

PENN NATIONAL GAMING INC  
Form 10-K  
February 27, 2015

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

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**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2014**

**OR**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**23-2234473**  
(I.R.S. Employer  
Identification No.)

**825 Berkshire Blvd., Suite 200**  
**Wyomissing, Pennsylvania**  
(Address of principal executive offices)

**19610**  
(Zip Code)

Registrant's telephone number, including area code: (610) 373-2400  
Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
None	None
Securities registered pursuant to Section 12(g) of the Act:	
Common Stock, par value \$.01 per share	
Series C Preferred Stock, par value \$.01 per share	
(Title of Class)	

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting  
company)

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

As of June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$867 million. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the NASDAQ Global Select Market on June 30, 2014.

The number of shares of the registrant's common stock outstanding as of February 18, 2015 was 79,673,593.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2015 annual meeting of shareholders are incorporated by reference into Part III.

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**IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS**

This document includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are included throughout the document, including the section entitled "Risk Factors," and relate to our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "expects," "intends," "may," "will," "should" or "anticipates" or the negative or other variation of these or similar words, or by discussions of future events, strategies or risks and uncertainties. Specifically, forward-looking statements may include, among others, statements concerning:

our expectations of future results of operations or financial condition;

our expectations for our operating properties or our development projects;

the timing, cost and expected impact of planned capital expenditures on our results of operations;

the impact of our geographic diversification and competition;

our expectations with regard to further acquisitions and development opportunities, as well as the integration of any companies we have acquired or may acquire;

the outcome and financial impact of the litigation in which we are or will be periodically involved;

the actions of regulatory, legislative, executive or judicial decisions at the federal, state or local level with regard to our business and the impact of any such actions;

our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses;

our expectations regarding economic and consumer conditions; and

our expectations for the continued availability and cost of capital.

Although Penn National Gaming, Inc. ("Penn") and its subsidiaries (together with Penn, collectively, the "Company") believe that the expectations reflected in such forward-looking statements are reasonable, they are inherently subject to risks, uncertainties and assumptions about our subsidiaries and us, and accordingly, our forward-looking statements are qualified in their entirety by reference to the factors described below and in the information incorporated by reference herein. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, risks related to the following:

our ability to obtain timely 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, including the ongoing appeal by the Ohio Roundtable addressing the legality of video lottery terminals in Ohio;

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our ability to secure federal, state and local permits and approvals necessary for our construction projects;

construction factors, including delays, unexpected remediation costs, local opposition, organized labor, and increased cost of labor and materials;

our ability to maintain agreements with our horsemen, pari-mutuel clerks and other organized labor groups;

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with respect to the proposed Jamul project near San Diego, California, particular risks associated with financing a project of this type, sovereign immunity, local opposition (including several pending lawsuits), and building a complex project on a relatively small parcel;

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 or seek to do business (such as a smoking ban at any of our facilities);

with respect to our Massachusetts project, the ultimate location and anticipated opening dates of our facility as well as the other gaming facilities in the state;

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 rapid emergence of new competitors (traditional, internet and sweepstakes based and taverns);

increases in the effective rate of taxation at any of our properties or at the corporate level;

our ability to identify attractive acquisition and development opportunities and to agree to terms with partners/municipalities 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 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 cyber-attacks and other cyber security incidents;

the impact of weather; and

other factors as discussed in our filings with the United States Securities and Exchange Commission.

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

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

We are a leading, diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. The Company was incorporated in Pennsylvania in 1982 as PNR Corp. and adopted its current name in 1994, when the Company became a publicly traded company. 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, greenfield projects, and property expansions. We, along with our joint venture partner, opened Hollywood Casino at Kansas Speedway on February 3, 2012. In Ohio, we have opened four new gaming properties over the last three years, including: Hollywood Casino Toledo on May 29, 2012, Hollywood Casino Columbus on October 8, 2012, Hollywood Gaming at Dayton Raceway on August 28, 2014, and Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014. In addition, on November 2, 2012, we acquired Harrah's St. Louis, which we subsequently rebranded as Hollywood Casino St. Louis. Finally, we are in the process of constructing Plainridge Park Casino, an integrated racing and gaming facility in Plainville, Massachusetts, which we expect to open in June 2015, as well as the Jamul development project near San Diego, California, which we anticipate completing in mid-2016.

We believe that our portfolio of assets provides us the benefit of a geographically diversified cash flow from operations. 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.

In this Annual Report on Form 10-K, the terms "we," "us," "our," the "Company" and "Penn" refer to Penn National Gaming, Inc. and its subsidiaries, unless the context indicates otherwise.

**Spin-Off of Real Estate Assets through a Real Estate Investment Trust**

On November 1, 2013, the Company completed its plan to separate its gaming operating assets from its real property assets by creating a newly formed, publicly traded real estate investment trust ("REIT"), known as Gaming and Leisure Properties, Inc. ("GLPI"), through a tax free spin-off (the "Spin-Off"). Penn effected the Spin-Off by distributing one share of common stock of GLPI to the holders of Penn common stock and Series C Convertible Preferred Stock ("Series C Preferred Stock") for every share of Penn common stock and every 1/1000th of a share of Series C Preferred Stock that they held at the close of business on October 16, 2013, the record date for the Spin-Off. Peter M. Carlino and the PMC Delaware Dynasty Trust dated September 25, 2013, a trust for the benefit of Mr. Carlino's children, also received additional shares of GLPI common stock, in exchange for shares of Penn common stock that they transferred to Penn immediately prior to the Spin-Off, and Mr. Carlino exchanged certain options to acquire Penn common stock for options to acquire GLPI common stock having the same aggregate intrinsic value. Penn engaged in these exchanges with Mr. Carlino and his related trust to ensure that each member of the Carlino family beneficially owns 9.9% or less of the outstanding shares of Penn common stock following the Spin-Off, so that GLPI can qualify to be taxed as a REIT for United States ("U.S.") federal income tax purposes.

In addition, through a series of internal corporate restructurings, Penn contributed to GLPI substantially all of the assets and liabilities associated with Penn's real property interests and real estate development business, as well as all of the assets and liabilities of Hollywood Casino Baton Rouge and Hollywood Casino Perryville, which are referred to as the "TRS Properties." As a result of the Spin-Off, GLPI owns substantially all of Penn's former real property assets and leases back those assets (other than the TRS Properties) to Penn for use by its subsidiaries, under a "triple net" master lease



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agreement (the "Master Lease") (which has a fifteen-year initial term that can be extended at Penn's option for up to four five-year renewal terms), as well as owns and operates the TRS Properties. Penn continues to operate the leased gaming facilities and hold the associated gaming licenses with these facilities. As a result of the Spin-Off, the Company's results for the year ended December 31, 2013 only include the TRS Properties for the period January 1, 2013 through October 31, 2013.

The Company received a private letter ruling from the Internal Revenue Service relating to the tax treatment of the separation and the qualification of GLPI as a REIT. The private letter ruling is subject to certain qualifications and based on certain representations and statements made by the Company and certain of its shareholders. If such representations and statements are untrue or incomplete in any material respect (including as a result of a material change in the transaction or other relevant facts), the Company may not be able to rely on the private letter ruling. The Company received opinions from outside counsel regarding certain aspects of the transaction that are not covered by the private letter ruling.

Prior to the Spin-Off, we entered into a Separation and Distribution Agreement with GLPI setting forth the mechanics of the Spin-Off, certain organizational matters and other ongoing obligations of the Company and GLPI. The Company and GLPI or their respective subsidiaries, as applicable, also entered into a number of other agreements prior to the Spin-Off to provide a framework for the restructuring and for the relationships between GLPI and the Company.

**Master Lease**

As of December 31, 2014, the Company leased from GLPI real property assets associated with eighteen of the Company's gaming and related facilities used in the Company's operations. Our two projects currently under development, Plainridge Park Casino and a Hollywood Casino branded facility with the Jamul Tribe, are not subject to the Master Lease. The following summary of the Master Lease is qualified in its entirety by reference to the Master Lease attached hereto as Exhibit 10.20.

The rent structure under the Master Lease, which became effective November 1, 2013, includes a fixed component, a portion of which is subject to an annual escalator of up to 2% if certain rent coverage ratio thresholds are met, and a component that is based on the performance of the facilities, which is prospectively adjusted, subject to a floor of zero (i) every five years by an amount equal to 4% of the average change to net revenues of all facilities under the Master Lease (other than Hollywood Casino Columbus and Hollywood Casino Toledo) during the preceding five years, and (ii) monthly by an amount equal to 20% of the change in net revenues of Hollywood Casino Columbus and Hollywood Casino Toledo during the preceding month. In addition, with the openings of Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course in the third quarter of 2014, these properties began paying rent subject to the terms of the Master Lease, which had the impact of increasing our annual rental expense related to the Master Lease by approximately \$19 million, which approximates ten percent of the real estate construction costs paid for by GLPI related to these facilities.

In April 2014, an amendment to the Master Lease was entered into in order to revise certain provisions relating to our Sioux City property. In accordance with the amendment, upon the ceasing of gaming operations at Argosy Casino Sioux City on July 30, 2014 due to the termination of its gaming license, the annual rent payable to GLPI was reduced by \$6.2 million. Additionally, the Company finalized its calculation of rent coverage in accordance with the appropriate provisions of the Master Lease to determine if an annual base rent escalator is due. The calculation of the escalator resulted in an increase to our annual rent expense of \$3.2 million starting November 1, 2014.

The Master Lease is commonly known as a triple-net lease. Accordingly, in addition to rent, the Company is required to pay the following, among other things: (1) all facility maintenance; (2) all insurance required in connection with the leased properties and the business conducted on the leased

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properties; (3) taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); and (4) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

At the Company's option, the Master Lease may be extended for up to four five-year renewal terms beyond the initial fifteen-year term, on the same terms and conditions. If we elect to renew the term of the Master Lease, the renewal will be effective as to all, but not less than all, of the leased property then subject to the Master Lease, provided that the final renewal option shall only be exercisable with respect to certain of the barge-based facilities i.e., facilities where barges serve as foundations upon which buildings are constructed to serve as gaming or related facilities or serve ancillary purposes such as access platforms or shear barges to protect a gaming facility from floating debris following an independent third party expert's review of the total useful life of the applicable barged-based facility measured from the beginning of the initial term. If the final five-year renewal term would not cause the aggregate term to exceed 80% of the useful life of such facility, the facility shall be included in the five-year renewal. In the event that a five-year renewal of such facility would cause it to exceed 80% of the estimated useful life, such facility shall be included in the renewal for the period of time equal to but not exceeding 80% of the estimated useful life.

We do not have the ability to terminate our obligations under the Master Lease prior to its expiration without GLPI's consent. If the Master Lease is terminated prior to its expiration other than with GLPI's consent, we may be liable for damages and incur charges such as continued payment of rent through the end of the lease term and maintenance costs for the leased property.

**Segment Information**

Our Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM") as that term is defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, "Segment Reporting" ("ASC 280"), measures and assesses the Company's business performance based on regional operations of various properties grouped together based primarily on their geographic locations. In January 2014, the Company named Jay Snowden as its Chief Operating Officer and the Company decided in connection with this announcement to re-align its reporting structure. Starting in January 2014, the Company's reportable segments are: (i) East/Midwest, (ii) West, and (iii) Southern Plains. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8 Financial Statements and Supplementary Data Note 16 Segment Information."

The East/Midwest reportable segment consists of the following properties: Hollywood Casino at Charles Town Races, Hollywood Casino Bangor, Hollywood Casino at Penn National Race Course, Hollywood Casino Lawrenceburg, Hollywood Casino Toledo, which opened on May 29, 2012, Hollywood Casino Columbus, which opened on October 8, 2012, Hollywood Gaming at Dayton Raceway, which opened on August 28, 2014, and Hollywood Gaming at Mahoning Valley Race Course, which opened on September 17, 2014. It also includes the Company's Casino Rama management service contract and the Plainville project in Massachusetts which the Company expects to open in June 2015. It also previously included Hollywood Casino Perryville, which was contributed to GLPI on November 1, 2013.

The West reportable segment consists of the following properties: Zia Park Casino and the M Resort, as well as the Jamul development project, which the Company anticipates completing in mid-2016.

The Southern Plains reportable segment consists of the following properties: Hollywood Casino Aurora, Hollywood Casino Joliet, Argosy Casino Alton, Argosy Casino Riverside, Hollywood Casino Tunica, Hollywood Casino Gulf Coast (formerly Hollywood Casino Bay St. Louis), Boomtown Biloxi, and Hollywood Casino St. Louis (formerly Harrah's St. Louis which was acquired from Caesars

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Entertainment on November 2, 2012), and includes the Company's 50% investment in Kansas Entertainment, LLC ("Kansas Entertainment"), which owns the Hollywood Casino at Kansas Speedway. On July 30, 2014, the Company closed Argosy Casino Sioux City. This segment also previously included Hollywood Casino Baton Rouge, which was contributed to GLPI on November 1, 2013.

The Other category consists of the Company's standalone racing operations, namely Rosecroft Raceway, Sanford-Orlando Kennel Club, and the Company's joint venture interests in Sam Houston Race Park, Valley Race Park, and Freehold Raceway, as well as the Company's 50% joint venture with the Cordish Companies in New York which we expect to dissolve in 2015. It also previously included the Company's Bullwhackers property, which was sold in July 2013. If the Company is successful in obtaining gaming operations at these locations, they would be assigned to one of the Company's reportable segments. The Other category also includes the Company's corporate overhead operations which does not meet the definition of an operating segment under ASC 280.

**Properties**

As of December 31, 2014, we owned, managed, or had ownership interests in twenty-six facilities in the following seventeen jurisdictions: Florida, Illinois, Indiana, Kansas, Maine, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, West Virginia, and Ontario. The Company, along with its joint venture partner, opened Hollywood Casino at Kansas Speedway on February 3, 2012. In Ohio, the Company opened four new gaming properties over the last three years, including: Hollywood Casino Toledo on May 29, 2012, Hollywood Casino Columbus on October 8, 2012, Hollywood Gaming at Dayton Raceway on August 28, 2014, and Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014. In addition, on November 2, 2012, the Company acquired Harrah's St. Louis, which we subsequently rebranded as Hollywood Casino St. Louis. On July 30, 2014, the Company closed its facility in Sioux City, Iowa, and on July 1, 2013, the Company sold its Bullwhackers property located in Colorado. As such, the Company no longer has any operations in Iowa and Colorado. Additionally, as a result of the Spin-Off, Hollywood Casino Baton Rouge in Louisiana and Hollywood Casino Perryville in Maryland were contributed to GLPI on November 1, 2013.

The real estate of the leased properties described below was contributed to GLPI as part of the Spin-Off; however, Penn continues to operate the leased gaming facilities. The following table

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summarizes certain features of the leased properties operated and managed by us as of December 31, 2014:

### Leased Properties

	Location	Type of Facility	Approx. Property Square Footage(1)	Gaming Machines	Table Games(2)	Hotel Rooms
Hollywood Casino at Charles Town Races	Charles Town, WV	Land-based gaming/Thoroughbred racing	511,249	2,677	99	153
Hollywood Casino Lawrenceburg	Lawrenceburg, IN	Dockside gaming	634,000	2,223	71	295
Hollywood Casino Toledo	Toledo, OH	Land-based gaming	285,335	2,043	60	
Hollywood Casino Columbus	Columbus, OH	Land-based gaming	354,075	2,268	78	
Hollywood Gaming at Dayton Raceway	Dayton, OH	Land-based gaming/Standardbred racing	191,037	984		
Hollywood Gaming at Mahoning Valley Race Course	Youngstown, OH	Land-based gaming/Thoroughbred racing	177,448	866		
Hollywood Casino St. Louis	Maryland Heights, MO	Land-based gaming	645,270	2,112	57	502
Hollywood Casino at Penn National Race Course	Grantville, PA	Land-based gaming/Thoroughbred racing	451,758	2,433	54	
M Resort	Henderson, NV	Land-based gaming	910,173	1,342	40	390
Argosy Casino Riverside	Riverside, MO	Dockside gaming	450,397	1,473	29	258
Hollywood Casino Gulf Coast	Bay St. Louis, MS	Land-based gaming	425,920	1,151	19	291
Hollywood Casino Tunica	Tunica, MS	Dockside gaming	315,831	1,095	20	494
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	222,189	1,157	21	
Boomtown Biloxi	Biloxi, MS	Dockside gaming	134,800	960	16	
Hollywood Casino Joliet	Joliet, IL	Dockside gaming	322,446	1,126	23	100
Hollywood Casino Bangor	Bangor, ME	Land-based gaming/Harness racing	257,085	900	12	152
Argosy Casino Alton(3)	Alton, IL	Dockside gaming	241,762	907	12	
Argosy Casino Sioux City(4)	Sioux City, IA	Dockside gaming				
Zia Park Casino	Hobbs, NM	Land-based gaming/Thoroughbred racing	193,645	750		154
<b>Total</b>			<b>6,724,420</b>	<b>26,467</b>	<b>611</b>	<b>2,789</b>

(1) Square footage includes conditioned space and excludes parking garages and barns.

(2) Excludes poker tables.

(3) Excludes the riverboat, which continues to be owned by Penn.

(4) This facility was closed on July 30, 2014.

The following table summarizes certain features of the other properties owned and operated, or managed, by us as of December 31, 2014:

## Other Properties

	Location	Type of Facility	Approx. Property Square Footage(1)	Gaming Machines	Table Games(2)	Hotel Rooms
<b>Owned Properties:</b>						
Hollywood Casino at Kansas Speedway(3)	Kansas City, KS	Land-based gaming	244,791	2,000	40	
Beulah Park(4)	Grove City, OH	Thoroughbred racing				
Freehold Raceway(5)	Freehold, NJ	Standardbred racing	132,865			
Raceway Park(6)	Toledo, OH	Standardbred racing				
Rosecroft Raceway	Oxon Hill, MD	Standardbred racing	183,950			
Sanford-Orlando Kennel Club	Longwood, FL	Greyhound racing	58,940			
Plainridge Racecourse(7)	Plainville, MA	Harness racing	55,230			
Sam Houston Race Park(8)	Houston, TX	Thoroughbred racing	283,383			
Valley Race Park(8)	Harlingen, TX	Greyhound racing	118,216			
<b>Managed Property:</b>						
Casino Rama(9)	Orillia, Ontario	Land-based gaming	864,047	2,499	106	289
<b>Total</b>			<b>1,941,422</b>	<b>4,499</b>	<b>146</b>	<b>289</b>

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(1) Square footage includes conditioned space and excludes parking garages and barns.

(2) Excludes poker tables.

(3) Pursuant to a joint venture with International Speedway Corporation ("International Speedway").

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- (4) Operations for this property have been relocated to Hollywood Gaming at Mahoning Valley Race Course located in Austintown, Ohio. The facility closed on May 3, 2014.
- (5) Pursuant to a joint venture with Greenwood Limited Jersey, Inc., a subsidiary of Greenwood Racing, Inc.
- (6) Operations for this property have been relocated to Hollywood Gaming at Dayton Raceway located in Dayton, Ohio. The facility closed on June 30, 2014.
- (7) Slots parlor under construction anticipated to open in June 2015.
- (8) Pursuant to a joint venture with MAXXAM, Inc. ("MAXXAM").
- (9) Pursuant to a management contract.

As mentioned above, we organize the properties we operate, manage and own, as applicable, into three segments, East/Midwest, West and Southern Plains. Below is a description of each of our properties by segment.

### **East/Midwest Properties**

#### *Hollywood Casino at Charles Town Races*

Hollywood Casino at Charles Town Races is located in Charles Town, West Virginia, within approximately a one-hour drive of the Baltimore, Maryland and Washington, D.C. markets. Hollywood Casino at Charles Town Races features 511,249 of property square footage with 2,677 gaming machines, 99 table games and 26 poker tables and a 153-room hotel. Hollywood Casino at Charles Town Races also features various dining options, including a high-end steakhouse, a sports bar and entertainment lounge, as well as an Asian themed restaurant. The complex also features live thoroughbred racing at a <sup>3</sup>/<sub>4</sub>-mile all-weather lighted thoroughbred racetrack with a 3,000-seat grandstand, parking for 5,781 vehicles and simulcast wagering and dining.

