

PENN NATIONAL GAMING INC  
Form PRER14A  
November 01, 2007  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**  
**(Amendment No. 3)**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934, as amended**

Filed by the Registrant

Filed by a Party other than the Registrant

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**PENN NATIONAL GAMING, INC.**

(Name of Registrant as Specified in Its Charter)

N/A

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Table of Contents

**SUBJECT TO COMPLETION, November 1, 2007**

**PENN NATIONAL GAMING, INC.**

825 Berkshire Boulevard, Suite 200

Wyomissing, Pennsylvania 19610

, 2007

**Merger Proposal Your Vote Is Very Important**

Dear Shareholder:

You are cordially invited to attend a special meeting of the shareholders of Penn National Gaming, Inc., which is referred to as the Company, which will be held on \_\_\_\_\_, 2007, beginning at 10:00 a.m., eastern time, at the offices of Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103. At the special meeting, you will be asked to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of June 15, 2007, by and among the Company, PNG Acquisition Company Inc., which is referred to as Parent, and PNG Merger Sub Inc., a wholly owned subsidiary of Parent. Parent is controlled by an investor group comprised of investment funds affiliated with Fortress Investment Group LLC and Centerbridge Partners, L.P., which are private equity firms.

The agreement and plan of merger provides for, among other things, the merger of PNG Merger Sub Inc. with and into the Company, with the Company as the surviving corporation in the merger and becoming a wholly owned subsidiary of Parent. If the merger is completed by June 15, 2008, you will be entitled to receive \$67.00 in cash, without interest, for each share of Company common stock you own, as more fully described in the enclosed proxy statement. If the merger is not completed by June 15, 2008, the \$67.00 per share merger consideration will be increased \$0.0149 per day for each day after such date through and including the closing date.

After careful consideration, the Board of Directors has (i) determined that the agreement and plan of merger and the merger are advisable and fair to, and in the best interests of, the Company and its shareholders and (ii) approved and adopted the merger and the agreement and plan of merger. **Accordingly, the Board of Directors (other than Mr. Carlino, who recused himself) recommends that the Company's shareholders vote FOR the approval and adoption of the agreement and plan of merger.**

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting. We encourage you to read the entire proxy statement carefully because it explains the proposed merger, the documents related to the merger and other related matters, including the conditions to the completion of the merger. You may also obtain more information about the Company from documents we have filed with the Securities and Exchange Commission.

**Your vote is very important.** The merger cannot be completed unless the agreement and plan of merger is approved and adopted by the affirmative vote of a majority of the votes cast by our holders of shares of Company common stock present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present).

Thank you for your continued support.

Sincerely,

[SCAN OF SIGNATURE]

Peter M. Carlino

Chairman and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any**

**representation to the contrary is a criminal offense.**

This proxy statement is dated \_\_\_\_\_, 2007 and is first being mailed to shareholders on or about \_\_\_\_\_, 2007.

Table of Contents

**PENN NATIONAL GAMING, INC.**

825 Berkshire Boulevard, Suite 200

Wyomissing, Pennsylvania 19610

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON                      , 2007**

Dear Shareholder:

A special meeting of shareholders of Penn National Gaming, Inc., which is referred to as the Company, will be held on                      , 2007, beginning at 10:00 a.m., eastern time, at Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103, for the following purpose:

1. **Adoption of the Merger Agreement.** To consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger, dated as of June 15, 2007, by and among the Company, PNG Acquisition Company Inc., which is referred to as Parent, and PNG Merger Sub Inc., a wholly owned subsidiary of Parent, that provides for, among other things, the merger of PNG Merger Sub Inc. with and into the Company, with the Company as the surviving corporation in the merger and becoming a wholly owned subsidiary of Parent. If the merger is completed, you will be entitled to receive \$67.00 in cash, without interest, for each share of Company common stock you own, as more fully described in the enclosed proxy statement. If the merger is not completed by June 15, 2008, the \$67.00 per share merger consideration will be increased \$0.0149 per day for each day after such date through and including the closing date.
2. **Adjournment or Postponement of the Special Meeting.** To approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Merger Agreement.
3. **Other Matters.** To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Only shareholders of record of our common stock as of the close of business on                      , 2007, will be entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. All shareholders of record are cordially invited to attend the special meeting in person.

**Your vote is very important, regardless of the number of shares of our common stock you own.** The merger cannot be completed unless the agreement and plan of merger is approved and adopted by the affirmative vote of a majority of the votes cast by our holders of shares of Company common stock present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present). Even if you plan to attend the meeting in person, we request that you complete, sign, date and return the enclosed proxy in the envelope provided and thus ensure that your shares will be represented at the meeting if you are unable to attend. If you sign and return your proxy card without indicating how you wish to vote, your vote will be counted as a vote **FOR** the adoption of the Merger Agreement and **FOR** the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies. If you are a shareholder of record and wish to vote in person at the special meeting, you may withdraw your proxy and vote in person.

By Order of the Board of Directors,

[SCAN OF SIGNATURE]

Robert S. Ippolito

Secretary

Wyomissing, Pennsylvania

, 2007

**Table of Contents**

**TABLE OF CONTENTS**

<u>SUMMARY</u>	1
<u>The Parties to the Merger Agreement</u>	1
<u>The Merger</u>	1
<u>Certain Effects of the Merger</u>	2
<u>Financing</u>	4
<u>Conditions to Completion of the Merger</u>	6
<u>Regulatory and Other Governmental Approvals</u>	6
<u>Change of Board Recommendation</u>	7
<u>Termination of the Merger Agreement</u>	7
<u>Termination Fees</u>	8
<u>QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER</u>	11
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	15
<u>THE PARTIES TO THE MERGER AGREEMENT</u>	17
<u>Penn National Gaming, Inc.</u>	17
<u>PNG Acquisition Company Inc.</u>	18
<u>PNG Merger Sub Inc.</u>	19
<u>FIG LLC</u>	19
<u>Centerbridge GP Investors, L.L.C.</u>	20
<u>THE SPECIAL MEETING</u>	22
<u>Date, Time, Place and Purpose of the Special Meeting</u>	22
<u>Record Date, Quorum and Voting Power</u>	22
<u>Required Vote; Voting Procedures</u>	22
<u>Share Ownership of Directors and Executive Officers</u>	23
<u>Proxies; Revocation</u>	23
<u>Expenses of Proxy Solicitation</u>	23
<u>Adjournments and Postponements</u>	24
<u>Questions and Additional Information</u>	24
<u>SPECIAL FACTORS</u>	25
<u>Background of the Merger</u>	25
<u>Recommendation of the Our Board of Directors; Reasons for the Merger</u>	29
<u>Purposes and Reasons of Mr. Carlino</u>	32
<u>Purposes and Reasons of Parent, Merger Sub and Fortress/Centerbridge</u>	32
<u>Position of Mr. Carlino Regarding the Fairness of the Merger</u>	32
<u>Position of Parent, Merger Sub and Fortress/Centerbridge Regarding the Fairness of the Merger</u>	35
<u>Opinion of Lazard Frères &amp; Co.</u>	36
<u>Certain Effects of the Merger</u>	41
<u>Plans for Penn National After the Merger</u>	42
<u>Financing by Parent of Merger and Related Transactions</u>	42
<u>Interests of Our Directors and Executive Officers in the Merger</u>	45
<u>Related Party Transactions</u>	49
<u>Fees and Expenses</u>	50
<u>Material U.S. Federal Income Tax Consequences</u>	50
<u>Regulatory and Other Governmental Approvals</u>	51
<u>Certain Financial Forecasts</u>	68
<u>Legal Proceedings</u>	70

**Table of Contents**

<b><u>THE MERGER AGREEMENT</u></b>	71
<u>Structure of the Merger</u>	71
<u>Headquarters of the Surviving Corporation</u>	72
<u>Effective Time</u>	72
<u>Merger Consideration</u>	72
<u>Procedure for Receiving Merger Consideration</u>	72
<u>Treatment of Restricted Shares, Stock Options and Other Stock-Based Awards</u>	72
<u>Representations and Warranties</u>	73
<u>Conduct of Business Covenant</u>	75
<u>Solicitation of Other Offers</u>	77
<u>Change of Board Recommendation</u>	79
<u>Conditions to Completion of the Merger</u>	79
<u>Termination of the Merger Agreement</u>	81
<u>Termination Fees</u>	82
<u>Financing: Our Cooperation</u>	83
<u>Treatment of Certain Existing Indebtedness</u>	85
<u>Employee Matters</u>	85
<u>Indemnification and Insurance</u>	86
<u>Reasonable Best Efforts: Antitrust Matters: Gaming Approvals</u>	86
<u>Expenses</u>	90
<u>Remedies</u>	90
<u>Amendment: Waiver</u>	91
<u>Governing Law</u>	91
<b>INFORMATION ABOUT PENN NATIONAL</b>	92
Selected Financial Data	92
Ratio of Earnings to Fixed Charges	93
Net Book Value	93
<b><u>MARKET PRICES OF THE COMPANY COMMON STOCK</u></b>	94
<b><u>NO RIGHTS OF APPRAISAL OR DISSENTERS' RIGHTS</u></b>	95
<b><u>SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT</u></b>	96
<b><u>SHAREHOLDER PROPOSALS</u></b>	98
<b>PROVISIONS FOR UNAFFILIATED SHAREHOLDERS</b>	99
<b><u>OTHER MATTERS</u></b>	100
<u>Delivery of this Proxy Statement</u>	100
<b><u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u></b>	101
ANNEX A	Agreement and Plan of Merger, dated as of June 15, 2007, by and among the Company, PNG Acquisition Company Inc. and PNG Merger Sub Inc.
ANNEX B	Opinion of Lazard Frères & Co. LLC



