

PENN NATIONAL GAMING INC
Form DEF 14A
April 30, 2010

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

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

PENN NATIONAL GAMING, INC.

(Name of Registrant as Specified In Its Charter)

N/A

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

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- No fee required.
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(4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be Held on June 9, 2010

NOTICE IS HEREBY GIVEN that the 2010 Annual Meeting of Shareholders of Penn National Gaming, Inc. (the "Company"), a Pennsylvania corporation, will be held on June 9, 2010, at 10 a.m., local time, at Ballard Spahr LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103 for the following purposes:

1. To elect three Class II directors to serve until the 2013 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified.
2. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2010.
3. To consider a shareholder proposal requesting that the Company reorganize the Board of Directors into one class elected annually.
4. To consider and transact such other business as may properly come before the Annual Meeting.

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

Only shareholders of record at the close of business on April 13, 2010 are entitled to notice of, and to vote at, the Annual Meeting and any postponement or adjournment thereof. All shareholders are cordially invited to attend the Annual Meeting in person. Any shareholder of record at the close of business on April 13, 2010 attending the Annual Meeting may vote in person even if such shareholder previously signed and returned a proxy.

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

Robert S. Ippolito
Secretary

Wyomissing, Pennsylvania
April 30, 2010

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, YOU CAN ENSURE THAT YOUR SHARES ARE VOTED AT THE MEETING BY SUBMITTING YOUR INSTRUCTIONS BY PHONE, BY INTERNET OR BY COMPLETING,

SIGNING, DATING AND MAILING THE ENCLOSED PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE PROVIDED FOR THAT PURPOSE (NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES).

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2010 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 9, 2010.

Penn National Gaming, Inc.'s Proxy Statement for the 2010 Annual Meeting of Shareholders and the Annual Report for the year ended December 31, 2009, are available via the Internet at <https://materials.proxyvote.com/707569>.

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

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
June 9, 2010

This Proxy Statement and the enclosed Proxy are first being sent or given to shareholders of Penn National Gaming, Inc. (the "Company") on or about April 30, 2010, in connection with the solicitation of proxies for use at the Company's 2010 Annual Meeting of Shareholders (the "Annual Meeting") to be held on June 9, 2010 at 10 a.m., local time, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at Ballard Spahr LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103. This solicitation is being made on behalf of the Board of Directors of the Company (the "Board of Directors" or the "Board").

INFORMATION CONCERNING VOTING AND SOLICITATION

Record Date and Shares Outstanding

The Board of Directors has set the close of business on April 13, 2010 as the record date ("Record Date") for the determination of shareholders of the Company entitled to notice of, and to vote at, the Annual Meeting. On the Record Date, 79,203,435 shares of the Company's common stock were issued and outstanding and entitled to vote at the Annual Meeting.

Revocability of Proxies

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

Voting

Quorum for the Annual Meeting

In order for business to be conducted at the Annual Meeting, a quorum must be present. The presence, in person or by valid proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast is necessary for a quorum to be present at the Annual Meeting.

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In Person or By Proxy

Each share of the Company's common stock outstanding is entitled to one vote on each matter which may be brought before the Annual Meeting. The shares represented by all valid proxies received by phone, by internet or by mail, unless previously revoked, will be voted at the Annual Meeting in accordance with the instructions contained therein. If any other matters properly come before the

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meeting, the persons named in the enclosed proxy or their duly appointed substitutes acting at the meeting will be authorized to vote or otherwise act in their discretion on those matters.

Through Your Brokerage Firm

In the event that your shares are held in "street name" by a brokerage firm, your brokerage firm is the record holder of your shares but is required to vote your shares in accordance with your instructions. In order to do so, you will need to follow the instructions for voting provided by your broker. In the event that you do not provide the proper voting instructions to your broker, it will only be permitted to vote on "routine" or "discretionary" matters (such as Proposal 2) but will not be permitted to vote your shares with respect to "non-routine" or "non-discretionary" matters (such as Proposals 1 and 3). Prior to 2010, the election of directors was considered to be a "routine" or "discretionary" matter for which your broker could vote your shares without instruction. However, as a result of certain new rules imposed on many brokerage firms this year, the election of directors is no longer considered a "routine" or "discretionary" item and your broker may not vote your shares with respect to this proposal. Votes with respect to matters for which brokers do not have discretionary authority to vote are considered "broker non-votes" with respect to such matters. The ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2010 is a routine matter and if no voting instructions are provided, your broker will vote your shares "FOR" this proposal.