#### *Hollywood Casino at Penn National Race Course*

Hollywood Casino at Penn National Race Course is located in Grantville, Pennsylvania, which is 15 miles northeast of Harrisburg. Hollywood Casino at Penn National Race Course features 451,758 of property square footage with 2,433 slot machines, 54 table games and 16 poker tables. The facility also includes an entertainment bar and lounge, a sports bar, a buffet, a high-end steakhouse and various casual dining options, as well as a simulcast facility and viewing area for live racing. The facility has ample parking, including a five-story self-parking garage, with capacity for approximately 2,200 cars, and approximately 1,500 surface parking spaces for self and valet parking. The property includes a one-mile all-weather lighted thoroughbred racetrack and a <sup>7</sup>/<sub>8</sub>-mile turf track. The property also includes 393 acres that are available for future expansion or development.

#### *Hollywood Casino Lawrenceburg*

Hollywood Casino Lawrenceburg is located on the Ohio River in Lawrenceburg, Indiana, approximately 15 miles west of Cincinnati. The Hollywood-themed casino riverboat has 634,000 square feet of property square footage with 2,223 slot machines, 71 table games and 19 poker tables. Hollywood Casino Lawrenceburg also includes a 295-room hotel, as well as a restaurant, a bar, a nightclub, a sports bar, two cafes and meeting space.

The City of Lawrenceburg Department of Redevelopment has recently completed construction of a hotel and event center located less than a mile away from our Hollywood Casino Lawrenceburg property. Effective in mid January 2015, by contractual agreement, the hotel and event center is owned and operated by a subsidiary of the Company. The hotel and event center includes 168 rooms, approximately 18,000 square feet of multipurpose space and 19,500 square feet of ballroom and meeting space.

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#### *Hollywood Casino Toledo*

Hollywood Casino Toledo is located in Toledo, Ohio and opened on May 29, 2012. Hollywood Casino Toledo is a Hollywood-themed casino featuring 285,335 of property square footage with 2,043 slot machines, 60 table games and 20 poker tables. Hollywood Casino Toledo also includes multiple food and beverage outlets, an entertainment lounge, and structured and surface parking for approximately 3,300 spaces.

#### *Hollywood Casino Columbus*

Hollywood Casino Columbus is located in Columbus, Ohio and opened on October 8, 2012. Hollywood Casino Columbus is a Hollywood-themed casino featuring 354,075 of property square footage with 2,268 slot machines, 78 table games and 36 poker tables. Hollywood Casino Columbus also includes multiple food and beverage outlets, an entertainment lounge, and structured and surface parking for 4,616 spaces.

#### *Hollywood Gaming at Dayton Raceway*

Hollywood Gaming at Dayton Raceway is located in Dayton, Ohio and opened on August 28, 2014. Hollywood Gaming at Dayton Raceway is a Hollywood-themed facility featuring 191,037 of property square footage with 984 video lottery terminals and a <sup>5</sup>/<sub>8</sub>-mile standardbred racetrack. Hollywood Gaming at Dayton Raceway also includes various restaurants, bars, surface parking for 1,800 spaces and other amenities.

#### *Hollywood Gaming at Mahoning Valley Race Course*

Hollywood Gaming at Mahoning Valley Race Course is located in Youngstown, Ohio and opened on September 17, 2014. Hollywood Gaming at Mahoning Valley Race Course is a Hollywood-themed facility featuring 177,448 of property square footage with 866 video lottery terminals and a one-mile thoroughbred racetrack. Hollywood Gaming at Mahoning Valley Race Course also includes various restaurants, bars, surface parking for 1,251 spaces and other amenities.

#### *Hollywood Casino Bangor*

Hollywood Casino Bangor, which is located in Bangor, Maine, includes 257,085 of property square footage with 900 slot machines, 12 table games and 4 poker tables. Hollywood Casino Bangor's amenities include a 152-room hotel with 5,119 square feet of meeting and multipurpose space, three eateries, a buffet, a snack bar and a casual dining restaurant, a small entertainment stage, and a four-story parking garage with 1,500 spaces. Bangor Raceway, which is adjacent to the property, is located at historic Bass Park and includes a one-half mile standardbred racetrack and grandstand to seat 3,500 patrons.

#### *Casino Rama*

Through CHC Casinos Canada Limited ("CHC Casinos"), our indirectly wholly-owned subsidiary, we manage Casino Rama, a full service gaming and entertainment facility, on behalf of the Ontario Lottery and Gaming Corporation ("OLGC"), an agency of the Province of Ontario. Casino Rama is located on the lands of the Rama First Nation, approximately 90 miles north of Toronto. The property has 864,047 of property square footage with 2,499 gaming machines, 106 table games and 12 poker tables. In addition, the property includes a 5,000-seat entertainment facility, a 289-room hotel and 3,642 surface parking spaces.

The Development and Operating Agreement (the "Agreement"), which we refer to as the management service contract for Casino Rama, sets out the duties, rights and obligations of

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CHC Casinos and our indirectly wholly-owned subsidiary, CRC Holdings, Inc. The compensation under the Agreement is a base fee equal to 2.0% of gross revenues of the casino and an incentive fee equal to 5.0% of the casino's net operating profit.

In June 2014, we signed an agreement to extend the Casino Rama Agreement on a month-to-month basis with a 60-day notice period for up to a maximum period of forty-eight months. There can be no assurance as to how long the OLGC will continue to engage us to manage the property.

**East/Midwest Development Projects**

Plainridge Racecourse is a <sup>5</sup>/<sub>8</sub>-mile live-harness racing facility situated on 89 acres with an approximate 55,000 square foot, two story clubhouse for simulcast operations and live racing viewing. Plainridge Racecourse is located 20 miles southwest of the Boston beltway just off interstate 95 in Plainville, Massachusetts. On February 28, 2014, the Massachusetts Gaming Commission awarded the Company a Category Two slots-only gaming license, and on March 14, 2014, the Company broke ground on the development of Plainridge Park Casino. Plainridge Park Casino is anticipated to be a \$225 million (including licensing fees) fully integrated racing and gaming facility featuring live harness racing and simulcasting with 1,250 gaming devices, various dining and entertainment options, structured and surface parking, and a two story clubhouse with approximately 55,000 square feet. We expect Plainridge Park Casino to open in June 2015.

**West Properties**

*M Resort*

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 910,173 of property square footage with 1,342 slot machines and 40 table games. The M Resort also offers 390 guest rooms and suites, six restaurants and six 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.

*Zia Park Casino*

Zia Park Casino is located in Hobbs, New Mexico and includes a casino, as well as an adjoining racetrack. The property includes 193,645 of property square footage with 750 slot machines and two restaurants. The property has a one-mile quarter/thoroughbred racetrack, with live racing from September to December, and a year-round simulcast parlor. In August 2014, we opened a new hotel, which includes 148 rooms, six suites, a board/meeting room, exercise/fitness facilities and a breakfast venue.

**Southern Plains Properties**

*Hollywood Casino Aurora*

Hollywood Casino Aurora, part of the Chicagoland market, is located in Aurora, Illinois, the second largest city in Illinois, approximately 35 miles west of Chicago. This single-level dockside casino provides 222,189 of property square footage with 1,157 slot machines, 21 gaming tables and 6 poker tables. The facility features a steakhouse with a private dining room, a VIP lounge for premium players, a casino bar with video poker, a buffet, and a deli. Hollywood Casino Aurora also has a surface parking lot, two parking garages with approximately 1,500 parking spaces, and a gift shop.



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#### *Hollywood Casino Joliet*

Hollywood Casino Joliet, part of the Chicagoland market, is located on the Des Plaines River in Joliet, Illinois, approximately 40 miles southwest of Chicago. This barge-based casino provides two levels with 1,126 slot machines, 23 table games and 3 poker tables. The land-based pavilion includes a steakhouse, a buffet and a sports bar. The casino barge includes a deli and entertainment lounge. The complex also includes a 100-room hotel, a 1,100 space parking garage, surface parking areas with approximately 1,500 spaces and an 80-space recreational vehicle park. In total, the facility includes 322,446 of property square footage.

#### *Argosy Casino Alton*

Argosy Casino Alton is located on the Mississippi River in Alton, Illinois, approximately 20 miles northeast of downtown St. Louis. Argosy Casino Alton is a three-deck gaming facility featuring 241,762 of property square footage with 907 slot machines and 12 table games. Argosy Casino Alton includes an entertainment pavilion and features a 214-seat buffet, a restaurant, a deli and a 475-seat main showroom. The facility also includes surface parking areas with 1,341 spaces.

#### *Hollywood Casino Gulf Coast*

Hollywood Casino Gulf Coast (formerly Hollywood Casino Bay St. Louis), which is located in Bay St. Louis, Mississippi, features 425,920 of property square footage with 1,151 slot machines, 19 table games, and 5 poker tables. The waterfront Hollywood Hotel features 291 rooms, a 10,000 square foot ballroom, and nine separate meeting rooms offering more than 14,000 square feet of meeting space. Hollywood Casino Gulf Coast offers live concerts and various entertainment on weekends. The property also features The Bridges golf course, an 18-hole championship golf course. Hollywood Casino Gulf Coast has various dining facilities including a steakhouse, a buffet, a casual dining room and a clubhouse lounge as well as an entertainment bar. Other amenities include a recreational vehicle park with 100 spaces and a gift shop.

#### *Argosy Casino Riverside*

Argosy Casino Riverside is located on the Missouri River, approximately five miles from downtown Kansas City in Riverside, Missouri. The property features 450,397 of property square footage with 1,473 slot machines and 29 table games. This Mediterranean-themed casino and hotel features a nine-story, 258-room hotel and spa, an entertainment facility featuring various food and beverage areas, including a buffet, a steakhouse, a deli, a coffee bar, a VIP lounge and a sports/entertainment lounge and 19,000 square feet of banquet/conference facilities. Argosy Casino Riverside also has parking for approximately 3,000 vehicles, including a 1,250 space parking garage.

#### *Hollywood Casino Tunica*

Hollywood Casino Tunica is located in Tunica, Mississippi. This single-level property features 315,831 of property square footage with 1,095 slot machines, 20 table games and 6 poker tables. Hollywood Casino Tunica also has a 494-room hotel and 123-space recreational vehicle park. Entertainment amenities include a steakhouse, a buffet, a grill, an entertainment lounge, a premium players' club, a themed bar facility, an indoor pool and showroom as well as banquet and meeting facilities. In addition, Hollywood Casino Tunica offers surface parking with 1,635 spaces.

#### *Boomtown Biloxi*

Boomtown Biloxi is located in Biloxi, Mississippi and offers 134,800 of property square footage with 960 slot machines and 16 table games. It features a buffet, a steakhouse, a 24-hour grill, and a bakery. Boomtown Biloxi also has 1,450 surface parking spaces.

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*Hollywood Casino at Kansas Speedway*

Hollywood Casino at Kansas Speedway, our 50% joint venture with International Speedway, is located in Kansas City, Kansas and opened on February 3, 2012. The facility features 244,791 of property square footage with 2,000 slot machines, 40 table games and 12 poker tables. Hollywood Casino at Kansas Speedway offers a variety of dining and entertainment facilities as well as has a 1,253 space parking structure.

*Hollywood Casino St. Louis*

Hollywood Casino St. Louis is located adjacent to the Missouri River in Maryland Heights, Missouri, directly off I-70 and approximately 22 miles northwest of downtown St. Louis, Missouri. The facility is situated on 248 acres along the Missouri River and features 645,270 of property square footage with 2,112 slot machines, 57 table games, 21 poker tables, a 502 guestroom hotel, nine dining and entertainment venues and structured and surface parking for approximately 4,600 spaces. At the end of 2013, we completed the transition of the property to our Hollywood Casino brand name.

**Other Properties**

*Rosecroft Raceway*

Rosecroft Raceway, located approximately 13 miles south of Washington, D.C., is situated on 125 acres just outside the Washington I-495 Beltway in Prince George's county, Maryland. The Rosecroft facility features a <sup>5</sup>/<sub>8</sub>-mile standardbred race 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.

*Sanford-Orlando Kennel Club*

Sanford-Orlando Kennel Club is a <sup>1</sup>/<sub>4</sub>-mile greyhound facility located in Longwood, Florida. The facility has capacity for 6,500 patrons, with seating for 4,000 and surface parking for 2,500 vehicles. The facility conducts year-round greyhound racing and greyhound, thoroughbred, and harness racing simulcasts.

*Freehold Raceway*

Through our joint venture in Pennwood Racing, Inc. ("Pennwood"), we own 50% of Freehold Raceway, located in Freehold, New Jersey. The property features a half-mile standardbred race track and a 117,715 square foot grandstand.

*Sam Houston Race Park and Valley Race Park*

Our joint venture with MAXXAM owns and operates the Sam Houston Race Park in Houston, Texas and the Valley Race Park in Harlingen, Texas, and holds a license for a planned racetrack in Laredo, Texas. Sam Houston Race Park is located 15 miles northwest from downtown Houston along Beltway 8. 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 features 118,216 of property square footage as a dog racing and simulcasting facility located in Harlingen, Texas.

*Off-track Wagering Facilities*

Our off-track wagering facilities ("OTWs") and racetracks provide areas for viewing import simulcast races of thoroughbred and standardbred horse racing, televised sporting events, placing pari-mutuel wagers and dining. We operate three OTWs in Pennsylvania, and through our joint venture in Pennwood, we own 50% of a leased OTW in Toms River, New Jersey. In addition, in accordance

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with an operating agreement with Pennwood, the Company constructed an OTW in Gloucester Township, New Jersey, which opened in July 2014. Per the operating agreement, this OTW is operated by us; however, Pennwood has the option to purchase the OTW once the Company has received its total investment as defined in the operating agreement.

**Trademarks**

We own a number of trademarks and service marks registered with the U.S. Patent and Trademark Office ("U.S. PTO"), including but not limited to, "Hollywood Casino®," "Hollywood Gaming®," "Argosy®," "M Resort®," "Hollywood Poker®," "Marquee Rewards®" and "Telebet®." We believe that our rights to our marks are well established and have competitive value to our properties. We also have a number of trademark applications pending with the U.S. PTO.

Pursuant to a License Agreement with Boomtown, Inc., dated August 8, 2000, our subsidiary BTN, LLC (successor to BTN, Inc.) uses "Boomtown" and other trademarks.

**Competition**

The gaming industry is characterized by an increasingly high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, video lottery, gaming at taverns in certain states, such as Illinois as well as the potential legalization in Indiana and Pennsylvania, sweepstakes and poker machines not located in casinos, Native American gaming, emerging varieties of Internet gaming and other forms of gaming in the U.S. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including: shopping; athletic events; television and movies; concerts and travel. Legalized gaming is currently permitted in various forms throughout the U.S., in several Canadian provinces and on various lands taken into trust for the benefit of certain Native Americans in the U.S. and Canada. Other jurisdictions, including states adjacent to states in which we currently have facilities (such as in Ohio and Maryland), have legalized and recently expanded or will expand gaming in the near future. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations. New, relocated or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us. Finally, the imposition of smoking bans and/or higher gaming tax rates have a significant impact on our properties' ability to compete with facilities in nearby jurisdictions.

Our racing operations face significant competition for wagering dollars from other racetracks and OTWs, some of which also offer other forms of gaming, as well as other gaming venues such as casinos. Additionally, for a number of years, there has been a general decline in the number of people attending and wagering on live horse races at North American racetracks due to a number of factors, including increased competition from other wagering and entertainment alternatives and unwillingness of customers to travel a significant distance to racetracks. Our account wagering operations compete with other providers of such services throughout the country. We also may face competition in the future from new OTWs, new racetracks, instant racing, or new providers of account wagering. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available near our racing operations, such gaming opportunities could have an adverse effect on our business, financial condition and results of operations.

*East/Midwest.* On June 6, 2012, a casino complex opened at the Anne Arundel Mills mall in Anne Arundel, Maryland, with approximately 3,200 slot machines and significantly increased its slot machine offerings by mid-September 2012 to approximately 4,750 slot machines. In addition, the Anne Arundel facility opened table games on April 11, 2013 and opened a 52 table poker room in late August 2013. The opening of this casino complex has and will continue to have a significant impact on the financial results of Hollywood Casino at Charles Town Races and to a lesser extent Hollywood

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Casino at Penn National Race Course. However, the Horseshoe Baltimore Casino, which opened at the end of August 2014, has currently not had a significant negative impact on our operations at Charles Town. However, it may negatively impact our operations there in 2015 as the new facility becomes more established. In May 2013, three different bidders, including the Company, submitted proposals for a Prince George casino. In December 2013, the license for Prince George County was granted to MGM. The proposed \$1.2 billion casino, which MGM plans to open in the second half of 2016, is anticipated to adversely impact our financial results as it will create additional competition for Hollywood Casino at Charles Town Races.

A casino in Cincinnati, Ohio, which is the primary feeder market for our Hollywood Casino Lawrenceburg property, opened on March 4, 2013 and has had and will continue to have an adverse impact on Hollywood Casino Lawrenceburg. We opened Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012. Additionally, the State of Ohio approved the placement of video lottery terminals at the state's seven racetracks. On June 1, 2012, a new racino at Scioto Downs in Columbus, Ohio opened, which has had a negative impact on Hollywood Casino Lawrenceburg's financial results and competes aggressively in the same market as Hollywood Casino Columbus. In addition, a new racino at Miami Valley Gaming (formerly known as Lebanon Raceway) opened in mid-December 2013, and a racino at Belterra Park (formerly known as River Downs) opened in May 2014. Both of these racinos compete with Hollywood Casino Lawrenceburg. Conversely, we have opened our own racinos in Ohio, with Hollywood Gaming at Dayton Raceway opening on August 28, 2014 and Hollywood Gaming at Mahoning Valley Race Course opening on September 17, 2014. As a result, in a relatively short period of time, Ohio has gone from having no gaming facilities to having four casinos and seven video lottery terminal facilities. In addition, we continue to fight illegal gaming operations, such as internet sweepstakes.

In addition, legislators in Kentucky are currently considering gaming legislation. The commencement of gaming in Kentucky would negatively impact certain of our existing properties in the East/Midwest segment. Finally, Indiana and Pennsylvania are considering the potential legalization of gaming at taverns.

*West.* Our West segment contains our M Resort property which caters to the Las Vegas locals market. The strength of the Las Vegas locals market is partially linked to the health of the Las Vegas strip. Weakness in this market may negatively impact the Las Vegas locals market, including our M Resort property.

*Southern Plains.* In Illinois, there have been perennial gaming expansion proposals introduced in the legislature, which we expect to continue. Additionally, in July 2011, the Illinois Supreme Court, in a unanimous ruling, cleared the way for the 2009 Illinois Video Gaming Act to go forward, which authorized a limited number of video gaming terminals in licensed bars and taverns across Illinois, subject to host community approval. In October 2012, video gambling in Illinois was officially launched with the first locations being allowed to operate video gaming terminals. Currently, there are over 19,000 terminals at numerous locations throughout the state, which has had a negative impact on our casinos near or in Illinois. In addition, legislators in Nebraska are currently considering gaming legislation. The commencement of gaming in Nebraska or the expansion of gaming in Illinois would negatively impact certain of our existing properties in the Southern Plains segment.

In Kansas, the legislature approved the expansion of casino gaming in its state, and on February 3, 2012, Kansas Entertainment, a joint venture of affiliates of International Speedway and us, opened the facility, which is located approximately 17 miles from Argosy Casino Riverside. The opening of this casino has had a negative impact on the financial results of Argosy Casino Riverside due to their close proximity to one another. In the Mississippi Gulf Coast market, a casino in Biloxi opened in late May 2012, which has had an adverse effect on the financial results of our Boomtown Biloxi property.

Table of Contents**U.S. and Foreign Revenues**

Our net revenues in the U.S. for 2014, 2013, and 2012 were approximately \$2,578.8 million, \$2,905.6 million, and \$2,884.7 million, respectively. Our revenues from operations in Canada for 2014, 2013, and 2012 were approximately \$11.7 million, \$13.2 million, and \$14.8 million, respectively.

**Management**

The persons listed below represent executive officers of the Company.

Name	Age	Position
Timothy J. Wilmott	56	President and Chief Executive Officer
Jay Snowden	38	Executive Vice President and Chief Operating Officer
Saul V. Reibstein	66	Executive Vice President, Chief Financial Officer, and Treasurer
Carl Sottosanti	50	Senior Vice President, General Counsel, and Secretary
William J. Fair	52	Executive Vice President and Chief Development Officer

**Timothy J. Wilmott.** Mr. Wilmott joined us in February 2008 as President and Chief Operating Officer and was named Chief Executive Officer on November 1, 2013. In addition, in September 2014, Mr. Wilmott was appointed to the Board of Directors. Previously, Mr. Wilmott served as Chief Operating Officer of Harrah's Entertainment, a position he held for approximately four years. In this position, he oversaw the operations of all of Harrah's revenue-generating businesses, including 48 casinos, 38,000 hotel rooms and 300 restaurants. All Harrah's Division Presidents, Senior Vice Presidents of Brand Operations, Marketing and Information Technology personnel reported to Mr. Wilmott in his capacity as Chief Operating Officer. Prior to his appointment to the position of Chief Operating Officer, Mr. Wilmott served from 1997 to 2002 as Division President of Harrah's Eastern Division with responsibility for the operations of eight Harrah's properties.