**Table of Contents**

**SUMMARY**

*This summary term sheet highlights selected information from this proxy statement and may not contain all of the information that is important to you. To understand the merger fully, and for a more complete description of the legal terms of the merger, you should carefully read this entire proxy statement, the annexes attached to this proxy statement and the documents referred to in this proxy statement. We have included section references to direct you to a more complete description of the topics presented in this summary term sheet. See *Where You Can Find More Information*.*

**The Parties to the Merger Agreement (Page 17).**

*Penn National Gaming, Inc.* Penn National Gaming, Inc., which is referred to as Penn National, we, us, our and the Company, is a leading, diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties that currently owns or operates eighteen facilities in fourteen jurisdictions: Colorado, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia and Ontario.

*PNG Acquisition Company Inc.* PNG Acquisition Company Inc., which is referred to as Parent, is a Delaware corporation formed solely for the purpose of acquiring the Company and has not engaged in any activities to date except for those incidental to its formation, in connection with the financing of the merger consideration, and as otherwise contemplated by the Merger Agreement. Parent is controlled by an investor group comprised of investment funds affiliated with Fortress Investment Group LLC, which is referred to as Fortress, and Centerbridge Partners, L.P., which is referred to as Centerbridge, and together with Fortress, as Fortress/Centerbridge.

Fortress is a leading global alternative asset manager with approximately \$43.3 billion in assets under management as of June 30, 2007. Fortress's private equity business primarily makes significant, control-oriented investments in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows.

Centerbridge is a private equity firm specializing in leveraged buyouts and distressed securities opportunities. It makes investments in corporate partnerships and buildups, and typically invests in companies based in North America.

*PNG Merger Sub Inc.* PNG Merger Sub Inc., which is referred to as Merger Sub, is a Pennsylvania corporation formed for the sole purpose of completing the merger with the Company. Merger Sub has not engaged in any activities to date except for those incidental to its formation, in connection with the financing of the merger consideration, and as otherwise contemplated by the Merger Agreement. Merger Sub is a wholly owned subsidiary of Parent. Upon consummation of the proposed merger, Merger Sub will merge with and into the Company and will cease to exist, with the Company continuing as the surviving corporation.

**The Merger (Page 71).**

You are being asked to consider and vote upon the approval and adoption of the Agreement and Plan of Merger, dated as of June 15, 2007, by and among the Company, Parent and Merger Sub, which is referred to as the Merger Agreement, that provides for, among other things, the merger of Merger Sub with and into the Company, with the Company as the surviving corporation in the merger and becoming a wholly owned subsidiary of Parent. As a result of the merger, the Company will become a privately owned company controlled by affiliates of Fortress/Centerbridge. A copy of the Merger Agreement is attached to this proxy statement as Annex A.

## **Table of Contents**

### **Certain Effects of the Merger (Page 41).**

If the merger is completed, each outstanding share of Company common stock, which is referred to collectively as the Company shares, will be converted into the right to receive \$67.00 in cash, without interest, which is referred to as the merger consideration (subject to increase if the merger is not completed by June 15, 2008). However, Company shares held in treasury or owned directly or indirectly by Parent or Merger Sub immediately prior to the time at which the merger becomes effective, which is referred to as the effective time, will be cancelled without payment of any consideration therefor.

Following the merger, you will no longer own any shares of the surviving corporation and the Company will cease to be an independent, publicly traded company. Upon completion of the proposed merger, Company shares will no longer be listed on any stock exchange or quotation system, including the NASDAQ Global Select Market, which is referred to as the NASDAQ. In addition, the Company may also elect, upon or after the completion of the merger, to terminate the registration of Company's securities and its reporting obligations with respect to such securities under the Securities Exchange Act of 1934, as amended, which is referred to as the Exchange Act, upon application to the Securities and Exchange Commission (which is referred to as the SEC).

### **Merger Consideration (Page 72).**

At the effective time, your Company shares will be cancelled and converted into the right to receive \$67.00 in cash, without interest, for each Company share that you own. If the merger is not completed by June 15, 2008, the \$67.00 per share merger consideration will be increased \$0.0149 per day for each day after such date through and including the closing date.

### **Procedure for Receiving Merger Consideration (Page 72).**

As soon as practicable after the effective time, a paying agent appointed by Parent that is reasonably satisfactory to the Company will mail a letter of transmittal and instructions to all Company shareholders. The letter of transmittal and instructions will tell you how to surrender your share certificates in exchange for the merger consideration. You should not return any share certificates you hold with the enclosed proxy card, and you should not forward your share certificates to the paying agent without a letter of transmittal.

### **Recommendation of the Company's Board of Directors (Page 29).**

Our Board of Directors (other than Mr. Carlino, who recused himself) recommends that the Company's shareholders vote **FOR** the approval and adoption of the Merger Agreement. Please see Special Factors Recommendation of Our Board of Directors; Reasons for the Merger beginning on page 29 for a description of the factors that the Board of Directors believed supported its decision to recommend the merger.

### **Opinion of Lazard Frères & Co. LLC (Page 36).**

In connection with the Merger Agreement, the Board of Directors received a written opinion from Lazard Frères & Co. LLC, which is referred to as Lazard, as to the fairness, from a financial point of view, to holders of the Company common stock (other than Parent, its affiliates and any holder who exchanges their Company shares for shares of Parent or its affiliates in connection with the merger) of the merger consideration to be received by such holders pursuant to the Merger Agreement. The full text of the Lazard opinion is attached to this proxy statement as Annex B. The Company and its Board of Directors encourage shareholders to read the Lazard opinion carefully and in its entirety. Lazard's written opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to Penn National or the underlying business decision by Penn National to engage in the merger, and is not intended to and does not constitute a recommendation to any holder of Penn National common stock as to how such holder should vote with respect to the merger or any matter relating thereto.

## **Table of Contents**

### **Required Vote of Shareholder to Approve and Adopt the Merger Agreement (Page 22).**

The merger cannot be completed unless the Merger Agreement is approved and adopted by the affirmative vote of a majority of the votes cast by our holders of Company shares present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present).

### **Share Ownership of Directors and Executive Officers (Page 23).**

As of \_\_\_\_\_, 2007, the record date for the special meeting, the directors and executive officers of the Company held and are entitled to vote, in the aggregate, \_\_\_\_\_ shares of the Company common stock (excluding options), representing approximately \_\_\_\_\_ % of the voting power of the Company. Each of our directors and executive officers have informed the Company that they intend to vote all of their Company shares **FOR** the approval and adoption of the Merger Agreement and **FOR** any adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

### **Treatment of Options to Acquire Company Shares (Page 72).**

As of the effective time, all then outstanding options to acquire Company shares under the Company's equity incentive plans will be cancelled, and the holder of such options will receive, at the effective time or as soon as practicable thereafter from the surviving corporation, an amount in cash, without interest, equal to the product of (1) the number of Company shares previously subject to such option and (2) the excess, if any, of the merger consideration over the exercise price per share previously subject to such option.

### **Treatment of Restricted Shares (Page 72).**

Each restricted share outstanding immediately prior to the effective time, granted subject to vesting or other lapse restrictions will become vested and free of such restrictions immediately prior to the effective time and will be cancelled and converted into the right to receive the merger consideration.

### **Interests of the Company's Directors and Executive Officers in the Merger (Page 45).**

In considering the recommendation of the Board of Directors (other than Mr. Carlino, who recused himself) to vote **FOR** the approval and adoption of the Merger Agreement, the Company's shareholders should be aware that members of the Company's Board of Directors and the Company's executive officers, Peter M. Carlino, William J. Clifford, Leonard M. DeAngelo, Jordan B. Savitch and Robert S. Ippolito, may have interests in the transaction that are different from, and in addition to, the interests of the Company's shareholders generally. The independent members of the Board of Directors were aware of these differing interests and considered them, among other matters, in evaluating and negotiating the Merger Agreement and the merger and in recommending to the shareholders that they vote in favor of approving and adopting the Merger Agreement. These interests include:

Cash-out of all vested and unvested Company stock options and restricted stock, including those held by our directors and executive officers, which, based on anticipated holdings as of June 30, 2008 and certain assumptions described in *Special Factors Interests of Our Directors and Executive Officers in the Merger Stock Options and Other Equity-Based Awards*, would result in estimated cash payments to our directors and executive officers of approximately \$207.0 million in the aggregate.