Votes Required for Each Proposal

Assuming a quorum is present, (a) the three nominees for director receiving the highest number of votes cast by shareholders entitled to vote for directors will be elected to serve on the Company's Board of Directors, (b) the affirmative vote of a majority of the votes cast is required for the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2010 and (c) the affirmative vote of a majority of the votes cast is required for the approval of the shareholder proposal to reorganize the Board of Directors into one class elected annually. The Board knows of no other matters that are likely to be brought before the meeting other than the matters specifically referred to in the notice of the meeting.

For purposes of determining the number of votes cast, only those cast "for" or "against" are counted. Abstentions, "withhold" votes and broker non-votes are not considered "cast" but are counted for purposes of determining whether a quorum is present at the Annual Meeting.

Solicitation of Votes

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

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GOVERNANCE OF THE COMPANY

Board of Directors

Overview

The Company is a growth-oriented, publicly traded, multi-jurisdictional gaming and racing company that has consistently generated attractive returns for its shareholders through prudent capital investment in new projects and strategic acquisitions of existing gaming and racing companies. Existing properties are managed to maximize profitability and free cash flow while at the same time endeavoring to deliver outstanding entertainment experiences for their customers. The Company operates in a highly regulated industry, which demands a correspondingly high level of integrity, transparency and accountability in all key aspects of its operations.

The Board believes that its structure and composition have been an important element of the Company's growth and success over the years. The Board is composed of individuals who each bring unique talents and perspectives to their service on the Board and, as a group, have a proven track record of effectively working together to responsibly oversee management's operation of the Company so that shareholder value is maximized. In furtherance of this objective, the Board has sought to maintain a governance environment where (i) value creation is carefully considered in connection with each major decision made by the Company, (ii) candid and comprehensive disclosure is routinely made available to the Company's shareholders and other investors, (iii) integrity and accountability are integrated into the Company's operations and (iv) the Company continuously seeks to attract, develop and retain the best possible executive talent to manage the Company's operations.

Composition

The Company's Board of Directors currently consists of seven members: Peter M. Carlino, Harold Cramer, Wesley R. Edens, David A. Handler, John M. Jacquemin, Robert P. Levy and Barbara Z. Shattuck. The Board believes that its current size permits each of its members to communicate frequently with management and allows for the calling of meetings on short notice to facilitate the Company's timely consideration of opportunities and challenges as they arise. This is especially critical to support the Company's efforts to strategically acquire new gaming and racing properties, which often arise on relatively short notice in the context of competitive bidding situations. Further, consideration of these opportunities is often complicated by rapidly emerging legislative or regulatory developments or, more recently, distressed financial situations that require a great deal of experience to properly evaluate. By having a relatively small Board with collectively a strong background in capital markets, legal and government affairs, and long-term experience with how the Company operates its properties, the Board believes its composition is optimized to support and oversee the Company's efforts.

Each member of the Company's Board is expected to contribute a substantial amount of time and effort in connection with his or her service as Board members. The Board held eight (8) formal meetings during the fiscal year ended December 31, 2009. During that same period, the Audit Committee held ten (10) formal meetings, the Compliance Committee held four (4) formal meetings, the Compensation Committee held eight (8) formal meetings and the Nominating Committee held one (1) formal meeting. Further, Board members are encouraged to engage in, and regularly do engage in, informal discussions with members of management.

Each of the Company's directors attended at least 75% of the aggregate of all meetings of the Board. In addition, each of the Company's directors attended at least 75% of the aggregate of all meetings of each committee of the Board of which he or she was a member held during the fiscal year ended December 31, 2009. All of the Company's directors attended the 2009 Annual Meeting of Shareholders held on June 3, 2009.

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The Board has determined that all of the directors, other than Mr. Carlino, are independent under the current Marketplace Rules of The Nasdaq Stock Market (the "Marketplace Rules") and the rules and regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Because of his position as one of five trustees for the Carlino Family Trust, an irrevocable trust (see "Security Ownership of Principal Shareholders and Management" beginning on page 53 of this Proxy Statement), Harold Cramer falls outside the U.S. Securities and Exchange Commission (the "SEC") safe harbor providing that a person will not be deemed an affiliate for purposes of determining audit committee member independence if he or she beneficially owns 10% or less of an issuer's voting stock. Mr. Cramer's voting and investment power in connection with the shares of the Company's common stock held by the Carlino Family Trust is, however, shared with four other trustees. Further, Peter M. Carlino has the sole power to vote the shares held by the Carlino Family Trust, except in the case of a sale of all or substantially all of the Company's assets, a merger where the Company will not be the surviving entity or a liquidation, in which event the trust's shares are voted as determined by a vote of all five trustees. The Board considered Mr. Cramer's beneficial ownership as a result of being a trustee of the Carlino Family Trust. In light of the identity of beneficiaries and purposes of the Carlino Family Trust, the Board has determined that Mr. Cramer is independent for the purpose of the SEC regulations and the Marketplace Rules.