**Jay Snowden.** Mr. Snowden joined us in October 2011 as Senior Vice President-Regional Operations and in January 2014 became our Chief Operating Officer. Mr. Snowden is responsible for overseeing all of our operating businesses, as well as human resources, marketing, and information technology. Prior to joining us, Mr. Snowden was the Senior Vice President and General Manager of Caesars and Harrah's in Atlantic City, and prior to that, held various leadership positions with them in St. Louis, San Diego and Las Vegas.

**Saul V. Reibstein.** Mr. Reibstein joined us in December 2013 as Senior Vice President and Chief Financial Officer. Previously, Mr. Reibstein served as a member of the Company's Board of Directors since June 2011 and as Chairman of the Board's Audit Committee. For eleven years, Mr. Reibstein served as a partner at BDO Seidman, LLP (now BDO USA, LLP), a professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly-traded and privately-held companies. At BDO, he was the partner in charge of the Philadelphia office from June 1997 to December 2001 and Regional Business Line Leader from December 2001 until September 2004. Since 2004, Mr. Reibstein served as a member of the senior management team of CBIZ, Inc., a New York Stock Exchange-listed professional services company. During his tenure at CBIZ, he held a number of positions including, most recently, Senior Managing Director with responsibility for the firm's New York practice since January 2012. He also oversaw the firm's business development efforts and managed nine of the firm's business units within its Financial Services Group. In addition, since July 2010, he has served as a member of the Board of Directors of Vishay Precision Group, Inc., a publicly traded company, where he is Chairman of the Audit Committee and a member of both the Compensation and Nominating and Corporate Governance committees.

**Carl Sottosanti.** In February 2014, Mr. Sottosanti was appointed to the position of Senior Vice President and General Counsel. Prior to this appointment, Mr. Sottosanti served as Vice President, Deputy General Counsel since 2003. Before joining Penn, Mr. Sottosanti served for five years as

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General Counsel at publicly traded, Sanchez Computer Associates, Inc. and had oversight of all legal, compliance and intellectual property matters. From 1994 to 1998, Mr. Sottosanti was the Assistant General Counsel for Salient 3 Communications, Inc., a publicly traded telecommunications company. Mr. Sottosanti began his legal career in 1989 with the Philadelphia law firm Schnader Harrison, Segal & Lewis LLP.

**William J. Fair.** In January 2014, Mr. Fair joined us as Senior Vice President and Chief Development Officer. Previously, Mr. Fair worked in development leadership positions for Universal Studios and Disney Development. Most recently, Mr. Fair was the President and Chief Executive Officer of the American Skiing Company, where he had oversight of ten ski mountain resorts which included ski operations, nine hotels, condominium operations, food and beverage operations, retail and rental operations, real estate brokerage and development.

**Governmental Regulations**

The gaming and racing industries are highly regulated and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our facilities is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where it is located. These laws, rules and regulations generally concern the responsibility, financial stability and character of the owners, managers, and persons with financial interests in the gaming operations. Violations of laws or regulations in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is contained in Exhibit 99.1 to this Annual Report on Form 10-K, which is incorporated herein by reference.

Our businesses are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, health care, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

**Employees and Labor Relations**

As of December 31, 2014, we had 16,650 full- and part-time employees.

The Company is required to have agreements with the horsemen at the majority of its racetracks to conduct its live racing and/or simulcasting activities. In addition, in order to operate gaming machines and table games in West Virginia, the Company must maintain agreements with each of the Charles Town horsemen, pari-mutuel clerks and breeders.

At Hollywood Casino at Charles Town Races, the Company has an agreement with the Charles Town Horsemen's Benevolent and Protective Association that expired on December 31, 2013 and has been extended on a month-to-month basis while negotiations are in progress. Hollywood Casino at Charles Town Races also has an agreement with the breeders that expires on June 30, 2015. Additionally, the pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Union of Mutuel Clerks, which expired on December 31, 2010 and has been extended on a month-to-month basis while negotiations are in process.

The Company's agreement with the Pennsylvania Horsemen's Benevolent and Protective Association at Hollywood Casino at Penn National Race Course expires on January 31, 2016. The Company had a collective bargaining agreement with Local 137 of the Sports Arena Employees at Penn National Race Course with respect to on-track pari-mutuel clerks and admissions personnel which expired on December 31, 2011. In August 2012, Local 137 of the Sports Arena Employees announced

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that they entered into a "voluntary supervision" agreement with their international union, Laborers' International Union of North America ("LIUNA") Local 108. In February 2014, a new agreement with LIUNA Local 108 for on-track and OTWs bargaining units was ratified for three years.

The Company's agreement with the Maine Harness Horsemen Association at Bangor Raceway continues through the conclusion of the 2015 racing season.

In March of 2014, Hollywood Gaming at Mahoning Valley Race Course entered into an agreement with the Ohio Horsemen's Benevolent and Protective Association. The term is for a period of ten years from the September 2014 commencement of video lottery terminal operations at that facility.

The Company's agreement with the Ohio Harness Horsemen's Association for racing at Hollywood Gaming at Dayton Raceway expired on December 31, 2014 but is still in effect pending the ongoing negotiations of a successor agreement.

Rosecroft Raceway entered into agreements with the Cloverleaf Standardbred Owners Association ("CSOA") and Maryland Standardbred Breeder's Association ("MSBA") as of July 5, 2011. CSOA's agreement has been extended through December 31, 2020 with certain termination provisions. The MSBA agreement has been extended through December 31, 2020. Additionally, Rosecroft Raceway has entered into agreements with the United Food and Commercial Workers Union ("UFCW") Local 27 and the Seafarers Entertainment and Allied Trade Union ("SEATU") for certain bargaining positions at the racetrack. The UFCW Local 27 agreement was ratified on December 13, 2014 and expires on November 30, 2019. The SEATU agreement expires on November 30, 2020.

Across certain of the Company's properties, SEATU represents approximately 1,280 of the Company's employees under agreements that expire at various times between November 2015 and May 2022. At Hollywood Casino Lawrenceburg and Argosy Casino Riverside, the SEATU agreements expired in June 2014 and October 2013, respectively, and both have been extended on a monthly basis while negotiations are in process. At Hollywood Casino Joliet, the Hotel Employees and Restaurant Employees Union Local 1 represents approximately 191 employees under a collective bargaining agreement which expires on March 31, 2015. At Hollywood Casino Columbus and Hollywood Casino Toledo, a council comprised of the United Auto Workers and the United Steel Workers represents approximately 1,321 employees under a collective bargaining agreement which ends on November 15, 2019. In addition, at some of the Company's properties, the Security Police and Fire Professionals of America, the International Brotherhood of Electronic Workers Locals 176 and 649, the LIUNA Public Served Employees Local 1290PE, and the United Industrial, Service, Transportation, Professional and Government Workers of North America represent certain of the Company's employees under collective bargaining agreements that expire at various times between June 2015 and September 2025. None of these additional unions represent more than 85 of the Company's employees.

### **Available Information**

For more information about us, visit our website at [www.pngaming.com](http://www.pngaming.com). The contents of our website are not part of this Annual Report on Form 10-K. Our electronic filings with the U.S. Securities and Exchange Commission ("SEC") (including all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and any amendments to these reports), including the exhibits, are available free of charge through our website as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC.

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**ITEM 1A. RISK FACTORS**

**Risks Related to Our Business**

*We face significant competition from other gaming and entertainment operations.*

The gaming industry is characterized by an increasingly high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, video lottery, gaming at taverns in certain states, such as Illinois as well as the potential legalization in Indiana and Pennsylvania, sweepstakes and poker machines not located in casinos, Native American gaming and other forms of gaming in the U.S. Furthermore, competition from internet lotteries, sweepstakes, and other internet wagering services, which allow their customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home or in non-casino settings, could divert customers from our properties and thus adversely affect our business. Such internet wagering services are often illegal under federal law but operate from overseas locations, and are nevertheless sometimes accessible to domestic gamblers. Currently, there are proposals that would legalize internet poker and other varieties of internet gaming in a number of states and at the federal level. Several states, such as Nevada, New Jersey and Delaware, have enacted legislation authorizing intrastate internet gaming and internet gaming operations have begun in these states. Expansion of internet gaming in other jurisdictions (both legal and illegal) could further compete with our traditional operations, which could have an adverse impact on our business and result of operations.

In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including: shopping; athletic events; television and movies; concerts; and travel. Legalized gaming is currently permitted in various forms throughout the U.S., in several Canadian provinces and on various lands taken into trust for the benefit of certain Native Americans in the U.S. and Canada. Other jurisdictions, including states adjacent to states in which we currently have facilities (such as in Ohio and Maryland), have recently legalized and implemented gaming. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations. New, relocated or expanded operations by other persons could increase competition for our gaming operations and could have a material adverse impact on us.

Gaming competition is intense in most of the markets where we operate. Recently, there has been additional significant competition in our markets as a result of the upgrading or expansion of facilities by existing market participants, the entrance of new gaming participants into a market or legislative changes. As competing properties and new markets are opened, our operating results may be negatively impacted. For example, new casinos and racinos have opened recently that compete in the same market as our Lawrenceburg property; there is increased competition to our Charles Town property from the opening of the casino complex at the Arundel Mills mall in Anne Arundel, Maryland in June 2012 and its addition of table games in the spring of 2013; the opening of Horseshoe Baltimore Casino in Baltimore, Maryland in 2014 and the expected opening of a casino at National Harbor in Prince George's County, Maryland are competing with our Hollywood Casino at Charles Town Races and to a lesser extent, Hollywood Casino at Penn National Race Course; the opening of our joint venture casino project in Kansas in February 2012 which impacted Argosy Casino Riverside; and a casino that opened in July 2011 in Des Plaines, Illinois which negatively impacted our Hollywood Casino Aurora and Hollywood Casino Joliet properties. Hollywood Casino Aurora and Hollywood Casino Joliet have also been negatively impacted by the proliferation of gaming terminals at numerous locations throughout the state which are in the vicinity of our operations. In addition, some of our direct competitors in certain markets may have superior facilities and/or operating conditions. We expect each existing or future market in which we participate to be highly competitive. The competitive position of each of our casino properties is discussed in detail in the subsection entitled "Competition" of this Annual Report on Form 10-K.



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***We may face disruption and other difficulties in integrating and managing facilities we have recently developed or acquired, or may develop or acquire in the future.***

We expect to continue pursuing expansion opportunities, and we regularly evaluate opportunities for acquisition and development of new properties, which evaluations may include discussions and the review of confidential information after the execution of nondisclosure agreements with potential acquisition candidates, some of which may be potentially significant in relation to our size.

We could face significant challenges in managing and integrating our expanded or combined operations and any other properties we may develop or acquire, particularly in new competitive markets. The integration of properties we may develop or acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating properties that we may acquire also could interrupt the activities of those businesses, which could have a material adverse effect on our business, financial condition and results of operations. In addition, the development of new properties may involve construction, local opposition, regulatory, legal and competitive risks as well as the risks attendant to partnership deals on these development opportunities. In particular, in projects where we team up with a joint venture partner, if we cannot reach agreement with such partners, or our relationships otherwise deteriorate, we could face significant increased costs and delays. Local opposition can delay or increase the anticipated cost of a project. Finally, given the competitive nature of these types of limited license opportunities, litigation is possible.

Management of new properties, especially in new geographic areas (such as our 2015 opening in Plainridge, Massachusetts), may require that we increase our management resources. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions or development projects. We also cannot assure you that if acquisitions are completed, that the acquired businesses will generate returns consistent with our expectations.

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

The occurrence of some or all of the above described events could have a material adverse effect on our business, financial condition and results of operations.

***We may face risks related to our ability to receive regulatory approvals required to complete, or other delays or impediments to completing certain of our acquisitions.***

Our growth is fueled, in part, by the acquisition of existing gaming, racing, and development properties. In addition to standard closing conditions, our acquisitions are often conditioned on the receipt of regulatory approvals and other hurdles that create uncertainty and could increase costs. Such delays could significantly reduce the benefits to us of such acquisitions and could have a material adverse effect on our business, financial condition and results of operations.

***We face a number of challenges prior to opening new or upgraded gaming facilities.***

No assurance can be given that, when we endeavor to open new or upgraded gaming facilities, the expected timetables for opening such facilities will be met in light of the uncertainties inherent in the development of the regulatory framework, construction, the licensing process, legislative action and litigation. Delays in opening new or upgraded facilities could lead to increased costs and delays in receiving anticipated revenues with respect to such facilities and could have a material adverse effect on our business, financial condition and results of operations.

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***A deterioration of our relationship with the Jamul Indian Village (the "Jamul Tribe") could cause delay or termination of the proposed development project in San Diego County and prevent or significantly impede recovery of our investment therein or in any future development projects.***

Good personal and professional relationships with the Jamul Tribe and its officials are critical to our proposed gaming operations and activities in San Diego County, including our ability to obtain, develop, execute management agreements and maintain other agreements. As a sovereign nation, the Jamul Tribe establishes its own governmental systems under which tribal officials or bodies representing the Jamul Tribe may be replaced by appointment or election or become subject to policy changes. Replacements of tribal officials or administrations, changes in policies to which the Jamul Tribe are subject, or other factors that may lead to the deterioration of our relationship with the Jamul Tribe may lead to termination of our proposed management agreement with the Jamul Tribe, which may have an adverse effect on the future results of our operations.

In addition, we have made, and may continue to make, substantial loans to the Jamul Tribe for the construction, development, equipment and operations of the proposed development in San Diego County. It is possible that no third party funding is secured prior to the facility opening. Our only material recourse for collection of indebtedness from the Jamul Tribe or for money damages for breach or wrongful termination of a management, development, consulting or financing agreement is from revenues, if any, from casino operations.

***We lease a substantial number of our properties and financial, operational, regulatory or other potential challenges of our lessor may adversely impair our operations.***

We lease a substantial number of the properties that we operate and manage from GLPI under the Master Lease. If GLPI has financial, operational, regulatory or other challenges there can be no assurance that GLPI will be able to comply with its obligations under its agreements with us.

***We are required to pay a significant portion of our cash flows as rent under the Master Lease, which could adversely affect our ability to fund our operations and growth and limit our ability to react to competitive and economic changes.***

We are required to pay more than half of our cash flow from operations to GLPI pursuant to and subject to the terms and conditions of the Master Lease. As a result of our current significantly reduced cash flow, our ability to fund our own operations or development projects, raise capital, make acquisitions and otherwise respond to competitive and economic changes may be adversely affected. For example, our obligations under the Master Lease may:

make it more difficult for us to satisfy our obligations with respect to our indebtedness and to obtain additional indebtedness;

increase our vulnerability to general or regional adverse economic and industry conditions or a downturn in our business;

require us to dedicate a substantial portion of our cash flow from operations to making rent payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

restrict our ability to raise capital, make acquisitions, divestitures and engage in other significant transactions.

Any of the above listed factors could have a material adverse effect on our business, financial condition and results of operations.

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***Substantially all of our gaming and racing facilities are leased and could experience risks associated with leased property, including risks relating to lease termination, lease extensions, charges and our relationship with GLPI, which could have a material adverse effect on our business, financial position or results of operations.***

We lease 18 of the gaming and racing facilities we operate pursuant to the Master Lease (including the two properties recently completed in Dayton, Ohio and Mahoning Valley, Ohio). The Master Lease provides that GLPI may terminate the lease for a number of reasons, including, subject to applicable cure periods, the default in any payment of rent, taxes or other payment obligations or the breach of any other covenant or agreement in the lease. Termination of the Master Lease could result in a default under our debt agreements and could have a material adverse effect on our business, financial position or results of operations. Moreover, since as a lessee we do not completely control the land and improvements underlying our operations, GLPI as lessor could take certain actions to disrupt our rights in the facilities leased under the Master Lease which are beyond our control. If GLPI chose to disrupt our use either permanently or for a significant period of time, then the value of our assets could be impaired and our business and operations could be adversely affected. There can also be no assurance that we will be able to comply with our obligations under the Master Lease in the future.

The Master Lease is commonly known as a triple-net lease. Accordingly, in addition to rent, we are required to pay among other things the following: (1) all facility maintenance, (2) all insurance required in connection with the leased properties and the business conducted on the leased properties, (3) taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor) and (4) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. We are responsible for incurring the costs described in the preceding sentence notwithstanding the fact that many of the benefits received in exchange for such costs shall in part accrue to GLPI as owner of the associated facilities. In addition, if some of our leased facilities should prove to be unprofitable, we could remain obligated for lease payments and other obligations under the Master Lease even if we decided to withdraw from those locations. We could incur special charges relating to the closing of such facilities including lease termination costs, impairment charges and other special charges that would reduce our net income and could have a material adverse effect on our business, financial condition and results of operations.

***We may face reductions in discretionary consumer spending as a result of an economic downturn.***

Our net revenues are highly dependent upon the volume and spending levels of customers at properties we manage and as such our business has been adversely impacted by economic downturns. Decreases in discretionary consumer spending brought about by weakened general economic conditions such as, but not limited to, lackluster recoveries from recessions, high unemployment levels, higher income taxes, low levels of consumer confidence, weakness in the housing market, cultural and demographic changes, and increased stock market volatility may negatively impact our revenues and operating cash flow.

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

From time to time, we are defendants in various lawsuits relating to matters incidental to our business. The nature of our business subjects us to the risk of lawsuits filed by customers, past and present employees, competitors, business partners and others in the ordinary course of business. As with all litigation, no assurance can be provided as to the outcome of these matters and, in general, litigation can be expensive and time consuming. We may not be successful in these lawsuits, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations (see, for example, the lawsuits described in Item 3 below).

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*We face extensive regulation from gaming and other regulatory authorities.*

*Licensing requirements.* As managers of gaming and pari-mutuel wagering facilities, we are subject to extensive state, local and, in Canada, provincial regulation. State, local and provincial authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. These regulatory authorities have broad discretion, and may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend, fail to renew or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries or prevent another person from owning an equity interest in us. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. We cannot assure you that we will be able to obtain such renewals or approvals. Regulatory authorities have input into our operations, for instance, hours of operation, location or relocation of a facility, and numbers and types of machines. Regulators may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

We have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming and pari-mutuel facilities. We can give no assurance to you that we will be able to retain those existing licenses (for example the recent events in Iowa) or demonstrate suitability to obtain any new licenses, registrations, permits or approvals. In addition, the loss of a license in one jurisdiction could trigger the loss of a license or affect our eligibility for a license in another jurisdiction. As we expand our gaming operations in our existing jurisdictions or to new areas, we may have to meet additional suitability requirements and obtain additional licenses, registrations, permits and approvals from gaming authorities in these jurisdictions. The approval process can be time-consuming and costly and we cannot be sure that we will be successful.

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

In addition, our proposed development project with the Jamul Tribe near San Diego would be subject to the oversight of the National Indian Gaming Commission, which administers the Indian Gaming Regulatory Act of 1988 with respect to the terms and conditions of management contracts and the operation of casinos and all gaming on land held in trust for Native American tribes in the U.S.

*Potential changes in legislation and regulation of our operations.* Regulations governing the conduct of gaming activities and the obligations of gaming companies in any jurisdiction in which we have or in the future may have gaming operations are subject to change and could impose additional operating, financial or other burdens on the way we conduct our business.

Moreover, legislation to prohibit, limit or add burdens to our business may be introduced in the future in states where gaming has been legalized. In addition, from time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations or which may otherwise adversely impact our operations in the jurisdictions in which we operate. Any expansion of gaming or restriction on or prohibition of our gaming operations or enactment of other adverse regulatory changes could have a material adverse effect on our operating results. For example, in October 2005, the Illinois House of Representatives voted to approve proposed legislation that would eliminate riverboat

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gambling. If the Illinois Senate had passed that bill, our business would have been materially impacted. The passage of the Smoke Free Illinois Act, which became effective January 1, 2008 and bans smoking in casinos, has adversely affected revenues and operating results at our Illinois properties. In Pennsylvania, we are currently permitted to allow smoking on only up to 50% of the gaming floor of our Grantville facility and smoking is banned in all other indoor areas. Additionally, on July 1, 2012, a state statute in Indiana became effective that imposes a state wide smoking ban in specified businesses, buildings, public places and other specified locations. The statute specifically exempts riverboat casinos, and all other gaming facilities in Indiana, from the smoking ban. However, the statute allows local government to enact a more restrictive smoking ban than the state statute and also leaves in place any more restrictive local legislation that exists as of the effective date of the statute. To date, our facility in Lawrenceburg, Indiana is not subject to any such local legislation. If additional smoking bans are enacted within jurisdictions where we operate or seek to do business, our business could be adversely affected.