Agreements with our executive officers that provide for change of control payments in connection with or following the merger and/or entitle them to severance payments and benefits in connection with a termination of their employment in connection with or following the merger. Each executive officer would also be eligible for tax gross-up payments in reimbursement for any federal excise tax imposed on change of control payments received by the executive officer. The estimated aggregate value of the payments and benefits under these agreements with our executive officers, including the value of any

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**Table of Contents**

tax gross-up payments and based on certain assumptions described in **Special Factors** **Interests of Our Directors and Executive Officers in the Merger** **Change of Control Agreements**, would be approximately \$32.0 million.

An agreement between Mr. Carlino and PNG Holdings LLC, which is referred to as PNG Holdings, the entity through which Fortress/Centerbridge will make their investments in Parent, whereby Mr. Carlino has agreed that, in connection with the closing of the merger, he would (i) invest in, and become a member of, PNG Holdings (ii) participate in an equity-based compensation plan that will replace the Company's existing compensation plan and (iii) enter into an employment agreement with PNG Holdings, on terms similar to his existing employment agreement with the Company, whereby Mr. Carlino would continue in his current role as Chairman and Chief Executive Officer of the Company. Mr. Carlino's investment in PNG Holdings would represent approximately 1.8% of the outstanding equity interests of PNG Holdings, and would be acquired for the same per share purchase price as Fortress/Centerbridge will pay for their controlling interest in the Company. Mr. Carlino would be investing in PNG Holdings at the insistence of Fortress/Centerbridge to align his interests following the merger with those of Fortress/Centerbridge. Mr. Carlino's new employment agreement would provide for an annual base salary and bonus opportunity that would be identical to his current employment arrangements, but will not include the provisions respecting cash severance and change of control payments included in his current employment agreement, and Fortress/Centerbridge has advised us that Mr. Carlino will not be granted any rights to cash severance or change of control payments under any other agreement. His employment agreement would have an initial term of five years, with automatic renewals for one-year periods unless either party gives notice of its desire to terminate. Mr. Carlino and Fortress/Centerbridge have informed us that a portion of Mr. Carlino's investment in PNG Holdings may come from Mr. Carlino's affiliates.

Company directors and executive officers are entitled to continued indemnification and insurance coverage for six years following the closing under the Merger Agreement.

As of the date of this proxy statement, other than Mr. Carlino as described above, no members of management have entered into any discussion, agreement, arrangement or understanding with the Company or its subsidiaries or with Parent, Merger Sub or their affiliates regarding employment with, or the right to convert into or reinvest or participate in the equity of, PNG Holdings. Further, Fortress/Centerbridge has advised us that at this time they have not yet determined which members of Penn National's management (other than Mr. Carlino) will receive proposals regarding an investment in PNG Holdings or any potential employment arrangements following the merger, or the nature and extent of such employment or other arrangements. Fortress/Centerbridge has indicated that it expects members of our management who are retained to receive salaries and bonuses consistent with their current arrangements. Any such new arrangements with members of management would not become effective until the merger is completed.

**Financing (Page 42).**

It is estimated that the total amount of funds necessary to consummate the merger and the related transactions (including payment of the aggregate merger consideration and related expenses, as well as the repayment of certain existing indebtedness of the Company) will be approximately \$9.4 billion, which is expected to be funded by the following: (i) borrowings under debt facilities and (ii) equity financing from affiliates of Fortress and Centerbridge. Funding of the equity and debt financing is subject to the satisfaction of the conditions set forth in the commitment letters pursuant to which the financing will be provided. See **Special Factors** **Financing by Parent of Merger and Related Transactions**. The following arrangements are in place to provide the necessary financing for the merger, including the payment of related transaction costs, charges, fees and expenses:

## **Table of Contents**

### *Equity Financing*

Parent has received an equity commitment letter from affiliates of each of Fortress and Centerbridge. In connection with these equity commitment letters, the affiliates of each of Fortress and Centerbridge have collectively agreed to directly or indirectly provide, or cause to be provided, up to \$3.061 billion of cash to Parent.

In connection with the equity commitments, the affiliates of each of Fortress and Centerbridge will be obligated to fund a *pro rata* portion (based on their respective equity commitments) of any reverse termination fee payable by Parent to the Company, any amounts payable pursuant to the indemnification and/or reimbursement obligations of Parent under the Merger Agreement and any amounts arising from certain claims described in the Merger Agreement, provided that the aggregate liability of the Fortress affiliates will not exceed an amount equal to (x) \$156 million plus (y) 78% of the aggregate amount of other liabilities or obligations of Parent to third parties, and the aggregate liability of the Centerbridge affiliates will not exceed an amount equal to (x) \$44 million plus (y) 22% of the aggregate amount of other liabilities and obligations of Parent to third parties. The obligation to fund such amounts to the Company will remain in full force and effect until six months after the termination of the Merger Agreement, provided that the obligation will not terminate as to any claim made by the Company against Parent prior to that date.

### *Debt Financing*

In connection with the signing of the Merger Agreement, Parent entered into a debt commitment letter, dated June 15, 2007, with certain banks and debt financing sources whereby, subject to the terms and conditions set forth in the debt commitment letter, the debt financing sources committed to underwrite and arrange (1) \$5.100 billion of senior secured credit facilities, including \$4.600 billion in senior secured term loans to be drawn on the closing date of the merger and a \$500 million senior secured revolving credit facility (of which \$100 million is available to be drawn on the closing date of the merger) and (2) a \$2.000 billion unsecured term loan facility.

The debt commitment letter and each of the debt facilities are subject to the satisfaction or waiver of a number of customary conditions and are subject to termination if the definitive documentation with respect to the facilities is not negotiated, executed and delivered on or before June 15, 2008, which date may be extended for 120 days under certain circumstances.

Parent has agreed in the Merger Agreement to use its best efforts to obtain the financing on the terms and conditions described in the commitment letters as promptly as practicable. If any portion of the debt financing under the debt commitment letter becomes unavailable in the manner or form contemplated by such letters, Parent is obligated under the Merger Agreement to promptly notify the Company and use its best efforts to arrange to obtain any such portion from existing lenders or alternative sources in an amount sufficient to consummate the merger and the transactions contemplated by the Merger Agreement on terms not materially less favorable, taken as a whole, to Parent and Merger Sub, as promptly as practicable following the occurrence of such event.

Parent may agree to amendments or modifications to, or grant waivers of, any condition or other material provision under the debt commitment letters without the consent of the Company so long as such amendment, modification or waiver would not impose new or additional conditions or otherwise amend, modify or waive any of the conditions to the receipt of the financing in a manner that may cause any delay in the satisfaction of the conditions set forth in the Merger Agreement. In addition, Parent may enter into new debt financing commitments so long as the terms of the new debt financing do not impose new or additional conditions or adversely amend the existing conditions to the receipt of financing or cause or increase the possibility of causing any delay in the satisfaction of the conditions set forth in Merger Agreement.

## **Table of Contents**

### **Conditions to Completion of the Merger (Page 79).**

The completion of the merger is subject to the following conditions: the receipt of the required shareholder vote for the approval and adoption of the Merger Agreement; the expiration or early termination of any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which is referred to as the HSR Act; the receipt of all gaming approvals required to be obtained prior to the effective time; the absence of any order, injunction or other legal restraint issued by any governmental entity or any law prohibiting, restraining or rendering illegal the consummation of the merger; the truth and correctness of the Company's, Parent's and Merger Sub's representations and warranties set forth in the Merger Agreement, subject to certain exceptions; the performance by the Company, Parent and Merger Sub in all material respects of their respective obligations under the Merger Agreement; and the delivery of officer's certificates.

### **Regulatory and Other Governmental Approvals (Page 51).**

The merger is subject to various regulatory approvals. While we expect to obtain all required regulatory approvals, we cannot assure you that these regulatory approvals will be obtained or that the granting of these regulatory approvals will not involve the imposition of conditions on the completion of the merger or require changes to the terms of the Merger Agreement. These conditions or changes could result in the conditions to the merger not being satisfied.

Penn National, Parent and Merger Sub have agreed to use their respective best efforts to take, or cause to be taken, all appropriate actions, to file, or cause to be filed, all documents and to do, or cause to be done, all things necessary, proper or advisable to consummate the transactions contemplated by the Merger Agreement, including preparing and filing as promptly as reasonably practicable all documentation to effect all necessary filings, consents, waivers, approvals, authorizations, permits or orders from all governmental authorities (including gaming authorities) or other persons.