Risk Oversight

The Company's Board of Directors takes an active role in the oversight of risks impacting the Company. The Board and management work closely to ensure that integrity and accountability are integrated into the Company's operations. In fulfilling its objective, many of the direct oversight functions are performed by two of the Board's committees with support from within the Company, namely, the Audit Committee and our internal audit staff, and the Compliance Committee and our compliance staff. Additionally, the Company's independent registered public accounting firm, Ernst & Young LLP, provides support through its annual audit and quarterly reviews of the Company's financial statements.

Further, the Board has adopted a Code of Business Conduct (the "Code of Conduct"), which is applicable to all employees of the Company, including the directors, the Company's principal executive officer, the principal financial officer and the principal accounting officer. The Code of Conduct is designed, among other things, to deter wrongdoing and promote ethical conduct, full and accurate reporting in the Company's filings with the SEC, and compliance with applicable laws. The Code of Conduct mandates a 24 hour hotline that any employee, customer or third party can use to report, anonymously if they so chose, any suspected fraud, financial impropriety or other alleged wrongdoing. All calls are handled by the Vice President, Compliance and the Vice President, Internal Audit, as appropriate, who regularly report to the Audit Committee on calls received. A copy of the current Code of Conduct is available on the Company's website at <http://www.pngaming.com/main/corporategovernance.shtml>.

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

Board Leadership

Since the time of the Company's initial public offering in 1994, Mr. Carlino, the Company's Chief Executive Officer, has also served as the Chairman of the Board. The Board believes that Mr. Carlino is best situated to serve as Chairman because of his proven track record of generating significant shareholder value over the years that, in large part, has been based on his vision for the Company and his talent for successfully identifying and acquiring development opportunities in the gaming and racing

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industry. Moreover, the Board believes that Mr. Carlino's substantial beneficial ownership of the Company's equity strongly aligns his interests with the interests of shareholders generally.

The Board also believes that it has substantial structural mechanisms for effective independent oversight of management's accountability. The Board is predominantly composed of independent directors, and only independent directors serve on each of the Board's committees (as well as Mr. DuCharme, as described below). The independent directors meet at least twice per year in executive session. Both the Audit Committee and the Compliance Committee have substantial staff resources to assist them in carrying out their responsibilities. The Company maintains a 27 person internal audit staff overseen by the Company's Vice President, Internal Audit, who provides reports to the Audit Committee, and an 18 person compliance staff overseen by the Company's Vice President, Compliance, who provides reports to the Compliance Committee. Additionally, since 2003 the Company has retained Steve DuCharme, a former Chairman of the Nevada State Gaming Control Board with over 30 years of experience in law enforcement and gaming regulation, to serve as the Chairman of the Company's Compliance Committee.

Committees of the Board

The Board maintains four standing committees the Audit Committee, the Compensation Committee, the Compliance Committee and the Nominating Committee to assist in achieving its objectives. The specific duties and operation of each committee are described in more detail below.

Audit Committee

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

The principal functions of the Audit Committee are to:

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

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

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

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

Compensation Committee

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

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

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

The Compensation Committee is also responsible for:

assessing the Company's management succession planning;

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

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

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

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

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

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

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

Pursuant to the Compensation Committee's charter, the Compensation Committee is authorized to retain the services of an independent compensation consultant or advisor, as it may deem appropriate in its sole discretion, to provide advice and assistance as the Compensation Committee deems appropriate. The Compensation Committee is also free to terminate the services of such independent compensation consultants and advisors and to approve their related fees and retention terms. The Compensation Committee engaged Strategic Apex Group LLC ("Strategic Apex"), a third party executive compensation consulting firm, as its independent compensation consultant for 2009 and 2010 to provide advice and assistance to the Compensation Committee in executing its duties and responsibilities with respect to the Company's executive compensation programs and non-employee director compensation. Prior to engaging Strategic Apex, and periodically during the engagement, the

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Compensation Committee evaluates the independence of such compensation consultant. Such review includes receiving information regarding other services provided by the compensation consultant to the Company, the Board of Directors or other committees of the Board of Directors, and periodically reviewing the fees incurred as a result of such other activities.