*Taxation and fees.* We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant revenue based taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes and/or property taxes. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on our business, financial condition and results of operations. The large number of state and local governments with significant current or projected budget deficits makes it more likely that those governments that currently permit gaming will seek to fund such deficits with new or increased gaming taxes and/or property taxes, and worsening economic conditions could intensify those efforts. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our future financial results.

*Compliance with other laws.* We are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. If we are not in compliance with these laws, it could have a material adverse effect on our business, financial condition and results of operations. We also deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations. Any violation of anti-money laundering laws or regulations, or any accusations of money laundering or regulatory investigations into possible money laundering activities, by any of our properties, employees or customers could have a material adverse effect on our financial condition, results of operations and cash flows.

***We have two properties that each generated 10% or more of our net revenues.***

For the year ended December 31, 2014, we had two facilities one in Charles Town, West Virginia and one in Grantville, Pennsylvania that each generated approximately 10% or more of our net revenues. Our ability to meet our operating and debt service requirements is dependent, in part, upon the continued success of these facilities. The operations at these facilities and any of our other facilities could be adversely affected by numerous factors, including those described in these "Risk Factors" as well as more specifically those described below:

risks related to local and regional economic and competitive conditions, such as a decline in the number of visitors to a facility, a downturn in the overall economy in the market, a decrease in consumer spending on gaming activities in the market or an increase in competition within and outside the state in which each property is located (for example, the effect on our Charles Town and, to a lesser extent, Grantville casinos due to the casino complex at the Arundel Mills mall in

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Anne Arundel, Maryland which opened on June 6, 2012 and added table games in the spring of 2013, and the opening of Horseshoe Baltimore Casino in Baltimore, Maryland in August 2014 and expected opening of a casino at National Harbor in Prince George's County, Maryland in the second half of 2016);

changes in local and state governmental laws and regulations (including changes in laws and regulations affecting gaming operations and taxes) applicable to a facility;

impeded access to a facility due to weather, road construction or closures of primary access routes;

work stoppages, organizing drives and other labor problems as well as issues arising in connection with agreements with horsemen and pari-mutuel clerks; and

the occurrence of natural disasters or other adverse regional weather trends.

In addition, although to a lesser extent than our facilities in Charles Town, West Virginia and Grantville, Pennsylvania, we anticipate meaningful contributions from Hollywood Casino St. Louis and following the relocation of our two racetracks in Ohio in the third quarter of 2014, we now have four gaming facilities in the state of Ohio. Therefore, our results will be dependent on the regional economies and competitive landscapes at these locations as well.

***We depend on our key personnel.***

We are highly dependent on the services of our executive management team and other members of our senior management team. In 2013, in connection with the Spin-Off, we experienced some turnover, including the resignation of Peter M. Carlino from his position as our Chief Executive Officer (although he retained his position as Chairman of the Board). We have promoted various individuals (including our current CEO and COO) as well as hired executives from outside the gaming industry to fill these positions. Our ability to attract and retain key personnel is affected by the competitiveness of our compensation packages and the other terms and conditions of employment, our continued ability to compete effectively against other gaming companies and our growth prospects. The loss of the services of any members of our senior management team could have a material adverse effect on our business, financial condition and results of operations.

***It is unclear what impact our new business structure, which has no precedent within the gaming industry, will have on our key business relationships and our ability to compete with other gaming operators.***

As a result of the completed Spin-Off, we were the first gaming operator that leases the majority of its properties from a single lessor under a master lease arrangement. As a result, it is difficult to predict whether and to what extent our relationship with GLPI, including any actual or perceived conflicts of interest on the part of our overlapping directors, will affect our relationships with suppliers, customers, regulators and our ability to compete with other gaming operators that are not subject to a master lease arrangement with a single lessor.

***Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses and compliance risks.***

Changing laws and regulations relating to corporate governance and public disclosure, including SEC regulations, generally accepted accounting principles, and NASDAQ Global Select Market rules, are creating uncertainty for companies. These changing laws and regulations are subject to varying interpretations in many cases due to their lack of specificity, recent issuance and/or lack of guidance. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. In addition, further regulation of financial institutions and public companies is possible. This could result in continuing uncertainty and higher costs regarding compliance matters. Due to our commitment to maintain high standards of compliance with laws and public disclosure, our efforts to comply with evolving laws, regulations and standards have resulted in and are

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likely to continue to result in increased general and administrative expense. In addition, we are subject to different parties' interpretation of our compliance with these new and changing laws and regulations. A failure to comply with any of these laws or regulations could have a materially adverse effect on us. For instance, if our gaming authorities, the SEC, our independent auditors or our shareholders and potential shareholders conclude that our compliance with the regulations is unsatisfactory, this may result in a negative public perception of us, subject us to increased regulatory scrutiny, monetary penalties or otherwise adversely affect us.

***Inclement weather and other casualty events could seriously disrupt our business and have a material adverse effect on our financial condition and results of operations.***

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions, natural disasters and other casualty events. Because many of our gaming operations are located on or adjacent to bodies of water, these facilities are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, forces of nature, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. For example, in late August 2005, we closed Hollywood Casino Bay St. Louis in Bay St. Louis, Mississippi, Boomtown Biloxi in Biloxi, Mississippi and Hollywood Casino Baton Rouge in Baton Rouge, Louisiana in anticipation of Hurricane Katrina. Hollywood Casino Baton Rouge subsequently reopened on August 30, 2005. However, due to the extensive damage sustained, operations at Boomtown Biloxi and Hollywood Casino Bay St. Louis did not resume until June 29, 2006 and August 31, 2006, respectively. Many of our casinos operate in areas which are subject to periodic flooding that has caused us to experience decreased attendance and increased operating expenses. Any flood or other severe weather condition could lead to the loss of use of a casino facility for an extended period. For instance, Hollywood Casino Tunica was closed from May 1, 2011 to May 25, 2011 due to flooding. In terms of casualty events, on March 20, 2009, our Hollywood Casino Joliet was closed following a fire that started in the land-based pavilion at the facility. On June 25, 2009, the casino barge reopened with temporary land-based facilities, and we began construction of a new land-based pavilion, which opened in late December 2010. In addition, on May 31, 2013, Hollywood Casino St. Louis sustained damage as a result of a tornado and was forced to close for approximately fourteen hours. Most recently, we closed Hollywood Casino Toledo for three days in 2014 and for one day in 2015 due to snow and extreme cold temperatures. Even if adverse weather conditions do not require the closure of our facilities, those conditions make it more difficult for our customers to reach our properties, which can have an adverse impact on our operations.

***The extent to which we can recover under our insurance policies for damages sustained at our properties in the event of future inclement weather and other casualty events could adversely affect our business.***

We maintain significant property insurance, including business interruption coverage, for these and other properties. However, there can be no assurances that we will be fully or promptly compensated for losses at any of our facilities in the event of future inclement weather or casualty events. In addition, our property insurance coverage is in an amount that may be significantly less than the expected and actual replacement cost of rebuilding certain facilities "as was" if there was a total loss. The Master Lease requires us, in the event of a casualty event, to rebuild a leased property to substantially the same condition as existed immediately before such casualty event. We renew our insurance policies (other than our builder's risk insurance) on an annual basis. The cost of coverage may become so material that we may need to further reduce our policy limits, further increase our deductibles, or agree to certain exclusions from our coverage.

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***Our gaming operations rely heavily on technology services and an uninterrupted supply of electrical power. Our security systems and all of our slot machines are controlled by computers and reliant on electrical power to operate.***

Any unscheduled disruption in our technology services or interruption in the supply of electrical power could result in an immediate, and possibly substantial, loss of revenues due to a shutdown of our gaming operations. Such interruptions may occur as a result of, for example, a failure of our information technology or related systems, catastrophic events or rolling blackouts. Our systems are also vulnerable to damage or interruption from earthquakes, floods, fires, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks and similar events.

***Our operations in certain jurisdictions depend on management agreements and/or leases with third parties and local governments.***

Our operations in several jurisdictions depend on land leases and/or management and development agreements with third parties and local governments. If we, or if GLPI in the case of leases pursuant to which we are the sub-lessee, are unable to renew these leases and agreements on satisfactory terms as they expire, our business may be disrupted and, in the event of disruptions in multiple jurisdictions, could have a material adverse effect on our financial condition and results of operations. For example, in Iowa, each gaming license is issued jointly to a gaming operator and a local charitable organization ("QSO"). The agreement between our gaming operator subsidiary in Iowa, Belle of Sioux City, L.P. ("Belle"), and its local QSO, Missouri River Historical Development, Inc. ("MRHD"), expired in early July 2012. An extension agreement with MRHD through March 2015 was signed by both parties; however, the validity of this agreement is currently the subject of litigation. Furthermore, in April 2013, the Iowa Racing and Gaming Commission ("IRGC") awarded a new gaming license to operate a land-based casino in Woodbury County to Sioux City Entertainment ("SCE") and SCE opened a Hard Rock branded casino on August 1, 2014. Belle challenged the denial of its gaming license renewal, which is still pending, however, on July 30, 2014, Argosy Casino Sioux City was ordered to close.

Similarly, in the Province of Ontario, through CHC Casinos, our indirectly wholly owned subsidiary, we manage Casino Rama, a full service gaming and entertainment facility, on behalf of the OLGC, an agency of the Province of Ontario. In June 2014, we signed an agreement to extend the management agreement for Casino Rama on a month-to-month basis with a 60-day notice period for up to a maximum period of forty-eight months. No assurance can be given as to how long the OLGC will continue to engage us to manage the property.

***We are subject to environmental laws and potential exposure to environmental liabilities.***

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including emissions and discharges into the environment, and the handling and disposal of hazardous and non-hazardous substances and wastes. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities or restrictions. From time to time, we have incurred and are incurring costs and obligations for correcting environmental noncompliance matters. To date, none of these matters have had a material adverse effect on our business, financial condition or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

We also are subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs of remediating contaminated soil or groundwater on or from its property, without regard to whether the owner or operator knew of, or caused, the contamination, as well as incur liability to third parties impacted by such contamination. The presence of contamination, or failure to remediate it properly, may adversely affect our ability to use, sell or rent property. Under our contractual arrangements with GLPI,



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including the Master Lease, we will generally be responsible for both past and future environmental liabilities associated with our gaming operations, notwithstanding ownership of the underlying real property having been transferred to GLPI. Furthermore, we are aware that there is or may have been soil or groundwater contamination at certain of our properties resulting from current or former operations. Additionally, certain of the gaming chips used at many gaming properties, including some of ours, have been found to contain some level of lead. Analysis by third parties has indicated the normal handling of the chips does not create a health hazard. We have disposed of a majority of these gaming chips. To date, none of these matters or other matters arising under environmental laws has had a material adverse effect on our business, financial condition, or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

***The concentration and evolution of the slot machine manufacturing industry could impose additional costs on us.***

A majority of our revenues are attributable to slot machines and related systems operated by us at our gaming facilities. It is important, for competitive reasons, that we offer the most popular and up to date slot machine games with the latest technology to our customers.

A substantial majority of the slot machines sold in the U.S. in recent years were manufactured by a few select companies, and there has been extensive recent consolidation activity within the gaming equipment sector, including the recent acquisitions of Multimedia Games, Inc. by Global Cash Access, Bally Technologies, Inc. by Scientific Games Corporation, International Gaming Technologies by GTECH Holdings and previous acquisitions of WMS Industries Inc. by Scientific Games Corporation, which closed in October 2013, and the acquisition of SHFL Entertainment, Inc. by Bally Technologies, Inc. which closed in November 2013.

In recent years, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participation lease arrangements in order to acquire the machines. Participation slot machine leasing arrangements typically require the payment of a fixed daily rental. Such agreements may also include a percentage payment of coin-in or net win. Generally, a participation lease is substantially more expensive over the long term than the cost to purchase a new machine.

For competitive reasons, we may be forced to purchase new slot machines or enter into participation lease arrangements that are more expensive than our current costs associated with the continued operation of our existing slot machines. If the newer slot machines do not result in sufficient incremental revenues to offset the increased investment and participation lease costs, it could hurt our profitability.

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

The Federal Interstate Horseracing Act of 1978, as amended, the West Virginia Race Horse Industry Reform Act and the Pennsylvania Racing Act require that, in order to simulcast races, we have certain agreements with the horse owners and trainers at our West Virginia and Pennsylvania racetracks. In addition, West Virginia requires applicants seeking to renew their gaming license to demonstrate they have an agreement regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of the horse breeders.

At Hollywood Casino at Charles Town Races, we have an agreement with the Charles Town Horsemen's Benevolent and Protective Association that expired on December 31, 2013 and has been extended on a month-to-month basis while negotiations are in progress. Hollywood Casino at Charles Town Races also has an agreement with the breeders that expires on June 30, 2015. Additionally, the pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Union of Mutuel Clerks, which expired on December 31, 2010 and has been extended on a month-to-month basis while negotiations are in process.

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Our agreement with the Pennsylvania Horsemen's Benevolent and Protective Association at Hollywood Casino at Penn National Race Course expires on January 31, 2016. We had a collective bargaining agreement with Local 137 of the Sports Arena Employees at Penn National Race Course with respect to on-track pari-mutuel clerks and admissions personnel which expired on December 31, 2011. In August 2012, Local 137 of the Sports Arena Employees announced that they entered into a "voluntary supervision" agreement with their international union, LIUNA Local 108. In February 2014, a new agreement with LIUNA Local 108 for on-track and OTWs bargaining units was ratified for three years.

Our agreement with the Maine Harness Horsemen Association at Bangor Raceway continues through the conclusion of the 2015 racing season. In March of 2014, Hollywood Gaming at Mahoning Valley Race Course entered into an agreement with the Ohio Horsemen's Benevolent and Protective Association. The term is for a period of ten years from the September 2014 commencement of video lottery terminal operations at that facility. The Company's agreement with the Ohio Harness Horsemen's Association for racing at Hollywood Gaming at Dayton Raceway expired on December 31, 2014 but is still in effect pending the ongoing negotiations of a successor agreement. Rosecroft Raceway entered into agreements with the CSOA and MSBA as of July 5, 2011. CSOA's agreement has been extended through December 31, 2020 with certain termination provisions. The MSBA agreement has been extended through December 31, 2020. Additionally, Rosecroft Raceway has entered into agreements with the UFCW Local 27 and the SEATU for certain bargaining positions at the racetrack. The UFCW Local 27 agreement was ratified on December 13, 2014 and expires on November 30, 2019. The SEATU agreement expires on November 30, 2020.

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

***Work stoppages, organizing drives and other labor problems could negatively impact our future profits.***

Some of our employees are currently represented by labor unions. A lengthy strike or other work stoppages at any of our casino properties or construction projects could have an adverse effect on our business and results of operations. Given the large number of employees, labor unions are making a concerted effort to recruit more employees in the gaming industry. In addition, organized labor may benefit from new legislation or legal interpretations by the current presidential administration. Particularly, in light of current support for changes to federal and state labor laws, we cannot provide any assurance that we will not experience additional and more successful union organization activity in the future.

***Our information technology and other systems are subject to cyber security risk including misappropriation of customer information or other breaches of information security.***

We rely on information technology and other systems to maintain and transmit customers' personal and financial information, credit card settlements, credit card funds transmissions, mailing lists and reservations information. We have taken steps designed to safeguard our customers' confidential personal information. However, our information and processes are subject to the ever-changing threat of compromised security, in the form of a risk of potential breach, system failure, computer virus, or unauthorized or fraudulent use by customers, company employees, or employees of third party vendors. The steps we take to deter and mitigate these risks may not be successful, and any resulting compromise or loss of data or systems could adversely impact operations or regulatory compliance and could result in remedial expenses, fines, litigation, and loss of reputation, potentially impacting our financial results.

Further, as cyber-attacks continue to evolve, we may incur significant costs in our attempts to modify or enhance our protective measures or investigate or remediate any vulnerability.

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**Risks Related to the Spin-Off**

*If the Spin-Off, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, we could be subject to significant tax liabilities.*

We received a private letter ruling (the "IRS Ruling") from the IRS substantially to the effect that, among other things, the Spin-Off, together with certain related transactions, will qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the "Code"). The IRS Ruling does not address certain requirements for tax-free treatment of the Spin-Off under Section 355, and we received from our tax advisors a tax opinion substantially to the effect that, with respect to such requirements on which the IRS will not rule, such requirements will be satisfied. The IRS Ruling, and the tax opinions that we expect to receive from our tax advisors, relied on and will rely on, among other things, certain representations, assumptions and undertakings, including those relating to the past and future conduct of GLPI's business, and the IRS Ruling and the opinions would not be valid if such representations, assumptions and undertakings were incorrect in any material respect.

Notwithstanding the IRS Ruling and the tax opinions, the IRS could determine the Spin-Off should be treated as a taxable transaction for U.S. federal income tax purposes if it determines any of the representations, assumptions or undertakings that were included in the request for the IRS Ruling are false or have been violated or if it disagrees with the conclusions in the opinions that are not covered by the IRS Ruling.

If the Spin-Off fails to qualify for tax-free treatment, in general, we would be subject to tax as if we had sold the GLPI common stock in a taxable sale for its fair market value.

Under the tax matters agreement that GLPI entered into with us, GLPI generally is required to indemnify us against any tax resulting from the Spin-Off to the extent that such tax resulted from (1) an acquisition of all or a portion of the equity securities or assets of GLPI, whether by merger or otherwise, (2) other actions or failures to act by GLPI, or (3) any of GLPI's representations or undertakings being incorrect or violated. GLPI's indemnification obligations to Penn and its subsidiaries, officers and directors will not be limited by any maximum amount. If GLPI is required to indemnify Penn or such other persons under the circumstance set forth in the tax matters agreement, GLPI may be subject to substantial liabilities and there can be no assurance that GLPI will be able to satisfy such indemnification obligations.

*Our historical financial information may not be a reliable indicator of future results.*

The historical financial statements included in our previous SEC filings prior to the Spin-Off do not reflect what our business, financial position or results of operations will be in the future. In connection with the Spin-Off, significant changes have occurred in our cost structure, financing and business operations as a result of our operation as a stand-alone company separate from GLPI and our entering into transactions with GLPI and its subsidiaries that have not existed historically, including the Master Lease.

*Peter M. Carlino, our Chairman, and David A. Handler, one of our directors, may have actual or potential conflicts of interest because of their positions at GLPI.*

Peter M. Carlino serves as our Chairman and as the Chairman and Chief Executive Officer of GLPI. In addition, David A. Handler, one of our directors, is also a director of GLPI. While we have procedures in place to address such situations, these overlapping positions could create, or appear to create, potential conflicts of interest when our or GLPI's management and directors pursue the same corporate opportunities, such as greenfield development opportunities or potential acquisition targets, or face decisions that could have different implications for us and GLPI. Further, potential conflicts of interest could arise in connection with the resolution of any dispute between us and GLPI (or its subsidiaries) regarding the terms of the agreements governing the separation and the relationship, such as pursuant to

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the Master Lease, thereafter between us and GLPI. Potential conflicts of interest could also arise if we and GLPI enter into any commercial or other adverse arrangements with each other in the future.

***The Spin-Off could give rise to disputes or other unfavorable effects, which could have a material adverse effect on our business, financial position or results of operations.***

Disputes with third parties could arise out of the Spin-Off, and we could experience unfavorable reactions to the Spin-Off from employees, shareholders, lenders, ratings agencies, regulators or other interested parties. These disputes and reactions of third parties could lead to additional legal proceedings being instituted against us and those lawsuits could result in settlements or liability for damages which could have a material adverse effect on our business, financial position or results of operations. In addition, disputes between us and GLPI and its subsidiaries could arise in connection with any of the agreements that we entered into with GLPI in connection with the Spin-Off, including the Master Lease, a separation and distribution agreement (the "separation and distribution agreement"), a tax matters agreement, a transition services agreement or other agreements.

***In connection with the Spin-Off, GLPI agreed to indemnify us for certain liabilities. However, there can be no assurance that these indemnities will be sufficient to insure us against the full amount of such liabilities, or that GLPI's ability to satisfy its indemnification obligation will not be impaired in the future.***

Pursuant to the separation and distribution agreement, GLPI has agreed to indemnify us for certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that GLPI agreed to retain, and there can be no assurance that GLPI will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from GLPI any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from GLPI.