Parent and Merger Sub have also agreed to use their respective best efforts to, as promptly as practicable, obtain all licenses, permits, approvals, authorizations, registrations, findings of suitability, franchises, entitlements, waivers and exemptions issued by any gaming authority required to permit the parties to consummate the transactions contemplated by the Merger Agreement or necessary to permit Parent to own and operate the Company, including causing all persons who are associated or affiliated with them or their affiliates who are, in the view of the applicable gaming authorities, required to be licensed under applicable gaming laws in order to consummate the transactions contemplated by the Merger Agreement, to submit to the licensing process. For information regarding the obligations of Penn National, Parent and Merger Sub with regard to governmental and regulatory matters, see *The Merger Agreement - Best Efforts; Antitrust Matters; Gaming Approvals*.

#### *Gaming Approvals*

Penn National is, and upon completion of the merger will continue to be, subject to a variety of gaming regulations in the fourteen jurisdictions in which it operates, including Indiana, Illinois, Pennsylvania and West Virginia. Penn National and Parent intend to make all filings with the appropriate regulatory authorities and take all other actions necessary, in each case in a timely manner, to obtain the approvals necessary under all applicable gaming regulations in each jurisdiction in which such approval is required to complete the merger and the other transactions contemplated by the Merger Agreement. There can be no assurance that the approvals will be granted or will be granted on a timely basis.

#### *Antitrust*

Under the HSR Act, and the rules promulgated thereunder by the Federal Trade Commission, which is referred to as the FTC, the merger may not be completed until notification and report forms have been filed with

## **Table of Contents**

the FTC and the Antitrust Division of the Department of Justice, which is referred to as the DOJ, and the applicable waiting period has expired. The Company and Parent plan to make the necessary filings under the HSR Act during the fourth quarter of 2007.

### **Solicitation of Other Offers (Page 77).**

Until 11:59 p.m., eastern time, on July 30, 2007, which is referred to as the no-shop period start date, the Company had the right to: (i) initiate, solicit and encourage acquisition proposals for Penn National and (ii) enter into and maintain discussions or negotiations with respect to acquisition proposals for Penn National.

After the no-shop period start date, until the effective time or the termination of the Merger Agreement, the Company has agreed not to (i) initiate, solicit or knowingly encourage the submission of any inquiries, proposals or offers that constitute or may reasonably be expected to lead to, any acquisition proposal for Penn National or engage in any discussions or negotiations with respect thereto or otherwise cooperate with or assist or participate in, or knowingly facilitate any such inquiries, proposals, discussions or negotiations or (ii) approve or recommend, or publicly propose to approve or recommend, an acquisition proposal for Penn National or enter into any merger agreement, letter of intent, agreement in principle or other similar agreement.

Under certain circumstances prior to obtaining the required shareholder approval, if the Company's Board of Directors determines in good faith, after consultation with its independent financial advisors and outside counsel, that an acquisition proposal for Penn National constitutes or could reasonably be expected to lead to a superior proposal, then the Company may furnish information with respect to the Company and its subsidiaries to, and participate in discussions or negotiations with, the person making such proposal.

### **Change of Board Recommendation (Page 79).**

The Merger Agreement restricts the Company's Board of Directors from directly or indirectly withdrawing or modifying its recommendation for the merger in a manner adverse to Parent or Merger Sub, or publicly proposing to do so. Notwithstanding this restriction, the Board may take such action prior to obtaining the required shareholder approval if the Board determines in good faith that an acquisition proposal received by the Company is a superior proposal and that the failure to take such action likely would be inconsistent with its fiduciary duties under applicable law.

### **Termination of the Merger Agreement (Page 81).**

The Merger Agreement may be terminated at any time prior to the effective time of the merger, before or after shareholder approval has been obtained, as follows:

by mutual written consent of the Company, Parent and Merger Sub;

by the Company or Parent, under certain circumstances, if:

the effective time shall not have occurred on or before June 15, 2008, which is referred to as the end date, subject to extension by an additional 120 days to obtain gaming approvals;

a final, non-appealable injunction, order, decree or ruling prohibits the merger;

the Merger Agreement shall have been voted upon at the special meeting (including any adjournment thereof), the special meeting shall have been completed, and the Company's shareholders shall have failed to approve and adopt the Merger Agreement by the requisite vote; or

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any applicable gaming authority shall have conclusively determined not to grant any gaming approval, the receipt of which is necessary to satisfy the condition relating to the receipt of gaming approvals;



**Table of Contents**

by the Company, under certain circumstances, if:

Parent or Merger Sub breaches any of their representations, covenants or agreements set forth in the Merger Agreement, and such breach (i) would cause the Company's closing condition relating to Parent's and Merger Sub's representations or the Company's closing condition relating to Parent's and Merger Sub's covenants and agreements not to be satisfied by the closing date and (ii) is incapable of being cured or is not cured within 60 calendar days following notice of such breach to Parent;

prior to obtaining the required shareholder approval, the Company receives an acquisition proposal for the Company that the Company's Board of Directors determines in good faith constitutes a superior proposal; or

Parent fails to comply with its obligation to deposit the merger consideration with the disbursing agent or otherwise consummate the merger following the satisfaction or waiver of all of the closing conditions; and

by Parent or Merger Sub, under certain circumstances, if:

the Company breaches any of its representations, covenants or agreements set forth in the Merger Agreement, and such breach (i) would cause the Parent's and Merger Sub's closing condition relating to the Company's representations or to the Company's covenants and agreements not to be satisfied by the closing date and (ii) is incapable of being cured or is not cured within 60 calendar days following notice of such breach to the Company; or

the Company's Board of Directors withdraws or modifies its recommendation for the merger in a manner adverse to Parent and Merger Sub, including by failing to include its recommendation in this proxy statement.

**Termination Fees (Page 82).**

The Company has agreed to pay Parent the following fees in the following circumstances:

If the Company terminates the Merger Agreement because the Company receives a company acquisition proposal that the Company's Board of Directors determines in good faith constitutes a superior proposal, then concurrently with any such termination the Company must pay Parent a termination fee of \$200 million, which amount is referred to as the termination fee.

If Parent terminates the Merger Agreement because the Company's Board of Directors withdraws or modifies its recommendation for the merger in a manner adverse to Parent and Merger Sub, then Company must pay to Parent an amount equal to (i) 50% of the termination fee and (ii) up to \$17.5 million of Parent's and Merger Sub's reasonable out-of-pocket fees and expenses, which amount is referred to as the Parent expenses. In addition, if, prior to such termination, a company acquisition proposal shall have been publicly announced and such company acquisition proposal is not withdrawn or terminated prior to such termination and, within nine months after such termination, the Company or any of its subsidiaries enters into (and thereafter consummates) a definitive agreement with respect to, or consummates, any company acquisition proposal (whether or not the same as that originally announced), then the Company shall pay to Parent an amount equal to (a) 50% of the termination fee, less (b) the amount of parent expenses previously paid.

If (i) Parent or the Company terminate the Merger Agreement because (a) the effective time does not occur on or before the end date and the Company's shareholders have not approved and adopted the Merger Agreement or (b) the Merger Agreement shall have been voted upon at the special meeting (including any adjournment thereof), the special meeting shall have been completed, and the Company's shareholders shall have failed to approve and adopt the Merger Agreement, (ii) prior to the special meeting, a company

acquisition proposal shall have been publicly announced and not

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**Table of Contents**

withdrawn or terminated prior to the special meeting and (iii) within nine months after such termination, the Company or any of its subsidiaries enters into (and thereafter consummates) a definitive agreement with respect to, or consummates, any company acquisition proposal (whether or not the same as that originally announced), then the Company shall pay to Parent an amount equal to the termination fee, less the amount of any parent expenses previously paid to Parent by the Company.

If Parent or the Company terminate the Merger Agreement because the required shareholder vote in favor of approving and adopting the Merger Agreement was not obtained, then the Company shall pay to Parent the Parent expenses.

Parent has agreed to pay the Company a termination fee of \$200 million, which is referred to as the reverse termination fee, in any of the following circumstances:

The Company terminates the Merger Agreement because (i) Parent or Merger Sub breaches any of their representations, covenants or agreements, and such breach would cause the Company's closing condition relating to Parent's and Merger Sub's representations or the Company's closing condition relating to Parent's and Merger Sub's covenants and agreements not to be satisfied by the Closing date and is incapable of being cured or is not cured within 60 calendar days following notice of such breach or (ii) Parent fails to comply with its obligation to deposit the merger consideration with the disbursing agent or otherwise consummate the merger following the satisfaction or waiver of all of the closing conditions;

The Company or Parent terminate the Merger Agreement because (i) an order, injunction or other legal restraint, or any law, attributable to gaming approvals is issued by any governmental entity prohibiting, restraining or rendering illegal the consummation of the merger is in effect and has become final and nonappealable or (ii) a gaming authority has conclusively determined not to grant any gaming approval the receipt of which is necessary to satisfy the closing condition relating to the receipt of gaming approvals; or

The Company or Parent terminate the Merger Agreement because the effective time has not occurred on or before the end date and as of such date (i) the Company's shareholders have not approved and adopted the Merger Agreement and (ii) all of the mutual closing conditions and all of Parent's and Merger Sub's closing conditions have been satisfied or waived except for the mutual conditions concerning (A) the receipt of gaming approvals required to be obtained prior to the effective time and (B) if attributable to gaming approvals, the absence of any order, injunction or other legal restraint issued by any governmental entity or any law prohibiting, restraining or rendering illegal the consummation of the merger, provided that the Company is not substantially at fault for the failure of such conditions to be satisfied.