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

Compliance Committee

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

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

Nominating Committee

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

The Nominating Committee is responsible for identifying and recommending, for the Board's selection, nominees for election to the Board, identifying qualified individuals to become Board members and advising the Board with respect to Board structure, composition and size of the Board and its committees. The Nominating Committee is also responsible for making recommendations on the range of skills and expertise which should be represented on the Board, and the eligibility criteria for individual Board and committee membership. Although the Nominating Committee does not have a formal policy on diversity, per se, it has been the long-standing practice of the Nominating Committee to seek to include on the Board a complementary mix of individuals with diverse backgrounds and skills reflective of the varied challenges facing the Company's management as it strives to generate increased shareholder value.

The Nominating Committee considers candidates for Board membership suggested by, among others, its members, other Board members and management. The Nominating Committee has authority to retain and terminate a search firm to assist in the identification of director candidates, including the

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authority to approve the search firm, fees and other retention terms. The Nominating Committee also has authority to obtain advice and assistance from internal and external legal, accounting or other advisers. In selecting nominees for director, the Nominating Committee considers a number of factors, including, but not limited to:

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

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

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

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

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

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

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

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

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

The Nominating Committee considered the foregoing factors and based on their professional experience, diverse backgrounds and their unique perspectives, reconsidered each of this year's candidates for re-election to the Board.

The Nominating Committee will also consider recommendations of nominees for directors by shareholders. For information relating the nominations of directors by our shareholders, please see "Director Nominations by Shareholders" below.

Director Nominations by Shareholders

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

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To be in proper written form, a shareholder's notice must contain (i) the name, age, business address and residence address of the recommended nominee, (ii) the principal occupation or employment of the nominee, (iii) the class or series and number of shares of capital stock of the

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

Compensation of Directors

The Company pays director fees to each director who is not an employee of the Company. During the year ended December 31, 2009, each outside director received an annual cash fee of \$50,000, plus an additional \$10,000 for service on each of the Audit Committee and the Compensation Committee. On January 2, 2009, each outside director, with the exception of Mr. Edens, also received an award of restricted stock equal to 12,000 shares at the fair market value of \$21.38 per share (the closing share price of the Company's Common Stock on December 31, 2008). On June 3, 2009, Mr. Edens received an award of restricted stock equal to 12,000 shares at the fair market value of \$33.29 per share (the closing share price of the Company's Common Stock on June 2, 2009).

Table of Contents*2009 Director Compensation Table*

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

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Total (\$)
Harold Cramer	70,000	256,560	\$ 326,560
Wesley Edens	50,000	399,480	\$ 449,480
David A. Handler	60,000	256,560	\$ 316,560
John M. Jacquemin	60,000	256,560	\$ 316,560
Robert P. Levy	50,000	256,560	\$ 306,560
Barbara Z. Shattuck	70,000	256,560	\$ 326,560

(1)

The amounts listed above are calculated based on the closing price at grant date. In fiscal 2009, each non-employee director was granted 12,000 shares of restricted stock awards, which for financial statement reporting purposes are deemed to have a grant date fair value of \$256,560, with the exception of Mr. Edens, whose grant date fair value is \$399,480 due to a different grant date. At December 31, 2009, the aggregate number of outstanding option awards held by each non-employee director was: Mr. Cramer 200,000; Mr. Edens 0; Mr. Handler 245,000; Mr. Jacquemin 215,000; Mr. Levy 72,500; and Ms. Shattuck 140,000. At December 31, 2009, the aggregate number of outstanding restricted stock awards held by each non-employee director was 12,000 shares each.

Stock Ownership Guidelines

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

Shareholder Access Policy

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

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

The Company's Board of Directors currently consists of seven members: Peter M. Carlino, Harold Cramer, Wesley R. Edens, David A. Handler, John M. Jacquemin, Robert P. Levy and Barbara Z. Shattuck. The Board has determined that all of the directors, other than Mr. Carlino, are independent under the current Marketplace Rules. Three Class II directors will be elected at the Annual Meeting to hold office, subject to the provisions of the Company's bylaws, until the annual meeting of shareholders of the Company to be held in the year 2013 and until their respective successors are duly elected and qualified.

Class II Nominees

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

Name of Nominee	Age	Principal Occupation	Director Since	Term Expires
Wesley R. Edens	48	Founding Principal and Co-Chairman of the Board of Directors of Fortress Investment Group LLC	2008	2010
Robert P. Levy	79	Chairman of the Board, DRT Industries, Inc.	1995	2010
Barbara Z. Shattuck	59	Managing Director, Shattuck Hammond Partners	2004	2010

Nominee Qualifications

In addition to the qualifications of each nominee for director set forth below, each of these individuals are standing for re-election based upon the judgment, financial acumen and skill they have previously demonstrated as Board members, as well as their commitment to service on our Board.