***A court could deem the distribution in the Spin-Off to be a fraudulent conveyance and void the transaction or impose substantial liabilities upon us.***

If the transaction is challenged by a third party, a court could deem the distribution of GLPI common shares or certain internal restructuring transactions undertaken by us in connection with the Spin-Off to be a fraudulent conveyance or transfer. Fraudulent conveyances or transfers are defined to include transfers made or obligations incurred with the actual intent to hinder, delay or defraud current or future creditors or transfers made or obligations incurred for less than reasonably equivalent value when the debtor was insolvent, or that rendered the debtor insolvent, inadequately capitalized or unable to pay its debts as they become due. In such circumstances, a court could void the transactions or impose substantial liabilities upon us, which could adversely affect our financial condition and our results of operations. Among other things, the court could require our shareholders to return to us some or all of the shares of our common stock issued in the distribution or require us to fund liabilities of other companies involved in the restructuring transactions for the benefit of creditors. Whether a transaction is a fraudulent conveyance or transfer will vary depending upon the laws of the applicable jurisdiction.

***If we and GLPI are treated by the IRS as being under common control, both we and GLPI could experience adverse tax consequences.***

If we and GLPI are treated by the IRS as being under common control, the IRS will be authorized to reallocate income and deductions between us and GLPI to reflect arm's length terms. If the IRS were to successfully establish that rents paid by us to GLPI are excessive, (1) we would be denied a deduction for the excessive portion and (2) we would be subject to a penalty on the portion deemed excessive, each of which could have a material adverse effect on our business, financial position or results of operations. In addition, our shareholders would be deemed to have received a distribution that was then contributed to the capital of GLPI.

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**Risks Related to Our Capital Structure**

*Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our outstanding indebtedness.*

We incurred a substantial amount of indebtedness, as well as a significant fixed annual rental payment to GLPI, in connection with the Spin-Off. Our substantial indebtedness and additional fixed costs via our rental obligation could have important consequences to our financial health. For example, it could:

make it more difficult for us to satisfy our obligations with respect to our indebtedness;

limit our ability to participate in multiple or large development projects, absent additional third party financing;

increase our vulnerability to general or regional adverse economic and industry conditions or a downturn in our business;

require us to dedicate a substantial portion of our cash flow from operations to satisfy our rental obligation and debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a competitive disadvantage compared to our competitors that are not as highly leveraged;

limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds; and

result in an event of default if we fail to satisfy our obligations under our indebtedness or fail to comply with the financial and other restrictive covenants contained in our debt instruments, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on any of our assets securing such debt.

Any of the above listed factors could have a material adverse effect on our business, financial condition and results of operations. The terms of the debt incurred in connection with the Spin-Off do not, and any future debt may not, fully prohibit us from incurring additional debt, including debt related to facilities we develop or acquire. If new debt is added to our current debt levels, the related risks that we now face could intensify.

*Volatility and disruption of the capital and credit markets and adverse changes in the global economy may negatively impact our revenues and our ability to access favorable financing terms.*

While we intend to finance expansion and renovation projects with existing cash, cash flow from operations and borrowings under our senior secured credit facility, we may require additional financing to support our continued growth. However, depending on then current economic or capital market conditions, our access to capital may not be available on terms acceptable to us or at all. Further, if adverse regional and national economic conditions persist or worsen, we could experience decreased revenues from our operations attributable to decreases in consumer spending levels and could fail to satisfy the financial and other restrictive covenants to which we are subject under our existing indebtedness. Finally, our borrowing costs under our senior secured credit facility are tied to LIBOR. We currently have no hedges in place to mitigate the impact of higher LIBOR rates and as such significant increases in LIBOR could have a negative impact on our results of operations.

*The availability and cost of financing could have an adverse effect on business.*

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We intend to finance some of our current and future expansion, development and renovation projects and acquisitions with cash flow from operations, borrowings under our senior secured credit

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facility and equity or debt financings. In connection with the Spin-Off, we entered into approximately \$1,550 million of new debt financing, which includes a five year revolving credit facility with a borrowing capacity of \$500 million, a five year \$500 million Term Loan A facility and a seven year \$250 million Term Loan B facility under our senior secured credit facility and \$300 million of 5.875% senior unsecured notes. In addition, following the Spin-Off, we are required by the Master Lease to, in the case of certain expansion projects, or may choose, in the case of other development projects, to provide GLPI the right to provide the financing needed for such purposes. Depending on the state of the credit markets, if we are unable to finance our current or future projects, we could have to seek alternative financing, such as through selling assets, restructuring debt, increasing our reliance on equity financing or seeking additional joint venture partners. Depending on credit market conditions, alternative sources of funds may not be sufficient to finance our expansion, development and/or renovation, or such other financing may not be available on acceptable terms, in a timely manner or at all. In addition, our existing indebtedness contains restrictions on our ability to incur additional indebtedness. If we are unable to secure additional financing, we could be forced to limit or suspend expansion, development and renovation projects and acquisitions, which may adversely affect our business, financial condition and results of operations.

We have a revolving credit facility with a borrowing capacity of \$500 million that expires in 2018 via a bank group that is comprised of various large financial institutions with the top four institutions providing approximately 42% of the facility. If a large percentage of our lenders were to file for bankruptcy or otherwise default on their obligations to us, we could experience decreased levels of liquidity which could have a detrimental impact on our operations, including being able to fund our current project pipeline. There is no certainty that our lenders will continue to remain solvent or fund their respective obligations under our senior secured credit facility.

***Our indebtedness imposes restrictive covenants on us that could limit our operations and lead to events of default if we do not comply with those covenants.***

Our senior secured credit facility requires us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including interest coverage, senior secured net leverage and total net leverage ratios. In addition, our credit facility restricts, among other things, our ability to incur additional indebtedness, incur guarantee obligations, repay certain other indebtedness or amend debt instruments, pay dividends, create liens on our assets, make investments, make acquisitions, engage in mergers or consolidations, engage in certain transactions with subsidiaries and affiliates or otherwise restrict corporate activities. In addition, the indenture governing the 5.875% senior unsecured notes restricts, among other things, our ability to incur additional indebtedness (excluding certain indebtedness under our credit facility), issue certain preferred stock, pay dividends or distributions on our capital stock or repurchase our capital stock, make certain investments, create liens on our assets to secure certain debt, enter into transactions with affiliates, merge or consolidate with another company, transfer and sell assets and designate our subsidiaries as unrestricted subsidiaries. A failure to comply with the restrictions contained in the documentation governing any of our indebtedness, termination of the Master Lease (subject to certain exceptions) or the occurrence of certain defaults under the Master Lease could lead to an event of default thereunder that could result in an acceleration of such indebtedness. Such acceleration would likely constitute an event of default under our other indebtedness, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on any of our assets securing such debt.

***To service our indebtedness, we will require a significant amount of cash, which depends on many factors beyond our control.***

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured credit facility in amounts sufficient

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to enable us to fund our liquidity needs, including with respect to our indebtedness. We also may incur indebtedness related to facilities we develop or acquire prior to generating cash flow from those facilities. If those facilities do not provide us with cash flow to service that indebtedness, we will need to rely on cash flow from our other properties, which would increase our leverage. In addition, if we consummate significant acquisitions in the future, our cash requirements may increase significantly. As we are required to satisfy amortization requirements under our senior secured credit facility or as other debt matures, we may also need to raise funds to refinance all or a portion of our debt. We cannot assure you that we will be able to refinance any of our debt, including our senior secured credit facility, on attractive terms, commercially reasonable terms or at all. Our future operating performance and our ability to service, extend 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.

*The price of our common stock may fluctuate significantly.*

Our stock price may fluctuate in response to a number of events and factors, such as variations in operating results, actions by various regulatory agencies and legislatures, litigation, operating competition, market perceptions, progress with respect to potential acquisitions, changes in financial estimates and recommendations by securities analysts, the actions of rating agencies, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The following describes our principal real estate properties by segment:

**East/Midwest**

*Hollywood Casino at Charles Town Races.* We lease 300 acres on various parcels in Charles Town and Ranson, West Virginia of which 155 acres comprise Hollywood Casino at Charles Town Races. The facility includes a 153-room hotel and a <sup>3</sup>/<sub>4</sub>-mile all-weather lighted thoroughbred racetrack, a training track, two parking garages, an employee parking lot, an enclosed grandstand/clubhouse and housing facilities for over 1,300 horses.

*Hollywood Casino at Penn National Race Course.* We lease 574 acres in Grantville, Pennsylvania, where Penn National Race Course is located on 181 acres. The facility includes a one-mile all-weather lighted thoroughbred racetrack and a <sup>7</sup>/<sub>8</sub>-mile turf track, a parking garage and surface parking spaces. The property also includes 393 acres surrounding the Penn National Race Course that are available for future expansion or development.

*Hollywood Casino Lawrenceburg.* We lease 53 acres in Lawrenceburg, Indiana, a portion of which serves as the dockside embarkation for the gaming vessel, and includes a Hollywood-themed casino riverboat, an entertainment pavilion, a 295-room hotel, two parking garages and an adjacent surface lot. In addition, we lease 53 acres on Route 50 used for remote parking.

The City of Lawrenceburg Department of Redevelopment has recently completed construction of a hotel and event center located less than a mile away from our Hollywood Casino Lawrenceburg property. Effective in mid January 2015, by contractual agreement, the hotel and event center is owned and operated by a subsidiary of the Company. The hotel and event center includes 168 rooms, approximately 18,000 square feet of multipurpose space and 19,500 square feet of ballroom and meeting space.



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*Hollywood Casino Toledo.* We lease a 44-acre site in Toledo, Ohio, where we opened Hollywood Casino Toledo on May 29, 2012. The property includes the casino as well as structured and surface parking.

*Hollywood Casino Columbus.* We lease 116 acres of land in Columbus, Ohio, where we opened Hollywood Casino Columbus on October 8, 2012. The property includes the casino as well as structured and surface parking.

*Hollywood Gaming at Dayton Raceway.* We lease 119 acres on the site of an abandoned Delphi Automotive plant in Dayton, Ohio, where we relocated Raceway Park and opened a new gaming facility on August 28, 2014. The facility includes a  $\frac{5}{8}$ -mile standardbred racetrack and 1,800 parking spaces.

*Hollywood Gaming at Mahoning Valley Race Course.* We lease 193 acres in Austintown, Ohio, where we relocated Beulah Park and opened a new gaming facility on September 17, 2014. The facility includes a one-mile thoroughbred racetrack and 1,251 parking spaces.

*Hollywood Casino Bangor.* We lease the land on which the Hollywood Casino Bangor facility is located in Bangor, Maine, which consists of over 9 acres, and includes a 152-room hotel and four-story parking. In addition, we lease 25 acres located at historic Bass Park, which is adjacent to the facility, which includes a one-half mile standardbred racetrack and a grandstand with over 12,000 square feet and seating for 3,500 patrons.

*Casino Rama.* We do not own any of the land located at or near the casino or Casino Rama's facilities and equipment. The OLGC has a long-term ground lease with an affiliate of the Rama First Nation, for the land on which Casino Rama is situated. Under the Agreement, CHC Casinos and CRC Holdings, Inc. have been granted full access to Casino Rama during the term of the Agreement to perform the management services under the Agreement. The Casino Rama facilities are located on 61 acres.

*Plainridge Racecourse.* On February 28, 2014, we were awarded a Category Two slots-only gaming license by the Massachusetts Gaming Commission. In March 2014, we purchased the Plainridge Racecourse in Plainville, Massachusetts and immediately began development on a 106,000 square foot facility with 1,250 gaming devices, various dining and entertainment options and 1,620 structured and surface parking spaces. We expect the new facility to be completed in June 2015. Currently, the facility features harness racing on a  $\frac{5}{8}$ -mile track, a clubhouse with two floors for simulcast and live racing viewing and 1,500 parking spaces.

### **West**

*M Resort.* We lease 88 acres on the southeast corner of Las Vegas Boulevard and St. Rose Parkway in Henderson, Nevada, where the M Resort is located. The M Resort property includes a 390-room hotel, a 4,700 space parking facility, and other facilities. We also lease 4 acres of land which is part of the property.

*Zia Park Casino.* Our casino adjoins the racetrack and is located on 317 acres that we lease in Hobbs, New Mexico. The property includes a one-mile quarter/thoroughbred racetrack. In August 2014, we opened a new hotel, which includes 148 rooms, six suites, a board/meeting room, exercise/fitness facilities and a breakfast venue.

### **Southern Plains**

*Hollywood Casino Aurora.* We lease a dockside barge structure and land-based pavilion in Aurora, Illinois. We lease the land, which is 0.4 acres, on which the pavilion is located and a pedestrian walkway bridge. We also lease a parking lot and two parking garages, together comprising over 2 acres.

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*Hollywood Casino Joliet.* We lease 276 acres in Joliet, Illinois, which includes a barge-based casino, land-based pavilion, a 100-room hotel, a 1,100 space parking garage, surface parking areas and a recreational vehicle park.

*Argosy Casino Alton.* We lease 3.6 acres in Alton, Illinois, a portion of which serves as the dockside boarding for the Alton Belle II, a riverboat casino. The dockside facility includes an entertainment pavilion and office space, as well as surface parking areas with 1,341 spaces. In addition, we lease a warehouse facility and an office building, consisting of 0.2 acres.

*Hollywood Casino Gulf Coast.* We lease 580 acres in the city of Bay St. Louis, Mississippi. The property includes a land-based casino, 18-hole golf course, a 291-room hotel, a 20-slip marina and other facilities.

*Argosy Casino Riverside.* We lease 41 acres in Riverside, Missouri, which includes a barge-based casino, a 258-room luxury hotel, an entertainment/banquet facility and a parking garage. We also lease 6.8 acres which is primarily used for overflow parking.

*Hollywood Casino Tunica.* We lease 68 acres of land in Tunica, Mississippi. The property includes a single-level casino, a 494-room hotel, surface parking and other land-based facilities.

*Boomtown Biloxi.* We lease 18.2 acres, most of which is utilized for the gaming location. We also lease 5 acres of submerged tidelands at the casino site from the State of Mississippi, 1.1 acres for parking, 1.2 acres of land mostly used for parking and welcome center, and 0.4 acres of undeveloped land, as well as the barge on which the casino is located and all of the land-based facilities.

*Hollywood Casino at Kansas Speedway.* Through our joint venture with International Speedway, we own 101 acres in which Hollywood Casino sits on Turn Two of the Kansas Speedway.

*Hollywood Casino St. Louis.* We lease 248 acres along the Missouri River in Maryland Heights, Missouri, which includes a 502-room hotel and structure and surface parking.

### **Other**

*Rosecroft Raceway.* Rosecroft Raceway is situated on 125 acres, which we own. The Rosecroft facility features a  $\frac{5}{8}$ -mile standardbred race track with a seven race paddock, a 53,000 square foot grandstand building, and a 96,000 square foot three story clubhouse building.

*Sanford-Orlando Kennel Club.* We own 26 acres in Longwood, Florida where Sanford-Orlando Kennel Club is located. The property includes a  $\frac{1}{4}$ -mile racing surface, a clubhouse dining facility and a main grandstand building. Kennel facilities for up to 1,300 greyhounds are located at a leased location approximately  $\frac{1}{2}$  mile from the racetrack enclosure.

*Freehold Raceway.* Through our joint venture in Pennwood, we own a 51-acre site in Freehold, New Jersey, where Freehold Raceway is located. The property features a half-mile standardbred race track and a grandstand. In addition, through our joint venture in Pennwood, we own a 10-acre site in Cherry Hill, New Jersey, which is currently undeveloped.

*Sam Houston Race Park and Valley Race Park.* Through our joint venture with MAXXAM, we own 168 acres at Sam Houston Race Park and 71 acres at Valley Race Park. Sam Houston Race Park includes a one-mile dirt track and a  $\frac{7}{8}$ -mile turf track as well as a 226,000 square foot grandstand and pavilion centre. Valley Race Park features 118,216 of property square footage as a dog racing and simulcasting facility located in Harlingen, Texas.

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*Off-track Wagering Facilities.* The following is a list of our four OTWs and their locations:

Location	Approx. Size (Square Ft.)	Owned/Leased	Date Opened
Reading, PA	22,500	Leased	May 1992
York, PA	25,590	Leased	March 1995
Lancaster, PA	24,000	Leased	July 1996
Clementon, NJ	15,000	Leased	July 2014

In addition, through our joint venture in Pennwood, we own 50% of a leased OTW in Toms River, New Jersey, that has 28,160 square feet.

*Corporate.* We lease 49,928 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of Peter Carlino, the Chairman of our Board of Directors.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the ordinary 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. The Company believes that it has meritorious defenses, claims and/or counter-claims with respect to these proceedings, and intends to vigorously defend itself or pursue its claims.

Gaming licenses in Iowa are typically issued jointly to a gaming operator and a local charitable organization known as a QSO. The agreement between the Company's gaming operator subsidiary in Iowa, Belle, and its QSO, MRHD, expired in early July 2012. On July 12, 2012, when presented with an extension of the Company's QSO/operating agreement for the Sioux City facility through March 2015, the IRGC refused to approve the extension. On April 18, 2013, the IRGC awarded the license to another gaming operator. In August 2013, the IRGC formally denied the Company's application for a renewal of its state license. The Belle filed numerous petitions challenging the IRGC's actions which have all been denied by the Iowa District Court in Polk County, Iowa. The Belle has filed a consolidated appeal which is pending before the Iowa Supreme Court. On July 30, 2014, Argosy Casino Sioux City ceased its operations.

On October 21, 2011, the Ohio Roundtable filed a complaint in the Court of Common Pleas in Franklin County, Ohio against a number of defendants, including the Governor, the Ohio Lottery Commission and the Ohio Casino Control Commission. The complaint alleges a variety of substantive and procedural defects relative to the approval and implementation of video lottery terminals as well as several counts dealing with the taxation of standalone casinos. As intervenors, we, along with the other two casinos in Ohio, filed motions for judgment on the pleadings to supplement the position of the Racing Commission. In May 2012, the complaint was dismissed, and in March 2013, the Ohio appeals court upheld the dismissal. On April 30, 2013, plaintiffs requested the Ohio Supreme Court to hear an appeal of the decision, and the Ohio Supreme Court elected to accept the appeal. The appeal is currently pending.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PENN." The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on the NASDAQ Global Select Market. The prices set forth in the table below for 2013 have been adjusted to reflect the impact of the Spin-Off which occurred on November 1, 2013.

	High		Low
<b>2014</b>			
1/1/14-3/31/14	\$ 14.16	\$	11.09
4/1/14-6/30/14	13.39		10.80
7/1/14-9/30/14	12.46		10.18
10/1/14-12/31/14	14.67		10.68
<b>2013</b>			
1/1/13-3/31/13	\$ 12.33	\$	10.61
4/1/13-6/30/13	13.54		11.23
7/1/13-9/30/13	12.98		11.01
10/1/13-12/31/13	13.34		12.24

The closing sale price per share of our common stock on the NASDAQ Global Select Market on February 18, 2015 was \$16.77. As of February 18, 2015, there were approximately 506 holders of record of our common stock.

**Dividend Policy**

Since our initial public offering of common stock in May 1994, we have not paid any cash dividends on our common stock. We intend to retain all of our earnings to finance the development of our business, and thus, do not anticipate paying cash dividends on our common stock for the foreseeable future. Payment of any cash dividends in the future will be at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, operations and capital requirements, our general financial condition and general business conditions. In addition, our senior secured credit facility and senior notes restrict, among other things, our ability to pay dividends. In addition, future financing arrangements may prohibit the payment of dividends under certain conditions.

**Stock Repurchase**

We did not repurchase any shares of our common stock in the fourth quarter of 2014.

On October 11, 2013, the Company completed its previously disclosed exchange and repurchase transactions with FIF V PFD LLC ("Fortress"), which is an affiliate of Fortress Investment Group LLC, and certain affiliates of Centerbridge Capital Partners, L.P. (collectively, "Centerbridge"). In the transactions, on October 11, 2013, Penn (i) issued 14,553 shares of its Series C preferred stock to Fortress in exchange for all of the 9,750 shares of Penn's Series B preferred stock held by Fortress, (ii) repurchased 5,929 of its Series C preferred stock from Fortress for cash consideration of \$397.2 million and (iii) repurchased all of the 2,300 shares of Penn's Series B preferred stock held by Centerbridge for cash consideration of \$230.0 million. As a result of this transaction, there are no longer any shares of Penn's Series B preferred stock outstanding.