**Remedies (Page 90).**

Parent's and Merger Sub's right to terminate the Merger Agreement and receive the termination fee of \$200 million and, as applicable, the Parent expenses, is the sole and exclusive monetary remedy of Parent and Merger Sub, except that if Parent terminates the Merger Agreement as a result of a breach of a covenant or agreement or other intentional breach on the part of the Company, the Company may be liable for losses and damages arising from or in connection therewith in an aggregate amount in excess of \$200 million. The Company's right to terminate the Merger Agreement and receive the reverse termination fee of \$200 million or other amounts payable pursuant to the Merger Agreement is the sole and exclusive monetary remedy of the Company and its subsidiaries.

The Company and Parent shall be entitled to an injunction or injunctions to prevent breaches of the Merger Agreement by the other or to enforce specifically the obligations of the other under the Merger Agreement. Whether or not a party seeks specific performance, in no event shall it be entitled to damages in excess of \$200 million.

## **Table of Contents**

### **Rights of Dissenting Shareholders (Page 95).**

Under Pennsylvania law, you do not have appraisal or similar dissenters' rights in connection with the merger, any transaction contemplated by the Merger Agreement or any other matter described in this proxy statement. If the Merger Agreement is approved and adopted and the merger is completed, shareholders who voted against the approval and adoption of the Merger Agreement will be treated the same as shareholders who voted for the approval and adoption of the Merger Agreement and their shares will automatically be converted into the right to receive the merger consideration described in Special Factors Certain Effects of the Merger.

### **Material U.S. Federal Income Tax Consequences (Page 50).**

The receipt of cash in exchange for Company shares pursuant to the merger will be a taxable transaction for United States federal income tax purposes. In general, your receipt of cash in exchange for your Company shares will cause you to recognize gain or loss measured by the difference, if any, between the cash you receive in the merger and your adjusted tax basis in your Company shares. You should consult your tax advisor regarding the particular tax consequences of the merger to you, including the federal, state, local and/or non-U.S. tax consequences of the merger.

### **Legal Proceedings (Page 70).**

Subsequent to the announcement of the Merger Agreement, a complaint was filed on behalf of a putative class of public shareholders of Penn National and derivatively on behalf of Penn National in the Court of Common Pleas of Berks County, Pennsylvania, styled *Superior Partners v. Carlino, et al.*, Case No. 07-9637 (the Complaint). The Complaint names our directors as defendants and Penn National as a nominal defendant. The Complaint alleges, among other things, that the directors of Penn National breached their fiduciary duties by agreeing to the proposed transaction with Fortress and Centerbridge for inadequate consideration, that certain of Penn National's directors have conflicts with regard to the merger, and that Penn National and its directors have failed to disclose certain material information with regard to the merger. The Complaint seeks, among other things, a court order: determining that the action is properly maintained as a class action and a derivative action; enjoining Penn National and its directors from consummating the proposed merger; and awarding the payment of attorneys' fees and expenses. Penn National intends to defend the action vigorously.

### **Market Price of Shares of Company Common Stock (Page 94).**

The Company shares are listed on the NASDAQ under the trading symbol PENN. On June 14, 2007, which was the last trading day before the announcement of the execution of the Merger Agreement, the closing sale price of Company common stock was \$51.14 per share. On \_\_\_\_\_, 2007, which was the last trading day before the date of printing this proxy statement, the closing sale price of Company common stock was \$ \_\_\_\_\_ per share.

### **Additional Information (Page 101).**

You can find more information about Penn National in the periodic reports and other information we file with the SEC. The information is available at the SEC's public reference facilities and at the website maintained by the SEC at <http://www.sec.gov>. This information is also available on our website at [www.pngaming.com](http://www.pngaming.com). Information contained on our website is not part of, or incorporated in, this proxy statement. You can also request copies of these documents from us.

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER**

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger, the Merger Agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a Company shareholder. Please refer to Summary and the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement, which you should read carefully. See Where You Can Find More Information.

**Q: Why am I receiving these materials?**

A: The Company and Fortress/Centerbridge have agreed to the acquisition of the Company under the terms of the Merger Agreement that is described in this proxy statement. The merger cannot be completed unless the Merger Agreement is approved and adopted by the affirmative vote of a majority of the votes cast by our holders of Company shares present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present). This proxy statement contains important information about the merger and the special meeting of Company shareholders. The Company is sending you these materials to provide you with important information about the special meeting and to help you decide whether to approve and adopt the Merger Agreement.

**Q: What will I receive in the merger?**

A: Upon the consummation of the merger, you will be entitled to receive \$67.00 in cash, without interest, for each Company share that you own immediately prior to the effective time. In the event that the merger is not completed by June 15, 2008, the \$67.00 per share merger consideration will be increased \$0.0149 per day for each day after such date through and including the closing date.

**Q: Am I entitled to exercise rights of dissent and appraisal instead of receiving the merger consideration for my Company shares?**

A: No, under Pennsylvania law, holders of Company shares are not entitled to dissenters' rights in connection with the merger.

**Q: What will happen to Penn National as a result of the merger?**

A: The Company will become a wholly owned subsidiary of Parent, which is in turn controlled by Fortress/Centerbridge. As a result of the merger, the Company will become privately owned and Company shares will no longer be traded on the NASDAQ.

**Q: When and where is the special meeting?**

A: The special meeting of the Company shareholders will be held on \_\_\_\_\_, 2007, beginning at 10:00 a.m., eastern time, at Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103

**Q: What matters will I vote on at the special meeting?**

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- A: You may vote For or Against the approval and adoption of the Merger Agreement or Abstain from voting. The merger cannot be completed unless the Merger Agreement is approved and adopted by the affirmative vote of a majority of the votes cast by our holders of Company shares present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present).

## **Table of Contents**

### **Q: How does the Company's Board of Directors recommend that I vote?**

A: Our Board of Directors (other than Mr. Carlino, who recused himself) recommends that you vote **FOR** the proposal to approve and adopt the Merger Agreement and **FOR** the proposal to adjourn or postpone the Merger Agreement, if necessary or appropriate, to solicit additional proxies.

### **Q: Why is our Board of Directors recommending that I vote **FOR** the proposal to approve and adopt the Merger Agreement and **FOR** the proposal to adjourn or postpone the special meeting, if necessary or appropriate, to solicit additional proxies?**

A: After careful consideration, our Board of Directors (other than Mr. Carlino, who recused himself) has determined that the merger and the other transactions contemplated by the Merger Agreement are advisable and fair to, and in the best interests of, the Company and its shareholders. Our Board of Directors (other than Mr. Carlino, who recused himself) has approved and adopted the Merger Agreement. In the course of reaching its decision to approve and adopt the Merger Agreement, the Company's Board of Directors consulted with the Company's legal and financial advisors and considered a number of factors. You should read **Special Factors Recommendation of Our Board of Directors; Reasons for the Merger** beginning on page 25 for a discussion of the factors that the Board of Directors considered in deciding to recommend the approval and adoption of the Merger Agreement.

### **Q: What vote of shareholders is required to approve and adopt the Merger Agreement?**

A: The merger cannot be completed unless the Merger Agreement is approved and adopted by the affirmative vote of a majority of the votes cast by our holders of Company shares present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present).

### **Q: Who is entitled to vote?**

A: Shareholders as of the close of business on, \_\_\_\_\_, 2007, the record date for the special meeting, are entitled to receive notice of, attend and to vote at the special meeting. On the record date, approximately \_\_\_\_\_ shares of the Company common stock, held by approximately \_\_\_\_\_ shareholders of record, were outstanding and entitled to vote. You may vote all Company shares you owned as of the record date. You are entitled to one vote per share of Company common stock.

### **Q: What does it mean if I get more than one proxy card?**

A: If you have shares of the Company that are registered differently and are in more than one account, you will receive more than one proxy card. Please follow the directions for voting on each of the proxy cards you receive to ensure that all of your Company shares are voted.

### **Q: How do I vote without attending the special meeting?**

A: If you are a registered shareholder (that is, if you hold Company shares in certificated form), you may submit your proxy and vote your Company shares by signing and returning the enclosed proxy card in the postage-paid envelope provided, or by telephone or through the Internet by following the instructions included with the enclosed proxy card.

If you are voting by telephone or via the Internet, your voting instructions must be received by \_\_\_\_\_ on \_\_\_\_\_, 2007.

**Q: If my Company shares are held in street name by my broker, bank or other nominee, will my nominee vote my Company shares for me?**

A: If you hold your Company shares through a broker, bank or other nominee (that is, in street name ), you should follow the separate voting instructions, if any, provided to you by the broker, bank or other nominee along with the proxy statement. Please contact your broker, bank or other nominee to determine how to vote.



