the fourth quarter of 2012.

In December 2009, we announced our intention to install table games at Hollywood Casino at Charles Town Races following voter approval of table games in the December 5, 2009 special election. In July 2010, we completed the renovations resulting in the introduction of 85 table games and 27 poker tables. In addition, a high-end steakhouse was completed in the fourth quarter of 2010 and a sports bar and entertainment lounge is expected to be completed in the second quarter of 2011.

Table of Contents

At Hollywood Casino Joliet, we started facility enhancements in late 2008. On March 20, 2009, the property, which was undergoing a $55 million renovation, was closed following a fire that started in the land-based pavilion at the facility. All customers and employees were successfully evacuated, and the fire was contained on the land-side of the property before it could spread to the adjacent casino barge. On June 25, 2009, the casino barge was reopened with temporary land-based facilities, and we began construction of a new land-based pavilion. Construction on a new 1,100 space parking garage was completed in February 2010. The first phase of the new permanent land-based pavilion was opened to the public on December 22, 2010, including a steakhouse, buffet and gift shop. The final phase of the new pavilion, including a sports bar, was completed in January 2011.

During the three months ended March 31, 2011, we spent approximately $14.7 million for capital maintenance expenditures at our properties. The majority of the capital maintenance expenditures were for slot machines and slot machine equipment.

Cash generated from operations and cash available under the revolving credit facility portion of our senior secured credit facility have funded our capital project and capital maintenance expenditures in 2011 to date.

Debt

Senior Secured Credit Facility

During the three months ended March 31, 2011, our senior secured credit facility amount outstanding decreased by $36.0 million primarily due to repayments on the revolving credit facility using available cash.

Covenants

Our senior secured credit facility and $325 million 83/4% and $250 million 63/4% senior subordinated notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, our senior secured credit facility and $325 million 83/4% and $250 million 63/4% senior subordinated notes restrict, among other things, our ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

At March 31, 2011, we were in compliance with all required financial covenants.

Outlook

Based on our current level of operations and anticipated earnings growth, we believe that cash generated from operations and cash on hand, together with amounts available under our senior secured credit facility, will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated earnings growth will be realized, or that future borrowings will be available under our senior secured credit facility or otherwise will be available to enable us to service our indebtedness, including the senior secured credit facility and the senior subordinated notes, to retire or redeem the senior subordinated notes when required or to make anticipated capital expenditures. In addition, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable valuations, greenfield projects, jurisdictional expansions and property expansion in under-penetrated markets. If we consummate significant acquisitions in the future or undertake any significant property expansions, our cash requirements may increase significantly and we may need to make additional borrowings or complete equity or debt financings to meet these requirements. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. See Risk Factors Risks Related to Our Capital Structure in our Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of the risk related to our capital structure.

We have historically maintained a capital structure comprising a mix of equity and debt financing. We vary our leverage to pursue opportunities in the marketplace and in an effort to maximize our enterprise value for our shareholders. We expect to meet our current debt obligations as they come due through internally generated funds from operations and/or refinancing them through the debt or equity markets prior to their maturity.

Our senior secured credit facility had an outstanding balance of $1,553.1 million at March 31, 2011, consisting of a term loan of $1,518.1 million and an outstanding balance of $35.0 million under our revolving credit facility. The term loan has a quarterly principal payment of $354.9 million in December 2011, followed by payments of $387.8 million in March 2012, June 2012 and October 2012. The revolving credit facility matures on July 3, 2012. Our $250 million senior subordinated notes mature in March 2015 and our $325 million senior subordinated notes mature in August 2019. As always, we evaluate our options with respect to the

Table of Contents

maturity of such indebtedness. The Company is currently considering refinancing options given our term loan maturity payments due within the next twelve months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information at March 31, 2011 about our financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents notional amounts maturing during the period and the related weighted-average interest rates by maturity dates. For interest rate swaps, the table presents settlement amounts and weighted-average interest rates by the expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract and the weighted-average variable rates are based on implied forward rates in the yield curve at March 31, 2011.

	4/1/11 - 3/31/12	4/1/12 - 3/31/13	4/1/13 - 3/31/14	4/1/14 - 3/31/15	4/1/15 - 3/31/16	Thereafter	Total	Fair Value 3/31/11
					(in thousands)			
Long-term debt:								
Fixed rate	$	$	$	$	$ 250,000	$ 325,000	$ 575,000	$ 612,875
Average interest rate					6.75%	8.75%		
Other Long Term Obligations	$ 1,861	$ 1,979	$	$	$	$	$ 3,840	$ 3,840
Average interest rate	6.20%	6.20%						
Variable rate	$ 742,625	$ 810,500	$	$	$	$	$ 1,553,125	$ 1,553,125
Average interest rate (1)	3.29%	3.90%						
Interest rate derivatives:								
Interest rate swaps								
Variable to fixed (2)	$ 10,667	$	$	$	$	$	N/A	$ 10,617
Average pay rate	2.58%						N/A	
Average receive rate (3)	1.54%						N/A	

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

(2) Settlement amounts outstanding on interest rate swaps with a notional value of $1.24 billion.

(3) Estimated rate, reflective of forward LIBOR.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

The Company s management, under the supervision and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of March 31, 2011, which is the end of the period covered by this Quarterly Report on Form 10-Q. 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 was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2011 to ensure that information required to be disclosed by the Company in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the United States Securities and Exchange Commission s rules and forms and (ii) accumulated and communicated to the Company s management, including the Company s principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1 Legal Proceedings

Information in response to this Item is incorporated by reference to the information set forth in Note 8: Commitments and Contingencies in the Notes to the consolidated financial statements in Part I of this Quarterly Report on Form 10-Q.

ITEM 1A Risk Factors

We are not aware of any material changes to the risk factors described in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

The Company did not repurchase any common equity securities during the three months ended March 31, 2011.

ITEM 3 Defaults upon Senior Securities

Not applicable.

ITEM 4 (Removed and Reserved)

ITEM 5 Other information

Not applicable.

Table of Contents

ITEM 6. EXHIBITS

Exhibit	Description of Exhibit
31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at March 31, 2011 and December 31, 2010, (ii) the Consolidated Statements of Income for the three months ended March 31, 2011 and 2010, (iii) the Consolidated Statements of Changes in Shareholders Equity for the three months ended March 31, 2011 and 2010, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 and (v) the notes to the Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, the Indenture Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

May 4, 2011 By: /s/ William J. Clifford
William J. Clifford
Senior Vice President Finance and Chief Financial Officer
(Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

Exhibit	Description of Exhibit
31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at March 31, 2011 and December 31, 2010, (ii) the Consolidated Statements of Income for the three months ended March 31, 2011 and 2010, (iii) the Consolidated Statements of Changes in Shareholders Equity for the three months ended March 31, 2011 and 2010, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 and (v) the notes to the Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Indenture Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.