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Subject to the terms and conditions of the Statement with Respect to Shares of Series C Convertible Preferred Stock, the 8,624 remaining shares of Series C preferred stock held by Fortress are convertible into 8,624,000 shares of Penn common stock.

### ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial and operating data for the five-year period ended December 31, 2014 is derived from our consolidated financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm. The selected consolidated financial and operating data should be read in conjunction with our consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

	Year Ended December 31,				
	2014(1)	2013(2)	2012(3)	2011	2010(4)
(in thousands, except per share data)					
<b>Income statement data:</b>					
Net revenues	\$ 2,590,527	\$ 2,918,754	\$ 2,899,465	\$ 2,742,257	\$ 2,459,111
Total operating expenses	2,830,949	3,690,726	2,456,876	2,242,676	2,305,885
(Loss) income from operations	(240,422)	(771,972)	442,589	499,581	153,226
Total other expenses	(31,359)	(143,905)	(78,063)	(110,349)	(148,708)
(Loss) income from operations before income taxes	(271,781)	(915,877)	364,526	389,232	4,518
Income tax (benefit) provision	(38,586)	(121,538)	152,555	146,881	66,178
Net (loss) income including noncontrolling interests	(233,195)	(794,339)	211,971	242,351	(61,660)
Less: Net loss attributable to noncontrolling interests					(2,193)
Net (loss) income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries	\$ (233,195)	\$ (794,339)	\$ 211,971	\$ 242,351	\$ (59,467)
<b>Per share data:</b>					
Basic (loss) earnings per common share	\$ (2.97)	\$ (10.17)	\$ 2.24	\$ 2.52	\$ (0.76)
Diluted (loss) earnings per common share	\$ (2.97)	\$ (10.17)	\$ 2.04	\$ 2.26	\$ (0.76)
Weighted shares outstanding Basic(5)	78,425	78,111	76,345	77,991	78,079
Weighted shares outstanding Diluted(5)	78,425	78,111	103,804	107,051	78,079
<b>Other data:</b>					
Net cash provided by operating activities	\$ 220,001	\$ 440,802	\$ 507,189	\$ 567,365	\$ 493,178
Net cash used in investing activities	(375,536)	(414,957)	(1,188,487)	(338,802)	(736,758)
Net cash provided by (used in) financing activities	71,213	6,683	703,325	(236,508)	(223,153)
Depreciation and amortization	178,981	298,326	245,348	211,476	212,387
Interest expense	45,982	97,092	81,440	99,564	130,215
Capital expenditures	228,145	199,913	472,985	293,081	362,955
<b>Balance sheet data:</b>					
Cash and cash equivalents	\$ 208,673	\$ 292,995	\$ 260,467	\$ 238,440	\$ 246,385
Total assets	2,236,430	2,183,991	5,644,057	4,606,346	4,462,879
Total debt	1,260,832	1,050,792	2,730,570	2,043,165	2,171,123
Shareholders' equity	554,486	758,400	2,250,929	1,971,631	1,777,766

(1)

During the fourth quarter of 2014, we recorded pre-tax goodwill and other intangible assets impairment charges of \$316.5 million (\$253.5 million, net of taxes), as we determined that a portion of the value of our goodwill and other intangible assets was impaired due to our outlook of continued challenging regional gaming conditions which persisted in 2014 at certain properties in our Southern

Plains segment,

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as well as for the write-off of a trademark intangible asset in the West segment. During the second quarter of 2014, the Company recorded a pre-tax impairment charge of \$4.6 million (\$2.8 million, net of taxes) to write-down certain idle assets to their estimated salvage value. Rental expense under the Master Lease, which became effective November 1, 2013, was \$421.4 million for the year ended December 31, 2014.

- (2) Primarily as a result of the Spin-Off, we recorded pre-tax impairment charges of \$1,058.4 million (\$842.9 million, net of taxes) during the year ended December 31, 2013. In addition, as a result of a new gaming license being awarded for the development of an additional casino in Sioux City, Iowa to another applicant in April 2013, we recorded a pre-tax impairment charge of \$71.8 million (\$70.5 million, net of taxes) for Argosy Casino Sioux City during the year ended December 31, 2013. Additionally, in conjunction with the relocation of our two racetracks in Ohio, we recorded a pre-tax impairment charge of \$2.2 million (\$1.4 million, net of taxes) during the year ended December 31, 2013. Furthermore, for 2013, we incurred a \$61.7 million loss on the early extinguishment of debt, transaction costs associated with the Spin-Off of \$28.8 million, and rental expense under the Master Lease of \$69.5 million.
- (3) During the year ended December 31, 2012, we incurred non-deductible lobbying costs of \$45.1 million associated with our unsuccessful efforts to oppose an expansion of gaming in the state of Maryland and transaction costs associated with the Spin-Off of \$7.1 million.
- (4) As a result of decreased earnings projections resulting from an anticipated increase in competition from the scheduled opening of a \$445 million casino in the second half of 2011 in Des Plaines, Illinois, as well as continued challenging market conditions in the Chicagoland regional market, we recorded a pre-tax goodwill impairment charge of \$188.8 million (\$173.0 million, net of taxes) related to our Aurora and Joliet properties during the year ended December 31, 2010. As a result of the May 2010 statewide election, whereby the voters determined that our casino in Columbus could be located at the site of the former Delphi Automotive plant along Columbus's West Side, we reclassified the land that we had previously purchased in the Arena District site that had been originally approved for our casino as held for sale and recorded a pre-tax impairment charge of \$31.3 million (\$20.1 million, net of taxes). Additionally, during the year ended December 31, 2010, we wrote-off the trademark intangible asset associated with the Argosy acquisition for \$4.4 million (\$2.8 million, net of taxes) due to management's strategy to transition Argosy properties to the Hollywood Casino brand.
- (5) Since we reported a loss from operations for the years ended December 31, 2014, 2013, and 2010, we were required to use basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding, when calculating diluted loss per share for those periods.

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**ITEM 7. 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. 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, greenfield projects, and property expansions. We, along with our joint venture partner, opened Hollywood Casino at Kansas Speedway on February 3, 2012. In Ohio, we opened four new gaming properties over the last three years, including: Hollywood Casino Toledo on May 29, 2012, Hollywood Casino Columbus on October 8, 2012, Hollywood Gaming at Dayton Raceway on August 28, 2014, and Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014. In addition, on November 2, 2012, we acquired Harrah's St. Louis, which we subsequently rebranded as Hollywood Casino St. Louis. Finally, we are in the process of constructing Plainridge Park Casino, an integrated racing and gaming facility in Plainville, Massachusetts, which we expect to open in June 2015, as well as the Jamul development project near San Diego, California, which we anticipate completing in mid-2016. We believe that our portfolio of assets provides us the benefit of geographically diversified cash flow from operations.

As of December 31, 2014, we owned, managed, or had ownership interests in twenty-six facilities in the following seventeen jurisdictions: Florida, Illinois, Indiana, Kansas, Maine, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, West Virginia, and Ontario. On July 30, 2014, the Company closed its facility in Sioux City, Iowa. In addition, Beulah Park and Raceway Park in Ohio were closed as the racetracks were relocated to Hollywood Gaming at Mahoning Valley Race Course and Hollywood Gaming at Dayton Raceway, respectively, both of which opened in the third quarter of 2014.

The vast majority of our revenue is gaming revenue, derived primarily from gaming on slot machines (which represented approximately 84% and 83% of our gaming revenue in 2014 and 2013, respectively) 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 transition service fees from GLPI, 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 OTWs.

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 hold 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.

Slot handle is the gross amount wagered for the period cited. The win or hold percentage is the net amount of gaming wins and losses, with liabilities recognized for accruals related to the anticipated payout of progressive jackpots. Our slot hold percentages have consistently been in the 6% to 10% range over the past several years. Given the stability in our slot hold percentages, we have not experienced significant impacts to earnings from changes in these percentages.

For table games, customers usually purchase cash chips at the gaming tables. The cash and markers (extensions of credit granted to certain credit worthy customers) are deposited in the gaming table's drop box. Table game win is the amount of drop that is retained and recorded as casino gaming revenue, with liabilities recognized for funds deposited by customers before gaming play occurs and for



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unredeemed gaming chips. As we are focused on regional gaming markets, our table win percentages are fairly stable as the majority of these markets do not regularly experience high-end play, which can lead to volatility in win percentages. Therefore, changes in table game win percentages do not typically have a material impact to our earnings.

Our properties generate significant operating cash flow, since most of our revenue is cash-based from slot machines, table games, and pari-mutuel wagering. Our business is capital intensive, and we rely on cash flow from our properties to generate operating cash to pay rent to GLPI under the Master Lease, 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. Additional information regarding our capital projects is discussed in detail in the section entitled "Liquidity and Capital Resources Capital Expenditures" below.

**Spin-Off of Real Estate Assets through a Real Estate Investment Trust**

On November 1, 2013, the Company completed its plan to separate its gaming operating assets from its real property assets by creating a newly formed, publicly traded REIT, known as GLPI, through a tax free Spin-Off. Penn effected the Spin-Off by distributing one share of common stock of GLPI to the holders of Penn common stock and Series C Preferred Stock for every share of Penn common stock and every 1/1000th of a share of Series C Preferred Stock that they held at the close of business on October 16, 2013, the record date for the Spin-Off. Peter M. Carlino and the PMC Delaware Dynasty Trust dated September 25, 2013, a trust for the benefit of Mr. Carlino's children, also received additional shares of GLPI common stock, in exchange for shares of Penn common stock that they transferred to Penn immediately prior to the Spin-Off, and Mr. Carlino exchanged certain options to acquire Penn common stock for options to acquire GLPI common stock having the same aggregate intrinsic value. Penn engaged in these exchanges with Mr. Carlino and his related trust to ensure that each member of the Carlino family beneficially owns 9.9% or less of the outstanding shares of Penn common stock following the Spin-Off, so that GLPI can qualify to be taxed as a REIT for U.S. federal income tax purposes.

In addition, through a series of internal corporate restructurings, Penn contributed to GLPI substantially all of the assets and liabilities associated with Penn's real property interests and real estate development business, as well as all of the assets and liabilities of Hollywood Casino Baton Rouge and Hollywood Casino Perryville, which are referred to as the "TRS Properties." As a result of the Spin-Off, GLPI owns substantially all of Penn's former real property assets and leases back those assets (other than the TRS Properties) to Penn for use by its subsidiaries, under the Master Lease (which has a fifteen-year initial term that can be extended at Penn's option for up to four five-year renewal terms), as well as owns and operates the TRS Properties. Penn continues to operate the leased gaming facilities and hold the associated gaming licenses with these facilities. As a result of the Spin-Off, the Company's results for the year ended December 31, 2013 only include the TRS Properties for the period January 1, 2013 through October 31, 2013.

On November 1, 2013, Penn entered into a Tax Matters Agreement with GLPI, which governs the respective rights, responsibilities and obligations of the two companies after the Spin-Off with respect to payment of tax liabilities, entitlement of refunds, and filing of tax returns and sets forth certain covenants and indemnities. Pursuant to the Tax Matters Agreement, Penn was required to prepare and file a federal consolidated income tax return for 2013, which included a combination of Penn and GLPI legal entities for the activity prior to the Spin-Off, with any adjustments for the impact of the final consolidated income tax return recorded to either shareholders' equity or the statement of income

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depending on the specific item giving rise to the adjustment. In conjunction with the filing of the final 2013 federal consolidated income tax return with the Internal Revenue Service, Penn recorded an increase to shareholders' equity of \$0.1 million during the year ended December 31, 2014.

The Company received a private letter ruling from the Internal Revenue Service relating to the tax treatment of the separation and the qualification of GLPI as a REIT. The private letter ruling is subject to certain qualifications and based on certain representations and statements made by the Company and certain of its shareholders. If such representations and statements are untrue or incomplete in any material respect (including as a result of a material change in the transaction or other relevant facts), the Company may not be able to rely on the private letter ruling. The Company received opinions from outside counsel regarding certain aspects of the transaction that are not covered by the private letter ruling.

The Company incurred transaction costs of \$0.9 million, \$28.8 million, and \$7.1 million for the years ended December 31, 2014, 2013 and 2012, respectively, associated with the Spin-Off, which were included in general and administrative expenses within the consolidated statements of operations.

**Segment Information**

Our Chief Executive Officer, who is the Company's CODM as that term is defined in ASC 280, measures and assesses the Company's business performance based on regional operations of various properties grouped together based primarily on their geographic locations. In January 2014, the Company named Jay Snowden as its Chief Operating Officer and the Company decided in connection with this announcement to re-align its reporting structure. Starting in January 2014, the Company's reportable segments are: (i) East/Midwest, (ii) West, and (iii) Southern Plains. The prior year amounts were reclassified to conform to the Company's new reporting structure in accordance with ASC 280.

The East/Midwest reportable segment consists of the following properties: Hollywood Casino at Charles Town Races, Hollywood Casino Bangor, Hollywood Casino at Penn National Race Course, Hollywood Casino Lawrenceburg, Hollywood Casino Toledo, which opened on May 29, 2012, Hollywood Casino Columbus, which opened on October 8, 2012, Hollywood Gaming at Dayton Raceway, which opened on August 28, 2014, and Hollywood Gaming at Mahoning Valley Race Course, which opened on September 17, 2014. It also includes the Company's Casino Rama management service contract and the Plainville project in Massachusetts which the Company expects to open in June 2015. It also previously included Hollywood Casino Perryville, which was contributed to GLPI on November 1, 2013.

The West reportable segment consists of the following properties: Zia Park Casino and the M Resort, as well as the Jamul development project, which the Company anticipates completing in mid-2016.

The Southern Plains reportable segment consists of the following properties: Hollywood Casino Aurora, Hollywood Casino Joliet, Argosy Casino Alton, Argosy Casino Riverside, Hollywood Casino Tunica, Hollywood Casino Gulf Coast (formerly Hollywood Casino Bay St. Louis), Boomtown Biloxi, and Hollywood Casino St. Louis (formerly Harrah's St. Louis which was acquired from Caesars Entertainment on November 2, 2012), and includes the Company's 50% investment in Kansas Entertainment, which owns the Hollywood Casino at Kansas Speedway. On July 30, 2014, the Company closed Argosy Casino Sioux City. This segment also previously included Hollywood Casino Baton Rouge, which was contributed to GLPI on November 1, 2013.

The Other category consists of the Company's standalone racing operations, namely Rosecroft Raceway, Sanford-Orlando Kennel Club, and the Company's joint venture interests in Sam Houston Race Park, Valley Race Park, and Freehold Raceway, as well as the Company's 50% joint venture with the Cordish Companies in New York which we anticipate dissolving in 2015. It also previously included

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the Company's Bullwhackers property, which was sold in July 2013. If the Company is successful in obtaining gaming operations at these locations, they would be assigned to one of the Company's reportable segments. The Other category also includes the Company's corporate overhead operations which does not meet the definition of an operating segment under ASC 280.

**Executive Summary**

Continued sluggish economic conditions and the expansion of newly constructed gaming facilities continue to impact the overall domestic gaming industry as well as our operating results. We believe that current economic conditions, including, but not limited to, a weak economic recovery, low levels of consumer confidence, and higher taxes paid by individuals, have resulted in reduced levels of discretionary consumer spending compared to historical levels. Additionally, the expansion of newly constructed gaming facilities has substantially increased competition in many of our regional markets (including some of our larger facilities).

We operate a geographically diversified portfolio comprised largely of new and well maintained regional gaming facilities. This has allowed us to develop what we believe to be a solid base for future growth opportunities. We have also made investments in joint ventures that we believe may allow us to capitalize on additional gaming opportunities in certain states if legislation or referenda are passed that permit and/or expand gaming in these jurisdictions and we are selected as a licensee. Historically, the Company has been reliant on certain key regional gaming markets (for example, its results from Hollywood Casino at Charles Town Races and Hollywood Casino Lawrenceburg). Over the past several years, the Company has diversified its operations via new development facilities and acquisitions and anticipates further diversifying its reliance on specific properties in connection with its current development pipeline.

*Financial Highlights:*

We reported net revenues and a loss from operations of \$2,590.5 million and \$240.4 million, respectively, for the year ended December 31, 2014, compared to net revenues and a loss from operations of \$2,918.8 million and \$772.0 million, respectively, for the corresponding period in the prior year. The major factors affecting our results for the year ended December 31, 2014, as compared to the year ended December 31, 2013, were:

Impairment losses of \$321.1 million for the year ended December 31, 2014, compared to \$1,132.4 million for the year ended December 31, 2013.

Rental expense for real property assets leased from GLPI (whose lease term commenced November 1, 2013) of \$421.4 million and \$69.5 million for the years ended December 31, 2014 and 2013, respectively.

The opening of Hollywood Gaming at Dayton Raceway on August 28, 2014 in our East/Midwest segment, which generated \$30.4 million of net revenues for the year ended December 31, 2014.

The opening of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 in our East/Midwest segment, which generated \$31.7 million of net revenues for the year ended December 31, 2014.

Contribution of Hollywood Casino Perryville and Hollywood Casino Baton Rouge to GLPI on November 1, 2013.

New competition in our East/Midwest segment for Hollywood Casino Lawrenceburg, namely the March 2013 opening of Horseshoe Casino in Cincinnati, Ohio, as well as to a lesser extent the openings of a racino at Miami Valley Gaming in mid-December 2013, a racino at Belterra Park in May 2014, and our own Dayton facility in late August 2014.

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The continued impact of the opening of a casino complex at the Arundel Mills mall in Maryland in 2012, which added table games in April 2013 and a 52 table poker room in late August 2013, which has negatively impacted Hollywood Casino at Charles Town Races in our East/Midwest segment.

The closure of Argosy Casino Sioux City in our Southern Plains segment on July 30, 2014.

Lower general and administrative expenses for Other of \$55.9 million for the year ended December 31, 2014, compared to the corresponding period in the prior year, primarily due to lower Spin-Off transaction and development costs of \$30.0 million, lower costs on cash-settled stock based awards of \$13.9 million primarily due to the favorable impact from declines in GLPI's stock price for GLPI awards held by Penn employees and the fact that certain members of Penn's executive management team transferred their employment to GLPI as part of the Spin-Off, lower stock-based compensation costs of \$12.1 million primarily due to lower aggregate executive compensation following the Spin-Off, and a reduction in various other items due to cost containment measures, all of which was partially offset by higher lobbying costs of \$3.5 million.

Depreciation and amortization expense decreased by \$119.3 million for the year ended December 31, 2014, as compared to the corresponding period in the prior year, primarily due to the contribution of real estate assets to GLPI, as well as Hollywood Casino Perryville and Hollywood Casino Baton Rouge, on November 1, 2013.

A \$61.7 million loss on the early extinguishment of debt related to debt issuance costs write-offs for the 2013 refinancing of our previous senior secured credit facility and redemption of the \$325 million 8<sup>3</sup>/<sub>4</sub>% senior subordinated notes, the call premium on the \$325 million 8<sup>3</sup>/<sub>4</sub>% senior subordinated notes of \$34.7 million, and the write-off of the discount on the Term Loan B facility of the previous senior secured credit facility.

A pre-tax insurance gain of \$5.7 million at Hollywood Casino St. Louis for the year ended December 31, 2014, as compared to a net pre-tax insurance loss of \$0.1 million at Hollywood Casino St. Louis during the year ended December 31, 2013 in our Southern Plains segment.

Lobbying costs of \$6.6 million for the year ended December 31, 2014 to win a referendum on the repeal of gaming in Massachusetts.

We had a net loss of \$233.2 million for the year ended December 31, 2014, as compared to a net loss of \$794.3 million for the corresponding period in the prior year, primarily due to the variances discussed above, as well as decreased interest expense primarily due to our lower levels of indebtedness subsequent to the Spin-Off, offset by a lower income tax benefit.

### *Segment Developments:*

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

#### *East/Midwest*

In June 2012, we announced that we had filed applications with the Ohio Lottery Commission for Video Lottery Sales Agent Licenses for our Ohio racetracks, Raceway Park and Beulah Park, and with the Ohio State Racing Commission for permission to relocate the racetracks to Dayton and Austintown, respectively. On May 1, 2013, we received approval from the Ohio Racing Commission for our relocation plans. Hollywood Gaming at Mahoning Valley Race Course, which opened on September 17, 2014, features a one-mile thoroughbred track and 866 video lottery terminals. Hollywood Gaming at Dayton Raceway, which opened on August 28, 2014,



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features a  $\frac{5}{8}$ -mile standardbred track and 984 video lottery terminals. See the section entitled "Liquidity and Capital Resources Capital Expenditures" below for further details.