## **Table of Contents**

### **Q: What if I fail to instruct my brokerage firm, bank or other nominee how to vote?**

A: Without instructions, your bank, brokerage firm or other nominee will not vote any of your shares held in street name on the proposal to approve and adopt the Merger Agreement. To be sure your shares are voted, you should instruct your bank, broker or other nominee to vote your shares. A broker non-vote generally occurs when a broker, bank or other nominee holding Company shares on your behalf does not vote on a proposal because the nominee has not received your voting instructions and lacks discretionary power to vote the Company shares on non-routine matters (such as the approval and adoption of the Merger Agreement). Broker non-votes (if any) will be counted for the purpose of determining the presence or absence of a quorum only if the shares covered by the broker non-vote are voted on a non-procedural matter at the meeting, but will not be deemed votes cast under Pennsylvania law and, therefore, will have no effect on the outcome of the vote.

### **Q: How do I vote in person at the special meeting?**

A: If you are a registered shareholder, you may attend the special meeting and vote your Company shares in person at the meeting by giving us a signed proxy card or ballot before voting is closed. If you want to do that, please bring proof of identification with you. Even if you plan to attend the meeting, we recommend that you vote your Company shares in advance as described above, so your vote will be counted even if you later decide not to attend.

If you hold your Company shares through a broker, bank or other nominee, you may vote those Company shares in person at the meeting only if you obtain and bring with you a signed proxy from the necessary nominees giving you the right to vote the Company shares. To do this, you should contact your nominee.

### **Q: What happens if I do not vote or abstain from voting?**

A: Because under Pennsylvania law the vote required is based on the number of shares voted, your shares will not be counted and will have no effect on the outcome of the vote if you do not vote or abstain from voting. If the merger is completed, whether or not you vote for the merger proposal, you will be entitled to receive the merger consideration for your shares of common stock upon completion of the merger.

### **Q: Can I change my vote?**

A: You may revoke or change your proxy at any time before it is voted, except as otherwise described below. If you are the registered shareholder (that is, you hold your Company shares in certificated form), you may revoke or change your proxy before it is voted by:

filing a notice of revocation, which is dated a later date than your proxy, with the Company's Secretary;

submitting a duly executed proxy card bearing a later date;

submitting a new proxy by telephone or through the Internet at a later time, but not later than 11:59 p.m., eastern time, on \_\_\_\_\_, 2007, or the day before the meeting date, if the special meeting is adjourned or postponed; or

voting by ballot at the special meeting (simply attending the special meeting will not constitute revocation of a proxy).

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If your Company shares are held in street name, you should follow the instructions of your broker, bank or other nominee regarding revocation or change of proxies in order to revoke or change your proxy. If your broker, bank or other nominee allows you to submit a proxy by telephone or the Internet, you may be able to change your vote by submitting a proxy again by telephone or the Internet.

## Table of Contents

### **Q: What is a quorum?**

A: A quorum of the holders of the outstanding Company shares must be present for the special meeting to be held. A quorum is present if the holders of a majority of the Company shares entitled to vote at the special meeting is present at the meeting, either in person or represented by proxy. Abstentions are counted as present for the purpose of determining whether a quorum is present. When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any shareholders.

### **Q: How are votes counted?**

A: Votes will be counted by the inspector of election appointed for the special meeting, who will separately count For, Against and Abstain votes. Because under Pennsylvania law adoption of the Merger Agreement requires the affirmative vote of holders representing a majority of all votes cast by our shareholders present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present), and because failures to vote and abstentions are not considered votes cast, such failures to vote and abstentions will not be counted in determining the total number of votes cast or the number of votes cast for or against any proposal. **If you sign your proxy card without indicating your vote, your Company shares will be voted FOR the approval and adoption of the Merger Agreement and FOR the postponement or adjournment of the meeting.**

### **Q: Who will bear the cost of this solicitation?**

A: The expense of preparing, printing and mailing this proxy statement and the proxies solicited hereby will be borne by the Company. Additional solicitation may be made by telephone, facsimile or other contact by certain directors, officers, employees or agents of the Company, none of whom will receive additional compensation therefor. The Company will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses for forwarding material to the beneficial owners of Company shares held of record by others.

### **Q: Will a proxy solicitor be used?**

A: Yes. The Company has engaged Innisfree M&A Incorporated to assist in the solicitation of proxies for the special meeting, and the Company estimates that it will pay them a fee of approximately \$[ ], and will reimburse them for reasonable administrative and out-of-pocket expenses incurred in connection with the solicitation.

### **Q: Should I send in my share certificates now?**

A: No. Assuming the merger is completed, you will receive a letter of transmittal with instructions informing you how to send your share certificates to the paying agent, shortly thereafter, in order to receive the merger consideration, without interest. You should use the letter of transmittal to exchange the Company share certificates for the merger consideration to which you are entitled as a result of the merger. **DO NOT SEND ANY SHARE CERTIFICATES WITH YOUR PROXY CARD.**

### **Q: When is the merger expected to be completed?**

A: We are working to complete the merger as quickly as possible, and we anticipate that it will be completed by [the third quarter of 2008]. We cannot, however, predict the exact timing of the merger. In order to complete the merger, our shareholders must approve and adopt the Merger Agreement and the other closing conditions under the Merger Agreement must be satisfied or waived.

**Q: Who can help answer my other questions?**

A: If you have more questions about the special meeting or the merger, you should contact our proxy solicitor, Innisfree M&A Incorporated, toll-free at (877) 750-9498 . Banks and brokers may call collect at (212) 750-5833.

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement, and the documents to which we refer you in this proxy statement, contain not only historical information, but also forward-looking statements. Forward-looking statements represent Penn's expectations or beliefs concerning future events, including without limitation, those statements relating to any projections or forecasts, including the financial forecast included under "Special Factors - Certain Financial Forecast" beginning on page 68, future actions, new projects, strategies, future performance, the outcome of contingencies such as legal proceedings and future financial results, the continuation of historical trends, expected capital expenditures, the sufficiency of our cash balances and cash generated from operating and financing activities for future liquidity and capital resource needs and the expected completion and timing of the merger and other information relating to the merger. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "should," "estimates" and similar expressions are intended to identify forward-looking statements. You should read statements that contain these words carefully. They discuss our future expectations or state other forward-looking information and may involve known and unknown risks over which we have no control. Those risks include, without limitation:

the satisfaction of the conditions to consummation of the merger, including the adoption of the Merger Agreement by our shareholders and the receipt of gaming and other regulatory approvals;

the actual terms of the financing that will be obtained for the merger, or the failure by Parent to obtain the necessary debt financing contemplated by the commitment letter received in connection with the merger;

the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement, including a termination under circumstances that could require us to pay a termination fee of up to \$200 million to Parent;

the amount of the costs, fees, expenses and charges related to the merger;

the effect of the announcement of the merger on our business relationships, operating results and business generally, including our ability to retain key employees;

the risk that the merger may not be completed in a timely manner or at all, which may adversely affect our business and the price of our common stock;

the potential adverse effect on our business, properties and operations because of certain covenants we agreed to in the Merger Agreement;

risks related to diverting management's attention from our ongoing business operations;

the fact that the gaming industry is a highly competitive industry with many well-established competitors;

the risk that our results could be impacted by changes in consumer tastes and the level of consumer acceptance of our gaming concepts; local, regional, national and international economic conditions; the seasonality of our business; demographic trends; traffic patterns; change in consumer habits; employee availability; the cost of advertising and media; government actions and policies; inflation; or increases in various costs, including construction and real estate costs;

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our ability to expand is dependent upon various factors such as the availability of attractive sites for new gaming complexes; ability to obtain appropriate real estate sites at acceptable prices; ability to obtain all required governmental permits and licenses on a timely basis; impact of government moratoriums or approval processes, which could result in significant delays; ability to obtain all necessary contractors and subcontractors; union activities such as picketing and hand billing that could delay construction or other processes; the ability to generate or borrow funds; the ability to negotiate suitable lease terms; and the ability to recruit and train skilled management and restaurant employees;

weather and natural disasters could adversely affect the results of one or more gaming sites for an indeterminate amount of time;

**Table of Contents**

the risk that state, federal or local legislation could restrict, further tax or prevent gaming operations in the jurisdictions in which we do business;

the activities of our competitors;

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

delays or changes to, or cancellations of, planned capital projects at our gaming and pari-mutuel facilities or an inability to achieve the expected returns from such projects;

the existence of attractive acquisition candidates and the costs and risks involved in the pursuit of those actions;

the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups; our dependence on key personnel;

the impact of terrorism and other international hostilities and the availability and cost of financing; and

other risks detailed in our filings with the SEC, including Item 1A. Risk Factors in our most recent Annual Report on Form 10-K. See Where You Can Find More Information on page 101.