Wesley R. Edens. Mr. Edens has been a director since October 30, 2008. Mr. Edens has been Co-Chairman of the Board of Fortress Investment Group LLC ("Fortress") since August 2009, and he has been a member of its board of directors since November 2006. He has been a member of the Management Committee of Fortress since co-founding the company in 1998. Mr. Edens is responsible for the company's private equity and publicly traded alternative investment businesses. He is Chairman of the board of directors of each of Aircastle Limited, Brookdale Senior Living Inc., Eurocastle Investment Limited, GateHouse Media, Inc., Newcastle Investment Corp. and RailAmerica, Inc. and a director of GAGFAH S.A. Mr. Edens was Chief Executive Officer of Global Signal Inc. from February 2004 to April 2006 and Chairman of the board of directors from October 2002 to January 2007. Mr. Edens serves in various capacities in the following two registered investment companies: Chairman, Chief Executive Officer and Trustee of Fortress Registered Investment Trust and Fortress Investment Trust II. Mr. Edens previously served on the boards of the following publicly traded company and registered investment companies: Crown Castle Investment Corp. (merged with Global Signal Inc.) from January 2007 to July 2007; Fortress Brookdale Investment Fund LLC, from August 13, 2000 (deregistered with the SEC in March 2009); Fortress Pinnacle Investment Fund, from July 24, 2002 (deregistered with the SEC in March 2008); and RIC Coinvestment Fund LP, from May 10, 2006 (deregistered with the SEC in June 2009). Prior to forming Fortress, Mr. Edens was a partner and managing director of BlackRock Financial Management Inc., where he headed BlackRock Asset Investors, a private equity fund.

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The Board supports and approves Mr. Edens' nomination because of his experience as a chief executive officer and his proven ability to manage multiple properties and businesses. He also has significant capital investment, financing and mergers and acquisitions experience. As part of his role at Fortress, Mr. Edens serves as a director of certain public portfolio companies in which Fortress has an investment, including the Company. Mr. Edens' contribution to the Company's Board is enhanced both by the valuable perspectives he obtains in connection with such other board service as well as by the substantial resources available to him to support his work as a director of this limited number of portfolio companies.

Additionally, in connection with the termination of the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 15, 2007, by and among the Company, certain affiliates of Fortress and certain affiliates of Centerbridge Partners, L.P. ("Centerbridge"), the Company entered into an Investor Rights Agreement with an affiliate of Fortress, an affiliate of Centerbridge, Deutsche Bank Investment Partners, Inc. and Wachovia Investment Holdings, LLC (collectively, the "Investors") providing for, among other things, the appointment of one designee identified by the Investors to serve as a Class II director on the Board of Directors (the "Investor Designee") until the election of Class II directors at this Annual Meeting. The Investors will retain the right to appoint an Investor Designee for so long as one or more affiliates of Fortress hold at least two-thirds of the shares of the Company's Series B Redeemable Preferred Stock issued to them. The Company is required to use commercially reasonable efforts to cause the election of the Investor Designee at the 2010 Annual Meeting and at each meeting thereafter at which an Investor Designee is up for election. Wesley R. Edens has been designated by the Investors as the Investor Designee on the Board of Directors.

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

The Board supports and approves Mr. Levy's nomination because of his extensive experience in the horse racing and pari-mutuel industry, the knowledge and insight he brings to the Board in connection with the gaming and racing business in general, and his long-term service to and knowledge of the Company over the years. By virtue of his experience, Mr. Levy has added significant value helping the Company to grow from a single racetrack into a multi-jurisdictional gaming and racing company operating in a highly regulated industry.

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

The Board supports and approves Ms. Shattuck's nomination because of her vast experience in investment banking, capital markets and project finance. She possesses the financial sophistication and financial statement expertise that makes her a valuable member of the Company's Audit Committee, as well as enables her to evaluate potential acquisition and financing opportunities for the Company.

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Continuing Directors

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

Name	Age	Principal Occupation	Director Since	Term Expires
<i>Class I Directors:</i>				
David A. Handler	45	Partner, Centerview Partners	1994	2012
John M. Jacquemin	63	President, Mooring Financial Corporation	1995	2012
<i>Class III Directors:</i>				
Peter M. Carlino	63	Chairman of the Board and Chief Executive Officer of the Company	1994	2011
Harold Cramer				