On October 21, 2011, the Ohio Roundtable filed a complaint in the Court of Common Pleas in Franklin County, Ohio against a number of defendants, including the Governor, the Ohio Lottery Commission and the Ohio Casino Control Commission. The complaint alleges a variety of substantive and procedural defects relative to the approval and implementation of video lottery terminals as well as several counts dealing with the taxation of standalone casinos. As intervenors, we, along with the other two casinos in Ohio, filed motions for judgment on the pleadings to supplement the position of the Racing Commission. In May 2012, the complaint was dismissed, and in March 2013, the Ohio appeals court upheld the dismissal. On April 30, 2013, plaintiffs requested the Ohio Supreme Court to hear an appeal of the decision, and the Ohio Supreme Court elected to accept the appeal. The appeal is currently pending.

In addition, the Ohio Racing Commission's decision to permit Raceway Park to relocate its Toledo racetrack to Dayton was challenged in the Franklin County Court of Common Pleas by Lebanon Trotting Club, Inc., the prior owner of a neighboring racetrack. The Ohio Racing Commission and Raceway Park filed briefs requesting the Franklin County Court to uphold the Ohio Racing Commission's decision. In July 2014, the lawsuit was dismissed by the court, and Lebanon Trotting Club, Inc. did not appeal, making this decision final.

Hollywood Casino Lawrenceburg faced increased competition, and their results have been and will continue to be negatively impacted by the openings of Horseshoe Casino in Cincinnati, Ohio in March 2013, as well as to a lesser extent, a racino at Miami Valley Gaming in mid-December 2013, a racino at Belterra Park in May 2014, and our own Dayton facility in August 2014.

Hollywood Casino at Charles Town Races faced increased competition and their results have been negatively impacted by the opening of a casino complex at the Arundel Mills mall in Anne Arundel, Maryland. The casino opened on June 6, 2012 with approximately 3,200 slot machines and significantly increased its slot machine offerings by mid-September 2012 to approximately 4,750 slot machines. In addition, the Anne Arundel facility opened table games on April 11, 2013 and opened a 52 table poker room in late August 2013.

On February 28, 2014, the Massachusetts Gaming Commission awarded the Company a Category Two slots-only gaming license for its planned \$225 million (including licensing fees) Plainridge Park Casino in Plainville, Massachusetts. On March 14, 2014, the Company broke ground on the facility, which will feature live harness racing and simulcasting, along with 1,250 gaming devices, various dining and entertainment options, structured and surface parking, and a two story clubhouse with approximately 55,000 square feet. The Company expects the facility to open in June 2015. In June 2014, the Massachusetts Supreme Judicial Court ruled to permit a referendum to repeal the enabling legislation in Massachusetts to be included in the November 4, 2014 general election ballot, but this referendum was defeated and the enabling legislation was therefore confirmed.

Through CHC Casinos, we manage Casino Rama, a full service gaming and entertainment facility, on behalf of the OLG. The Casino Rama Agreement sets out the duties, rights and obligations of CHC Casinos and our indirectly wholly-owned subsidiary, CRC Holdings, Inc. In June 2014, we signed an agreement to extend the Casino Rama Agreement on a month-to-month basis with a 60-day notice period for up to a maximum period of forty-eight months.

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*West*

On April 5, 2013, we announced that, subject to final National Indian Gaming Commission approval, we and the Jamul Tribe had entered into definitive agreements (including management, development, branding and lending arrangements), to jointly develop a Hollywood Casino-branded casino on the Jamul Tribe's trust land in San Diego County, California. The proposed facility is located approximately 20 miles east of downtown San Diego. The proposed \$360 million development project will include a three-story gaming and entertainment facility of approximately 200,000 square feet featuring over 1,700 slot machines, 43 live table games, including poker, multiple restaurants, bars and lounges and a partially enclosed parking structure with over 1,800 spaces. In mid-January 2014, we announced the commencement of construction activities at the site and it is anticipated that the facility will open in mid-2016. We currently provide financing to the Jamul Tribe in connection with the project and, upon opening, we will manage and provide branding for the casino.

*Southern Plains*

As discussed in Note 12 to the consolidated financial statements, on July 30, 2014, Argosy Casino Sioux City ceased its operations.

**Critical Accounting Estimates**

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 accounting for long-lived assets, goodwill and other intangible assets, income taxes and litigation, claims and assessments as critical accounting estimates, as they are the most important to our financial statement presentation and require difficult, subjective and complex judgments.

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 consolidated financial condition.

The development and selection of the critical accounting estimates, and the related disclosures, have been reviewed with the Audit Committee of our Board of Directors.

*Long-lived assets*

At December 31, 2014, we had a net property and equipment balance of \$769.1 million within our consolidated balance sheet, representing 34.4% of total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are determined based on the nature of the assets as well as our current operating strategy. We review the carrying value of our property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated future cash flows expected to result from its use and eventual disposition. The factors considered by us in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. For purposes of recognizing and measuring impairment in accordance with ASC 360, "Property, Plant, and Equipment," assets are grouped at the individual property level representing the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. In assessing the

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recoverability of the carrying value of property and equipment, we must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record an impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income.

*Goodwill and other intangible assets*

At December 31, 2014, the Company had \$277.6 million in goodwill and \$370.6 million in other intangible assets within its consolidated balance sheet, representing 12.4% and 16.6% of total assets, respectively, resulting from the Company's acquisition of other businesses and payment for gaming licenses. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation; and (ii) the ongoing evaluation for impairment.

In connection with our acquisitions, valuations are completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of our due diligence in connection with the acquisitions, projections for future operations, and data obtained from third-party valuation specialists as deemed appropriate. Goodwill represents the future economic benefits of a business combination measured as the excess purchase price over the fair market value of net assets acquired. Goodwill is tested annually, or more frequently if indicators of impairment exist, in two steps. In step 1 of the impairment test, the current fair value of each reporting unit is estimated using a discounted cash flow model which is then compared to the carrying value of each reporting unit. 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 fair value of goodwill for that reporting unit. If the implied fair value of goodwill is less than the goodwill allocated for that reporting unit, an impairment is recognized.

In accordance with ASC 350, "Intangibles-Goodwill and Other," the Company considers its gaming licenses and other various intangible assets as indefinite-life intangible assets that do not require amortization based on our future expectations to operate our gaming facilities indefinitely (notwithstanding the recent events in Iowa, which we concluded was an isolated incident and the first time in our history a gaming regulator has taken an action which could cause us to lose our gaming license) as well as our historical experience in renewing these intangible assets at minimal cost with various state commissions. Rather, these intangible assets are tested annually for impairment, or more frequently if indicators of impairment exist, by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the indefinite-life intangible assets exceed their fair value, an impairment loss is recognized. The Company completes its testing of its intangible assets prior to assessing the realizability of its goodwill.

The Company assessed the fair value of its indefinite-life intangible assets (which are primarily gaming licenses) using the Greenfield Method under the income approach. The Greenfield Method estimates the fair value of the license using a discounted cash flow model assuming the Company built a casino with similar utility to that of the existing facility. The method assumes a theoretical start-up company going into business without any assets other than the intangible asset being valued. As such, the value of the license is a function of the following items:

Projected revenues and operating cash flows (including an allocation of the Company's projected rental obligation to its reporting units);

Theoretical construction costs and duration;

Pre-opening expenses;

Discounting that reflects the level of risk associated with receiving future cash flows attributable to the license; and



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Remaining useful life of the license.

The evaluation of goodwill and indefinite-life intangible assets requires the use of estimates about future operating results of each reporting unit to determine the estimated fair value of the reporting unit and the indefinite-lived intangible assets. We must make various assumptions and estimates in performing our impairment testing. The implied fair value includes estimates of future cash flows (including an allocation of the Company's projected rental obligation to its reporting units) that are based on reasonable and supportable assumptions which represent our best estimates of the cash flows expected to result from the use of the assets including their eventual disposition. Changes in estimates, increases in our cost of capital, reductions in transaction multiples, changes in operating and capital expenditure assumptions or application of alternative assumptions and definitions could produce significantly different results. Future cash flow estimates are, by their nature, subjective and actual results may differ materially from our estimates. If our ongoing estimates of future cash flows are not met, we may have to record additional impairment charges in future accounting periods. Our estimates of cash flows are based on the current regulatory and economic climates, recent operating information and budgets of the various properties where we conduct operations. These estimates could be negatively impacted by changes in federal, state or local regulations, economic downturns, or other events affecting our properties.

Forecasted cash flows (based on our annual operating plan as determined in the fourth quarter) can be significantly impacted by the local economy in which our reporting units operate. For example, increases in unemployment rates can result in decreased customer visitations and/or lower customer spend per visit. In addition, the impact of new legislation which approves gaming in nearby jurisdictions or further expands gaming in jurisdictions where our reporting units currently operate can result in opportunities for us to expand our operations. However, it also has the impact of increasing competition for our established properties which generally will have a negative effect on those locations' profitability once competitors become established as a certain level of cannibalization occurs absent an overall increase in customer visitations. Lastly, increases in gaming taxes approved by state regulatory bodies can negatively impact forecasted cash flows.

Assumptions and estimates about future cash flow levels and multiples by individual reporting units are complex and subjective. They are sensitive to changes in underlying assumptions and can be affected by a variety of factors, including external factors, such as industry, geopolitical and economic trends, and internal factors, such as changes in our business strategy, which may reallocate capital and resources to different or new opportunities which management believes will enhance our overall value but may be to the detriment of an individual reporting unit.

Consistent with prior years, the Company's annual goodwill and other indefinite-life intangible assets impairment test is performed on October 1<sup>st</sup> of each year.

For the year ended December 31, 2014, the Company recorded pre-tax goodwill and other intangible assets impairment charges of \$316.5 million (\$253.5 million, net of taxes), as it determined that a portion of the value of its goodwill and other intangible assets was impaired as a result of the October 1, 2014 impairment test due to the Company's outlook of continued challenging regional gaming conditions at certain properties which persisted in 2014 in its Southern Plains segment, as well as for the write-off of a trademark intangible asset in the West segment. The impairment charges by segment were as follows: Southern Plains, \$315.1 million pre-tax (\$252.7 million, net of taxes) and West, \$1.4 million pre-tax (\$0.8 million, net of taxes).

For 2013, as the Spin-Off was a significant financial event, an interim goodwill and other indefinite-life intangible assets impairment test as of November 1, 2013, the Spin-Off date, was performed. For the November 1, 2013 impairment test, the forecasted cash flows for each applicable property was updated to include the rent expense to be paid to GLPI under the Master Lease. As of a result of the impairment test, we recorded pre-tax impairment charges of \$1,058.4 million

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(\$842.9 million, net of taxes) for the year ended December 31, 2013, as we determined that a portion of the value of our goodwill and other intangible assets was impaired. The impairment charge by segment was as follows: East/Midwest, \$429.6 million pre-tax (\$348.8 million, net of taxes); Southern Plains, \$592.6 million pre-tax (\$465.6 million, net of taxes); and Other, \$36.2 million pre-tax (\$28.5 million, net of taxes).

Additionally, as a result of a new gaming license being awarded for the development of a new casino in Sioux City, Iowa to another applicant in April 2013, we recorded a pre-tax impairment charge of \$71.8 million (\$70.5 million, net of taxes) for Argosy Casino Sioux City during the three months ended June 30, 2013, as we determined that the fair value of our Sioux City reporting unit was less than its carrying amount based on the Company's analysis of the estimated future expected cash flows the Company anticipated receiving from the operations of this facility.

Consistent with prior years, we believe at this time all of our reporting units with goodwill and other intangible assets are at risk to have impairment charges in future periods regardless of the margin by which the current fair value of our reporting units exceed their carrying value and that such margin cannot and should not be relied upon to predict which properties are most at risk for future impairment charges. This is because the revenue and earning streams in our industry can vary significantly based on various circumstances, which in many cases are outside of the Company's control, and as such are extremely difficult to predict and quantify. We have disclosed several of these circumstances in the "Risk Factors" section of this Annual Report on Form 10-K. For instance, changes in legislation that approves gaming in nearby jurisdictions, further expansion of gaming in jurisdictions where we currently operate, new state legislation that requires the implementation of smoking bans at our casinos or any other events outside of our control that make the customer experience less desirable.

Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because our goodwill and indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that have a definite-life are amortized on a straight-line basis over their estimated useful lives or related service contract. We review the carrying value of our intangible assets that have a definite-life for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount of the intangible assets that have a definite-life exceed their fair value, an impairment loss is recognized.

The Company's remaining goodwill and other intangible assets by reporting unit at December 31, 2014 is shown below (in thousands):

Reporting Unit	Goodwill	Other Intangible Assets
Zia Park Casino	\$ 144,171	\$
Hollywood Casino St. Louis		77,072
Hollywood Casino at Penn National Race Course	1,497	67,607
Hollywood Gaming at Dayton Raceway	15,339	50,000
Hollywood Casino Joliet	6,886	44,464
Hollywood Casino Lawrenceburg		50,000
Hollywood Gaming at Mahoning Valley Race Course		50,000
Hollywood Casino Aurora	37,687	
Argosy Casino Riverside	32,122	4,964
Plainridge Park Casino	3,052	25,297
Boomtown Biloxi	22,365	
Hollywood Casino Tunica	9,305	
Others	5,158	1,158
<b>Total</b>	<b>\$ 277,582</b>	<b>\$ 370,562</b>

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*Income taxes*

At December 31, 2014, we had a net deferred tax asset balance of \$134.6 million within our consolidated balance sheet. We account for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

The realizability of the net deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. We consider all available positive and negative evidence including projected future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The evaluation of both positive and negative evidence is a requirement pursuant to ASC 740 in determining more-likely-than-not the net deferred tax assets will be realized. In the event the Company determines that the deferred income tax assets would be realized in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded, which would reduce the provision for income taxes.

ASC 740 also creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. At December 31, 2014, we had a liability for unrecognized tax benefits of \$8.2 million, which is included in noncurrent tax liabilities within our consolidated balance sheet. We operate within multiple taxing jurisdictions and are subject to audits in each jurisdiction. These audits can involve complex issues that may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all open periods.

*Litigation, claims and assessments*

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

**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 (such as our November 2012 acquisition of Harrah's St. Louis gaming and lodging facility from Caesars Entertainment), jurisdictional expansions (such as our planned June 2015 opening of a slots-only gaming facility in Massachusetts, the September 2014 opening of Hollywood Gaming at Mahoning Valley Race Course, the August 2014 opening of Hollywood Gaming at Dayton Raceway, the October 2012 opening of Hollywood Casino Columbus, and the May 2012 opening of Hollywood Casino Toledo), 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 at Hollywood Casino Bangor in March

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2012) and expansions/improvements of existing properties (such as a hotel at Zia Park which opened on August 28, 2014).

The fact that a number of states (such as New York and Massachusetts) are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for example, in Massachusetts, where we were awarded the slots-only gaming license on February 28, 2014, in Kansas, where we opened a casino through a joint venture in February 2012, and in Ohio, where we opened casinos in Toledo and Columbus in May 2012 and October 2012, respectively, and opened video lottery terminal facilities at two racetracks in the third quarter of 2014) and increased competitive threats to business at our existing properties (such as the introduction/expansion of commercial casinos in Kansas, Maryland, Ohio, and potentially Kentucky, Nebraska and Illinois, and the introduction of tavern licenses in several states, most significantly in Illinois).

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 and/or property taxes, or via an expansion of gaming. 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 continued demand for, and our emphasis on, slot wagering entertainment at our properties.

The successful execution of our development and construction activities, as well as the risks associated with the costs, regulatory approval and the timing of these activities.

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

The consolidated results of operations for the years ended December 31, 2014, 2013 and 2012 are summarized below:

Year Ended December 31,	2014	2013	2012
	(in thousands)		
<b>Revenues:</b>			
Gaming	\$ 2,297,175	\$ 2,615,169	\$ 2,590,533
Food, beverage and other	432,021	461,048	438,837
Management service fee	11,650	13,176	14,835
<b>Revenues</b>	<b>2,740,846</b>	<b>3,089,393</b>	<b>3,044,205</b>
Less promotional allowances	(150,319)	(170,639)	(144,740)
<b>Net revenues</b>	<b>2,590,527</b>	<b>2,918,754</b>	<b>2,899,465</b>
<b>Operating expenses:</b>			
Gaming	1,148,968	1,318,546	1,342,905
Food, beverage and other	319,792	345,345	343,611
General and administrative	446,405	526,482	532,241
Rental expense related to Master Lease	421,388	69,502	
Depreciation and amortization	178,981	298,326	245,348
Impairment losses	321,089	1,132,417	
Insurance recoveries, net of deductible charges	(5,674)	108	(7,229)
<b>Total operating expenses</b>	<b>2,830,949</b>	<b>3,690,726</b>	<b>2,456,876</b>
<b>(Loss) income from operations</b>	<b>\$ (240,422)</b>	<b>\$ (771,972)</b>	<b>\$ 442,589</b>



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Certain information regarding our results of operations by segment for the years ended December 31, 2014, 2013 and 2012 is summarized below:

Year Ended December 31,	Net Revenues			(Loss) income from Operations		
	2014	2013	2012	2014	2013	2012
	(in thousands)					
East/Midwest	\$ 1,467,380	\$ 1,652,585	\$ 1,698,562	\$ 58,042	\$ (102,192)	\$ 384,028
West	241,410	240,083	252,182	24,791	42,420	47,050
Southern Plains	857,447	994,097	915,587	(235,332)	(514,063)	199,164
Other	24,290	31,989	33,134	(87,923)	(198,137)	(187,653)
<b>Total</b>	<b>\$ 2,590,527</b>	<b>\$ 2,918,754</b>	<b>\$ 2,899,465</b>	<b>\$ (240,422)</b>	<b>\$ (771,972)</b>	<b>\$ 442,589</b>

### Adjusted EBITDA and Adjusted EBITDAR

Adjusted EBITDA and adjusted EBITDAR are used by management as the primary measure of the Company's operating performance. We define adjusted EBITDA as earnings before interest, taxes, stock compensation, debt extinguishment charges, impairment charges, insurance recoveries and deductible charges, depreciation and amortization, gain or loss on disposal of assets, and other income or expenses. Adjusted EBITDA is also inclusive of income or loss from unconsolidated affiliates, with our share of non-operating items (such as depreciation and amortization) added back for our joint venture in Kansas Entertainment. Adjusted EBITDAR is adjusted EBITDA excluding rent expense associated with our Master Lease agreement with GLPI. Adjusted EBITDA and adjusted EBITDAR have economic substance because they are used by management as a performance measure to analyze the performance of our business, and are especially relevant in evaluating large, long-lived casino projects because they provide a perspective on the current effects of operating decisions separated from the substantial non-operational depreciation charges and financing costs of such projects. We also present adjusted EBITDA and adjusted EBITDAR because they are used by some investors and creditors as an indicator of the strength and performance of ongoing business operations, including our ability to service debt, fund capital expenditures, acquisitions and operations. These calculations are commonly used as a basis for investors, analysts and credit rating agencies to evaluate and compare operating performance and value companies within our industry. In addition, gaming companies have historically reported adjusted EBITDA as a supplement to financial measures in accordance with GAAP. In order to view the operations of their casinos on a more stand-alone basis, gaming companies, including us, have historically excluded from their adjusted EBITDA calculations certain corporate expenses that do not relate to the management of specific casino properties. However, adjusted EBITDA and adjusted EBITDAR are not a measure of performance or liquidity calculated in accordance with GAAP. Adjusted EBITDA and adjusted EBITDAR information is presented as a supplemental disclosure, as management believes that it is a widely used measure of performance in the gaming industry, is the principal basis for the valuation of gaming companies, and that it is considered by many to be a better indicator of the Company's operating results than net income (loss) per GAAP. Management uses adjusted EBITDA and adjusted EBITDAR as the primary measures of the operating performance of its segments, including the evaluation of operating personnel. Adjusted EBITDA and adjusted EBITDAR should not be construed as alternatives to operating income, as indicators of the Company's operating performance, as alternatives to cash flows from operating activities, as measures of liquidity, or as any other measures of performance determined in accordance with GAAP. The Company has significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in adjusted EBITDA and adjusted EBITDAR. It should also be noted that other gaming companies that report adjusted EBITDA information may calculate adjusted EBITDA in a different manner than the Company and therefore, comparability may be limited.