We believe that the assumptions on which our forward-looking statements are based are reasonable. However, we cannot assure you that the actual results or developments we anticipate will be realized or, if realized, that they will have the expected effects on our business or operations. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Forward-looking statements speak only as of the date of this proxy statement or the date of any document incorporated by reference in this document. Except as required by applicable law or regulation, we do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

**Table of Contents**

**INTRODUCTION**

This proxy statement and the accompanying form of proxy are being furnished to holders of shares of Penn National common stock in connection with the solicitation of proxies by our Board of Directors for use at a special meeting of our shareholders that will be held on 2007, beginning at 10:00 a.m., eastern time, at Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103.

We are asking our shareholders to consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger, dated as of June 15, 2007, by and among the Company, PNG Acquisition Company Inc. and PNG Merger Sub Inc., a wholly owned subsidiary of Parent. If the merger is completed, Penn National will become a direct or indirect wholly owned subsidiary of Parent, and our shareholders will have the right to receive \$67.00 in cash, without interest, for each share of our common stock (subject to increase if the merger is not completed by June 15, 2008).

**THE PARTIES TO THE MERGER AGREEMENT**

**Penn National Gaming, Inc.**

Penn National Gaming, Inc. is a leading, diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties that currently owns or operates eighteen facilities in fourteen jurisdictions: Colorado, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia and Ontario.

Penn National's principal executive offices are located at 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610, and its telephone number is (610) 373-2400.

Argosy, Bullwhackers, Charles Town Races & Slots, Empress, Hollywood Casino and Hollywood Slots are all registered trademarks of Penn National.

The names and material occupations, positions, offices or employment during the past five years of each executive officer and director of Penn National are set forth below.

Peter M. Carlino has served as our Chairman and Chief Executive Officer since April 1994. Since 1976, Mr. Carlino has been President of Carlino Financial Corporation, 999 Berkshire Blvd., Suite 120, Wyomissing, Pennsylvania 19610, a holding company that owns and operates various Carlino family businesses, in which capacity he has been continuously active in strategic planning and monitoring its operations. Peter M. Carlino has sole voting power with respect to the election of directors and certain other matters for shares of Penn National common stock held by an irrevocable trust, dated April 11, 1994 among Peter D. Carlino, his eight children and the former spouse of one of his children, as settlors, and certain trustees. The majority vote of Peter D. Carlino, Peter M. Carlino, David E. Carlino, Richard J. Carlino and Harold Cramer is required in connection with investment decisions and voting with respect to matters relating to changes of control.

William J. Clifford joined us in August 2001 and was appointed to his current position as Senior Vice President-Finance and Chief Financial Officer in October 2001.

Leonard M. DeAngelo joined us in July 2003 as Executive Vice President of Operations. From December 2000 to July 2003, Mr. DeAngelo served as President of the Atlantic City Hilton Casino Resort, Boston and Pacific Avenue, Atlantic City, New Jersey, 08401.



## **Table of Contents**

Robert S. Ippolito was appointed to his current position as Vice President in July 2001. Mr. Ippolito has served as our Secretary and Treasurer since April 1994 and served as Chief Financial Officer from April 1994 to July 2001.

Jordan B. Savitch has been our Senior Vice President and General Counsel since joining us in September 2002.

Harold Cramer has been a director since 1994. Mr. Cramer is now a retired partner of Schnader Harrison Segal & Lewis LLP, 1600 Market Street, Suite 3600, Philadelphia, Pennsylvania 19103.

David A. Handler has been a director since 1994. Since April 2006, he has been a Managing Director at UBS Investment Bank, 299 Park Avenue, New York, New York 10171. From April 2000 until April 2006, he was a Senior Managing Director at Bear Stearns & Co., Inc. 383 Madison Avenue, New York, New York 10179.

John M. Jacquemin has been a director since 1995 and is President of Mooring Financial Corporation, 8614 Westwood Center Drive, Vienna, Virginia 22182.

Robert P. Levy has been a director since 1995. Mr. Levy has served as the Chairman of the Board of DRT Industries, Inc., 20 Woodside Rd., Suite B, Ardmore, Pennsylvania 19003, a diversified business based in the Philadelphia metropolitan area, since 1960. Mr. Levy owns the Robert P. Levy Stable, 20 Woodside Rd., Suite B, Ardmore, Pennsylvania 19003, a thoroughbred racing and breeding operation. Mr. Levy is a director of Fasig Tipton Company, 2400 Newtown Pike, Lexington, Kentucky 40511 and Sona Mobile Inc., 825 Third Avenue, New York, New York 10022.

Barbara Z. Shattuck has been a director since 2004. She is a Principal of Shattuck Hammond Partners, LLC, 630 Fifth Avenue, Suite 2950, New York, New York 10111, an investment banking firm.

During the past five years, none of the persons or entities described above has been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws or a finding of any violation of federal or state securities laws. Each person identified above is a United States citizen.

### **PNG Acquisition Company Inc.**

PNG Acquisition Company Inc. is a Delaware corporation formed solely for the purpose of acquiring the Company and has not engaged in any activities to date except for those incidental to its formation, in connection with the financing of the merger consideration, and as otherwise contemplated by the Merger Agreement. Parent is controlled by an investor group comprised of investment funds affiliated with Fortress Investment Group LLC and Centerbridge Partners, L.P. The business address of PNG Acquisition Company Inc. is c/o Fortress Investment Group LLC, 1345 Avenue of the Americas, 46th Floor, New York, New York 10105 and its telephone number is (212) 798-6110.

The names and material occupations, positions, offices or employment during the past five years of each executive officer and director of Parent are set forth below.

*Wesley Edens, Director and President.* Refer to FIG LLC, below.

*William Doniger, Director and Vice President.* Refer to FIG LLC, below.

*Steven Price, Director.* Refer to Centerbridge GP Investors, L.L.C., below.

## **Table of Contents**

*Mark Gallogly, Director.* Refer to Centerbridge GP Investors, L.L.C. , below.

*Randal Nardone, Vice President and Secretary.* Refer to FIG LLC , below.

During the past five years, none of the persons or entities described above has been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws or a finding of any violation of federal or state securities laws. Each person identified above is a United States citizen.

### **PNG Merger Sub Inc.**

PNG Merger Sub Inc. is a Pennsylvania corporation formed for the sole purpose of completing the merger with the Company. Merger Sub has not engaged in any activities to date except for those incidental to its formation, in connection with the financing of the merger consideration, and as otherwise contemplated by the Merger Agreement. Merger Sub is a wholly owned subsidiary of Parent. Upon consummation of the proposed merger, Merger Sub will merge with and into the Company and will cease to exist, with the Company continuing as the surviving corporation. The business address of PNG Merger Sub Inc. is c/o Fortress Investment Group LLC, 1345 Avenue of the Americas, 46th Floor, New York, New York 10105 and its telephone number is (212) 798-6110.

The names and material occupations, positions, offices or employment during the past five years of each executive officer and director of PNG Merger Sub Inc. are set forth below.

*Wesley Edens, Director and President.* Refer to FIG LLC , below.

*William Doniger, Director and Vice President.* Refer to FIG LLC , below.

*Randal Nardone, Director, Vice President and Secretary.* Refer to FIG LLC , below.

During the past five years, none of the persons or entities described above has been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws or a finding of any violation of federal or state securities laws. Each person identified above is a United States citizen.

### **FIG LLC**

Fortress Investment Group LLC is a leading global alternative asset manager with approximately \$43.3 billion in assets under management as of June 30, 2007. Its private equity business primarily makes significant, control-oriented investments in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows. FIG LLC, an affiliate of Fortress Investment Group LLC, has a management agreement with each of the private equity funds comprising the private equity business. The business address of FIG LLC is 1345 Avenue of the Americas, 46th Floor, New York, New York 10105 and its telephone number is (212) 798-6100.

The names and material occupations, positions, offices or employment during the past five years of each executive officer and member of FIG LLC are set forth below.

## **Table of Contents**

Wesley R. Edens is the Chairman of the board of directors and the Chief Executive Officer of FIG LLC. He has been a principal and the Chairman of the Management Committee of Fortress since co-founding Fortress in May 1998. Mr. Edens is also the Chairman of the board of directors of each of Aircastle Limited, Brookdale Senior Living Inc., Eurocastle Investment Limited, GateHouse Media, Inc., Mapeley Limited and Newcastle Investment Corp. and a director of GAGFAH S.A.

Peter L. Briger Jr. is a Co-President and a member of the board of directors of FIG LLC. He has been a principal and a member of the Management Committee of Fortress since March 2002.

Randal A. Nardone is the Chief Operating Officer, Secretary and a member of the board of directors of FIG LLC. He has been a principal and a member of the Management Committee of Fortress since co-founding Fortress in 1998. Mr. Nardone is a director of Alea Group Holdings (Bermuda) Ltd., GAGFAH S.A. and Eurocastle Investment Limited.

Robert I. Kauffman is a Co-President and a member of the board of directors of FIG LLC. He has been a principal and a member of the Management Committee of Fortress since co-founding Fortress in 1998. He is the Chairman of the board of directors of GAGFAH S.A. and Alea Group Holdings (Bermuda) Ltd.