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A reconciliation of the Company's net income (loss) per GAAP to adjusted EBITDA and adjusted EBITDAR, as well as the Company's income (loss) from operations per GAAP to adjusted EBITDA and adjusted EBITDAR, is included below. Additionally, a reconciliation of each segment's income (loss) from operations to adjusted EBITDA and adjusted EBITDAR is also included below. On a segment level, income (loss) from operations per GAAP, rather than net income (loss) per GAAP, is reconciled to adjusted EBITDA and adjusted EBITDAR due to, among other things, the impracticability of allocating interest expense, interest income, income taxes and certain other items to the Company's segments on a segment by segment basis. Management believes that this presentation is more meaningful to investors in evaluating the performance of the Company's segments and is consistent with the reporting of other gaming companies.

The reconciliation of the Company's (loss) income from operations per GAAP to adjusted EBITDA and adjusted EBITDAR, as well as the Company's net (loss) income per GAAP to adjusted EBITDA and adjusted EBITDAR, for the years ended December 31, 2014, 2013 and 2012 was as follows:

Year Ended December 31,	2014	2013	2012
	(in thousands)		
<b>Net (loss) income</b>	<b>\$ (233,195)</b>	<b>\$ (794,339)</b>	<b>\$ 211,971</b>
Income tax (benefit) provision	(38,586)	(121,538)	152,555
Other	(2,944)	(3,803)	1,375
Loss on early extinguishment of debt		61,660	
Income from unconsolidated affiliates	(7,949)	(9,657)	(3,804)
Interest income	(3,730)	(1,387)	(948)
Interest expense	45,982	97,092	81,440
<b>(Loss) income from operations</b>	<b>\$ (240,422)</b>	<b>\$ (771,972)</b>	<b>\$ 442,589</b>
Loss (gain) on disposal of assets	738	3,652	(1,690)
Insurance recoveries, net of deductible charges	(5,674)	108	(7,229)
Impairment losses	321,089	1,132,417	
Charge for stock compensation	10,666	22,809	28,609
Depreciation and amortization	178,981	298,326	245,348
Income from unconsolidated affiliates	7,949	9,657	3,804
Non-operating items for Kansas JV(1)	11,809	11,595	9,891
<b>Adjusted EBITDA</b>	<b>\$ 285,136</b>	<b>\$ 706,592</b>	<b>\$ 721,322</b>
Rental Expense related to Master Lease	421,388	69,502	
<b>Adjusted EBITDAR</b>	<b>\$ 706,524</b>	<b>\$ 776,094</b>	<b>\$ 721,322</b>

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- (1) Starting with the second quarter of 2014, adjusted EBITDA and adjusted EBITDAR exclude our share of the impact of non-operating items (such as depreciation and amortization expense) from our joint venture in Kansas Entertainment. Prior periods were restated to conform to this new presentation.

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The reconciliation of each segment's (loss) income from operations to adjusted EBITDA and adjusted EBITDAR for the years ended December 31, 2014, 2013 and 2012 were as follows (in thousands):

Year ended December 31, 2014	East/Midwest	West	Southern Plains	Other	Total
Income (loss) from operations	\$ 58,042	\$ 24,791	\$ (235,332)	\$ (87,923)	\$ (240,422)
Charge for stock compensation				10,666	10,666
Impairment losses	4,560	1,420	315,109		321,089
Insurance recoveries			(5,674)		(5,674)
Depreciation and amortization	105,552	7,725	58,597	7,107	178,981
(Gain) loss on disposal of assets	(75)	211	624	(22)	738
Income (loss) from unconsolidated affiliates			10,720	(2,771)	7,949
Non-operating items for Kansas JV			11,809		11,809
<b>Adjusted EBITDA</b>	<b>\$ 168,079</b>	<b>\$ 34,147</b>	<b>\$ 155,853</b>	<b>\$ (72,943)</b>	<b>\$ 285,136</b>
Rental Expense related to Master Lease	269,046	31,823	120,519		421,388
<b>Adjusted EBITDAR</b>	<b>\$ 437,125</b>	<b>\$ 65,970</b>	<b>\$ 276,372</b>	<b>\$ (72,943)</b>	<b>\$ 706,524</b>

Year ended December 31, 2013	East/Midwest	West	Southern Plains	Other	Total
(Loss) income from operations	\$ (102,192)	\$ 42,420	\$ (514,063)	\$ (198,137)	\$ (771,972)
Charge for stock compensation				22,809	22,809
Impairment losses	429,567		664,420	38,430	1,132,417
Insurance deductible charges, net of recoveries			108		108
Depreciation and amortization	148,697	11,883	113,838	23,908	298,326
Loss (gain) on disposal of assets	774	2,365	822	(309)	3,652
Income (loss) from unconsolidated affiliates			10,735	(1,078)	9,657
Non-operating items for Kansas JV			11,595		11,595
<b>Adjusted EBITDA</b>	<b>\$ 476,846</b>	<b>\$ 56,668</b>	<b>\$ 287,455</b>	<b>\$ (114,377)</b>	<b>\$ 706,592</b>
Rental expense related to Master Lease	45,732	4,856	18,914		69,502
<b>Adjusted EBITDAR</b>	<b>\$ 522,578</b>	<b>\$ 61,524</b>	<b>\$ 306,369</b>	<b>\$ (114,377)</b>	<b>\$ 776,094</b>

Year Ended December 31, 2012	East/Midwest	West	Southern Plains	Other	Total
Income (loss) from operations	\$ 384,028	\$ 47,050	\$ 199,164	\$ (187,653)	\$ 442,589
Charge for stock compensation				28,609	28,609
Insurance recoveries, net of deductible charges			(7,229)		(7,229)
Depreciation and amortization	135,470	12,850	82,465	14,563	245,348
Gain on disposal of assets	(1,552)	(42)	(94)	(2)	(1,690)
Income (loss) from unconsolidated affiliates			5,210	(1,406)	3,804
Non-operating items for Kansas JV			9,891		9,891
<b>Adjusted EBITDA</b>	<b>\$ 517,946</b>	<b>\$ 59,858</b>	<b>\$ 289,407</b>	<b>\$ (145,889)</b>	<b>\$ 721,322</b>



*2014 Compared to 2013*

Adjusted EBITDAR for our East/Midwest segment decreased by \$85.5 million, or 16.4%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to competition discussed below, which impacted Hollywood Casino at Charles Town Races and Hollywood Casino Lawrenceburg, weakened regional economic conditions for Hollywood Casino at Penn National Race Course, and a \$15.3 million decline in adjusted EBITDAR due to the contribution of Hollywood Casino Perryville to GLPI on November 1, 2013, all of which was partially offset by the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 and Hollywood Gaming at Dayton Raceway on August 28, 2014. Additionally, results for the year ended December 31, 2014

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included pre-opening costs of \$10.2 million for both Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course, as well as the Plainville project in Massachusetts, which the Company expects to open in June 2015.

Adjusted EBITDAR for our Southern Plains segment decreased by \$30.0 million, or 9.8%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily from a \$20.0 million decline in adjusted EBITDAR due to the contribution of Hollywood Casino Baton Rouge to GLPI on November 1, 2013, and decreased adjusted EBITDAR for Argosy Casino Sioux City primarily due to its closure on July 30, 2014.

Adjusted EBITDAR for our West segment increased by \$4.4 million, or 7.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to a termination charge associated with the Spin-Off of \$3.8 million incurred in the third quarter of 2013.

Adjusted EBITDAR for Other improved by \$41.4 million, or 36.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to lower Spin-Off transaction and development costs of \$30.0 million, lower costs on cash-settled stock based awards of \$13.9 million primarily due to the favorable impact from declines in GLPI's stock price for GLPI awards held by Penn employees and the fact that certain members of Penn's executive management team transferred their employment to GLPI as part of the Spin-Off, higher transition service fees received from GLPI of \$1.2 million, and a reduction in various other items due to cost containment measures, all of which was partially offset by higher lobbying costs of \$3.5 million.

### *2013 Compared with 2012*

Adjusted EBITDAR for our East/Midwest segment increased by \$4.6 million, or 0.9%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012. These increases were partially offset by a decline in results at Hollywood Casino Lawrenceburg and Hollywood Casino at Charles Town Races due to new competition discussed further below, as well as Hollywood Casino Perryville's results being negatively impacted by increased competition discussed further below and being contributed to GLPI on November 1, 2013. Additionally, results for the year ended December 31, 2012 included pre-opening costs of \$20.2 million for both Hollywood Casino Columbus and Hollywood Casino Toledo.

Adjusted EBITDAR for our Southern Plains segment increased by \$17.0 million, or 5.9%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to the acquisition of Harrah's St. Louis on November 2, 2012. This increase was partially offset by reduced earnings at Hollywood Casino Joliet and Hollywood Casino Aurora primarily due to regional economic factors, and at Argosy Casino Sioux City primarily due to a challenging local gaming market and a negative impact related to the then-potential loss of our gaming license. Additionally, Hollywood Casino Baton Rouge's results were negatively impacted by increased competition discussed further below and the property being contributed to GLPI on November 1, 2013.

Adjusted EBITDA for Other improved by \$31.5 million, or 21.6%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to lobbying costs of \$45.1 million related to our efforts in Maryland and a \$6.4 million legal accrual for our Cherokee County, Kansas litigation in 2012, partially offset by higher legal, consulting and other fees of \$24.3 million related to the pursuit of potential opportunities, including the Spin-Off transaction, for the year ended December 31, 2013, as compared to the corresponding period in the prior year.

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### Revenues

Revenues for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

Year ended December 31,	2014	2013	Variance	Percentage Variance
Gaming	\$ 2,297,175	\$ 2,615,169	\$ (317,994)	(12.2)%
Food, beverage and other	432,021	461,048	(29,027)	(6.3)%
Management service fee	11,650	13,176	(1,526)	(11.6)%
Revenues	2,740,846	3,089,393	(348,547)	(11.3)%
Less promotional allowances	(150,319)	(170,639)	20,320	(11.9)%
Net revenues	\$ 2,590,527	\$ 2,918,754	\$ (328,227)	(11.2)%

Year ended December 31,	2013	2012	Variance	Percentage Variance
Gaming	\$ 2,615,169	\$ 2,590,533	\$ 24,636	1.0%
Food, beverage and other	461,048	438,837	22,211	5.1%
Management service fee	13,176	14,835	(1,659)	(11.2)%
Revenues	3,089,393	3,044,205	45,188	1.5%
Less promotional allowances	(170,639)	(144,740)	(25,899)	17.9%
Net revenues	\$ 2,918,754	\$ 2,899,465	\$ 19,289	0.7%

In our business, revenue is driven by discretionary consumer spending, which has been impacted by a slow economic recovery that has resulted in declines in the labor force participation rate, higher taxes, and increased stock market and commodity price volatility. The expansion of newly constructed gaming facilities has also increased competition in many regional markets (including at some of our key facilities).

We have no certain mechanism for determining why consumers choose to spend more or less money at our properties 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 a 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**

#### *2014 Compared with 2013*

Gaming revenue decreased by \$318.0 million, or 12.2%, to \$2,297.2 million in 2014, primarily due to the variances explained below.

Gaming revenue for our East/Midwest segment decreased by \$177.8 million in 2014, primarily due to decreased gaming revenue at Hollywood Casino at Charles Town Races of \$64.0 million primarily due to the continued impact of the opening of a casino complex at the Arundel Mills mall in Maryland in 2012, which added table games in April 2013 and a 52 table poker room in late August 2013, decreased gaming revenue at Hollywood Casino Lawrenceburg of \$71.9 million primarily due to new competition, namely a new casino that opened in March 2013 in Cincinnati, Ohio and to a lesser extent the openings of a racino at Miami Valley Gaming in mid-December 2013, a racino at Belterra Park in May 2014, and our own Dayton facility in late August 2014, the contribution of Hollywood Casino



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Perryville to GLPI on November 1, 2013, which had \$74.5 million of gaming revenue for the ten months ended October 31, 2013, and decreased gaming revenue at Hollywood Casino at Penn National Race Course of \$19.6 million primarily due to regional economic conditions. These decreases were partially offset by the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 and Hollywood Gaming at Dayton Raceway on August 28, 2014, which generated \$28.6 million and \$27.3 million, respectively, of gaming revenue for the year December 31, 2014.

Gaming revenue for our Southern Plains segment decreased by \$135.6 million in 2014, primarily due to the contribution of Hollywood Casino Baton Rouge to GLPI on November 1, 2013, which had \$61.1 million of gaming revenue for the ten months ended October 31, 2013, decreased gaming revenue at Argosy Casino Sioux City of \$23.4 million primarily due to its closure on July 30, 2014, and general softness in the regional markets in which our Southern Plains properties compete, as well as additional competition from video lottery terminals in Illinois.

#### *2013 Compared with 2012*

Gaming revenue increased by \$24.6 million, or 1.0%, to \$2,615.2 million in 2013, primarily due to the variances explained below.

Gaming revenue for our Southern Plains segment increased by \$71.4 million in 2013, primarily due to the acquisition of Harrah's St. Louis facility on November 2, 2012, which had increased gaming revenue of \$169.9 million for the year ended December 31, 2013, as compared to the corresponding period in the prior year, which was partially offset by decreased gaming revenue at Hollywood Casino Joliet and Hollywood Casino Aurora primarily due to regional economic factors, at Argosy Casino Riverside primarily due to the continued impact of the opening of our Hollywood Casino at Kansas Speedway joint venture in February 2012, and at Argosy Casino Sioux City primarily due to a challenging local gaming market and a negative impact related to the then-potential loss of our gaming license. In addition, Hollywood Casino Baton Rouge experienced decreased gaming revenue of \$42.9 million for the year ended December 31, 2013, as compared to the corresponding period in the prior year, primarily due to the opening of a new riverboat casino and hotel in Baton Rouge, Louisiana on September 1, 2012, as well as the property being contributed to GLPI on November 1, 2013.

Gaming revenue for our East/Midwest segment decreased by \$42.3 million in 2013, primarily due to a reduction in gaming revenue for Hollywood Casino Lawrenceburg of \$125.9 million primarily due to new competition, namely a new casino that opened on March 4, 2013 in Cincinnati, Ohio and to a lesser extent the opening of our own Columbus casino and a new racino in Columbus, Ohio that opened on June 1, 2012, and decreased gaming revenue at Hollywood Casino at Charles Town Races of \$89.7 million primarily due to the opening of a casino complex at the Arundel Mills mall in Maryland in 2012, as well as to a lesser extent decreased gaming revenue at Hollywood Casino at Penn National Race Course primarily due to competition and regional economic conditions. Furthermore, Hollywood Casino Perryville experienced decreased gaming revenue of \$24.1 million for the year ended December 31, 2013, as compared to the corresponding period in the prior year, primarily due to the new competition in Maryland previously mentioned, as well as the property being contributed to GLPI on November 1, 2013. These decreases were partially offset by the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012, which had increased gaming revenue of \$65.9 million and \$155.0 million, respectively, for the year ended December 31, 2013, as compared to the corresponding period in the prior year.

#### **Food, beverage and other revenue**

#### *2014 Compared with 2013*

Food, beverage and other revenue decreased by \$29.0 million, or 6.3%, to \$432.0 million in 2014, primarily due to the variances explained below.

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Food, beverage and other revenue for our Southern Plains segment decreased by \$16.8 million in 2014, primarily due to decreased food, beverage and other revenue at Hollywood Casino St. Louis primarily due to reduced complimentary offerings offered to customers, and the contribution of Hollywood Casino Baton Rouge to GLPI on November 1, 2013, which had \$6.4 million of food, beverage and other revenue for the ten months ended October 31, 2013.

Food, beverage and other revenue for our East/Midwest segment decreased by \$9.8 million in 2014, primarily due to decreased food, beverage and other revenue at Hollywood Casino at Charles Town Races of \$5.9 million and Hollywood Casino Lawrenceburg of \$6.5 million primarily due to the competition mentioned above, decreased food, beverage and other revenue at Hollywood Casino at Penn National Race Course of \$5.9 million primarily due to regional economic conditions and the closure of one of its OTWs in August 2013, and the contribution of Hollywood Casino Perryville to GLPI on November 1, 2013, which had \$4.0 million of food, beverage and other revenue for the ten months ended October 31, 2013, all of which were partially offset by the acquisition of Plainridge Racecourse in 2014, which had food, beverage and other revenue of \$7.6 million for the year ended December 31, 2014, and the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 and Hollywood Gaming at Dayton Raceway on August 28, 2014, which together generated \$6.5 million of food, beverage and other revenue for the year ended December 31, 2014. The first quarter of 2014 compared to the prior year was also impacted by adverse weather on racing for Hollywood Casino at Charles Town Races and Hollywood Casino at Penn National Race Course.

### *2013 Compared with 2012*

Food, beverage and other revenue increased by \$22.2 million, or 5.1%, to \$461.0 million in 2013, primarily due to the variances explained below.

Food, beverage and other revenue for our Southern Plains segment increased by \$25.8 million in 2013, primarily due to the acquisition of Harrah's St. Louis facility on November 2, 2012, which had increased food, beverage and other revenue of \$33.2 million for the year ended December 31, 2013, as compared to the corresponding period in the prior year. This was partially offset by decreased food, beverage and other revenue for Hollywood Casino Baton Rouge of \$4.4 million for the year ended December 31, 2013, as compared to the corresponding period in the prior year, as it was contributed to GLPI on November 1, 2013.

Food, beverage and other revenue for our East/Midwest segment increased by \$7.1 million in 2013, primarily due to the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012, which had increased food, beverage and other revenue of \$6.8 million and \$17.0 million, respectively, for the year ended December 31, 2013, as compared to the corresponding period in the prior year, which was partially offset by a reduction in food, beverage and other revenue for Hollywood Casino Lawrenceburg and Hollywood Casino at Charles Town Races due to previously mentioned new competition. In addition, Hollywood Casino Perryville had decreased food, beverage and other revenue of \$0.7 million for the year ended December 31, 2013, as compared to the corresponding period in the prior year, as it was contributed to GLPI on November 1, 2013.

Food, beverage and other revenue for our West segment decreased by \$12.5 million in 2013, primarily due to decreased food, beverage and other revenue at the M Resort due to the sale of an on-site gas station in April 2012.

### **Promotional allowances**

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." Our promotional allowance levels are determined based on various factors such as our marketing plans, competitive factors, economic conditions, and regulations.

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#### *2014 Compared with 2013*

Promotional allowances decreased by \$20.3 million, or 11.9%, to \$150.3 million in 2014, primarily due to decreased promotional allowances at Hollywood Casino St. Louis primarily due to reduced complimentary offerings to customers, decreased promotional allowances at Hollywood Casino Lawrenceburg primarily due to reduced redemptions, and the contribution of Hollywood Casino Baton Rouge and Hollywood Casino Perryville to GLPI on November 1, 2013, which had \$4.2 million and \$1.0 million, respectively, of promotional allowances for the ten months ended October 31, 2013.

#### *2013 Compared with 2012*

Promotional allowances increased by \$25.9 million or 17.9%, to \$170.6 million in 2013, primarily due to the acquisition of Harrah's St. Louis facility on November 2, 2012, which had increased promotional allowances of \$22.3 million for the year ended December 31, 2013, as compared to the corresponding period in the prior year, as well as to a lesser extent the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012. This was partially offset by our results for the year ended December 31, 2013 only including ten months of results for Hollywood Casino Baton Rouge and Hollywood Casino Perryville, as they were contributed to GLPI on November 1, 2013.

### Operating Expenses

Operating expenses for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

Year ended December 31,	2014	2013	Variance	Percentage Variance
Gaming	\$ 1,148,968	\$ 1,318,546	\$ (169,578)	(12.9)%
Food, beverage and other	319,792	345,345	(25,553)	(7.4)%
General and administrative	446,405	526,482	(80,077)	(15.2)%
Rental expense related to the Master Lease	421,388	69,502	351,886	506.3%
Depreciation and amortization	178,981	298,326	(119,345)	(40.0)%
Impairment losses	321,089	1,132,417	(811,328)	(71.6)%
Insurance recoveries, net of deductible charges	(5,674)	108	(5,782)	(5,353.7)%
<b>Total operating expenses</b>	<b>\$ 2,830,949</b>	<b>\$ 3,690,726</b>	<b>\$ (859,777)</b>	<b>(23.3)%</b>

Year ended December 31,	2013	2012	Variance	Percentage Variance
Gaming	\$ 1,318,546	\$ 1,342,905	\$ (24,359)	(1.8)%
Food, beverage and other	345,345	343,611	1,734	0.5%
General and administrative	526,482	532,241	(5,759)	(1.1)%
Rental expense related to the Master Lease	69,502		69,502	