Michael E. Novogratz is a Co-President and a member of the board of directors of FIG LLC. He has been a principal and a member of the Management Committee of Fortress since March 2002.

William Doniger is a managing director of Fortress and is head of United States acquisitions for the Fortress private equity business. He joined Fortress in May 1998. Mr. Doniger is a director of Brookdale Senior Living, Inc.

During the past five years, none of the persons or entities described above has been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws or a finding of any violation of federal or state securities laws. Each person identified above is a United States citizen.

### **Centerbridge GP Investors, L.L.C.**

Centerbridge is a private equity firm specializing in leveraged buyouts and distressed securities opportunities. It makes investments in corporate partnerships and buildups, and typically invests in companies based in North America. The business address of Centerbridge GP Investors, L.L.C. is 375 Park Avenue, 12<sup>th</sup> Floor, New York, New York 10152 and its telephone number is (212) 672-5000.

The names and material occupations, positions, offices or employment during the past five years of each executive officer and members of Centerbridge GP Investors, L.L.C. are set forth below.

Jeffrey H. Aronson is a Managing Principal of Centerbridge. Prior to joining Centerbridge in September 2005, Mr. Aronson was a partner at Angelo, Gordon & Co. since 1989.

Mark T. Gallogly is a Managing Principal of Centerbridge. Prior to joining Centerbridge in September 2005, Mr. Gallogly served as a Senior Managing Director of The Blackstone Group since January 1994.

Steven Price is a Senior Managing Director of Centerbridge. Prior to joining Centerbridge in April 2006, Mr. Price was a Senior Managing Director at Spectrum Equity Investors beginning in April 2004. Prior to joining Spectrum, he served at the Department of Defense as Deputy Assistant Secretary of Defense.

**Table of Contents**

During the past five years, none of the persons or entities described above has been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws or a finding of any violation of federal or state securities laws. Each person identified above is a United States citizen.

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**Table of Contents**

**THE SPECIAL MEETING**

**Date, Time, Place and Purpose of the Special Meeting**

This proxy statement is being furnished to our shareholders as part of the solicitation of proxies by our Board of Directors for use at the special meeting to be held at 10:00 a.m., eastern time, at Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, 51st Floor, Philadelphia, PA 19103, or at any postponement or adjournment thereof. The purpose of the special meeting is for our shareholders to consider and vote upon a proposal to approve and adopt the Merger Agreement (and to approve the adjournment or postponement of the special meeting, if necessary or appropriate). A copy of the Merger Agreement is attached to this proxy statement as Annex A. This proxy statement, the notice of the special meeting and the enclosed form of proxy card are first being mailed to our shareholders on or about \_\_\_\_\_, 2007.

**Record Date, Quorum and Voting Power**

The holders of record of shares of Company common stock at the close of business on \_\_\_\_\_, 2007, the record date for the special meeting, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were \_\_\_\_\_ shares of Company common stock outstanding and entitled to vote.

Each share of the Company common stock outstanding on the record date entitles the holder to one vote on each matter submitted to shareholders at the special meeting.

A quorum of the holders of the outstanding shares of Company stock must be present for the special meeting to be held. A quorum is present if the holders of a majority of the shares of Company common stock entitled to vote at the special meeting is present at the meeting, either in person or represented by proxy. Any shares of common stock held in treasury by the Company or by any of our subsidiaries will not be considered to be outstanding for purposes of determining a quorum. When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any shareholders. Once a share is represented at the special meeting, it will be counted for the purpose of determining a quorum at the special meeting and any adjournment or postponement of the special meeting. Therefore, shares of Company common stock for which proxies from shareholders have been received, but for which shareholders have abstained, will be treated as present at the special meeting for purposes of determining the presence of absence of a quorum. In the event that a quorum is not present at the special meeting, the meeting may be adjourned or postponed to solicit additional proxies.

**Required Vote; Voting Procedures**

You may vote FOR or AGAINST, or you may ABSTAIN from voting on, the proposal to approve and adopt the Merger Agreement. The merger cannot be completed unless the Merger Agreement is approved and adopted by the affirmative vote of a majority of the votes cast by our holders of Company shares of present in person or by proxy at the special meeting who are entitled to vote (assuming a quorum is present).

In order for your Company shares to be included in the vote, if you are a registered shareholder (that is, if you hold your Company shares in certificate form), you must submit your proxy and vote your Company shares by signing and returning the enclosed proxy card in the postage prepaid envelope provided, or by telephone or through the Internet, as indicated on the proxy card, or you may vote in person at the special meeting.

If your Company shares are held in street name by your broker, bank or other nominee, you should instruct your broker, bank or other nominee how to vote your Company shares using the instructions provided by your nominee. If you have not received such voting instructions or require further information regarding such voting instructions, contact your broker, bank or other nominee, and it can give you directions on how to vote your Company shares. Your broker, bank or other nominee may provide for a proxy with respect to your shares to be submitted through the Internet or by telephone.

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## **Table of Contents**

A broker non-vote generally occurs when a broker, bank or other nominee holding Company shares on your behalf does not vote on a proposal because the nominee has not received your voting instructions and lacks discretionary power to vote the Company shares on non-routine matters (such as the approval and adoption of the Merger Agreement). Broker non-votes (if any) will be counted for the purpose of determining the presence or absence of a quorum if the shares covered by the broker non-vote are voted on a non-procedural matter at the meeting, but will not be deemed votes cast under Pennsylvania law and, therefore, will have no effect on the outcome of the vote.

### **Share Ownership of Directors and Executive Officers**

As of \_\_\_\_\_, 2007, the record date for the special meeting, the directors and executive officers of the Company held and are entitled to vote, in the aggregate, \_\_\_\_\_ shares of the Company common stock (excluding options), representing approximately \_\_\_\_\_ % of the voting power of the Company. Each of our directors and executive officers have informed the Company that they intend to vote all of their Company shares FOR the approval and adoption of the Merger Agreement.

### **Proxies; Revocation**

If you vote your Company shares by returning a signed proxy card, or by voting over the Internet or by telephone as indicated on the proxy card, your Company shares will be voted at the special meeting in accordance with the instructions given. If no instructions are indicated on your signed proxy card, your Company shares will be voted FOR the approval and adoption of the Merger Agreement.

You may revoke or change your proxy at any time before it is voted, except as otherwise described below. If you have not voted through your broker, bank or other nominee because you are the registered shareholder, you may revoke or change your proxy before it is voted by:

\_\_\_\_\_ filing a notice of revocation, which is dated a later date than your proxy, with the Company's Secretary;

\_\_\_\_\_ submitting a duly executed proxy card bearing a later date;

\_\_\_\_\_ submitting a new proxy by telephone or through the Internet at a later time, but not later than 11:59 p.m., eastern time, on \_\_\_\_\_, 2007, or the day before the meeting date, if the special meeting is adjourned or postponed; or

\_\_\_\_\_ voting by ballot at the special meeting (simply attending the special meeting will not, by itself, constitute revocation of a proxy).

If your Company shares are held in street name, you should follow the instructions of your broker, bank or other nominee regarding revocation or change of proxies in order to revoke or change your proxy. If your broker, bank or other nominee allows you to submit a proxy by telephone or the Internet, you may be able to change your vote by submitting a proxy again by telephone or the Internet.

### **Expenses of Proxy Solicitation**

This proxy solicitation is being made by the Company on behalf of its Board of Directors. The expenses of preparing, printing and mailing this proxy statement and the proxies solicited hereby will be borne by the Company. Additional solicitation may be made by telephone, facsimile or other contact by certain directors, officers, employees or agents of the Company, none of whom will receive additional compensation for their efforts. Upon request, the Company will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses for forwarding material to the beneficial owners of Company shares held of record by others.

## **Table of Contents**

The Company has also engaged Innisfree M&A Incorporated to assist in the solicitation of proxies for the meeting, and the Company estimates it will pay them a fee of approximately \$[ ], and will reimburse them for reasonable administrative and out-of-pocket expenses incurred in connection with such solicitation.

## **Adjournments and Postponements**

Although it is not currently expected, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies. Despite the absence of a quorum, the Chairman of the special meeting or a majority of the shares held by shareholders present in person or by proxy at such meeting may adjourn the special meeting to another time and place, and it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the special meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned special meeting, any business may be transacted that might have been transacted on the original date of the meeting. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow the Company shareholders who have already sent in their proxies to revoke them prior to their use at the special meeting, when it is reconvened following such adjournment or postponement, in the manner described above.

## **Questions and Additional Information**

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please contact Innisfree M&A Incorporated, our proxy solicitor, toll-free at (877) 750-9498. Banks and brokers may call collect at (212) 750-5833.

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**Table of Contents**

**SPECIAL FACTORS**

**Background of the Merger**

In January 2007, following public announcements in December 2006 that Station Casinos, Inc. had received an acquisition proposal and that Harrah's Entertainment, Inc. had entered into an agreement to be acquired, and consistent with the recent trend of heightened interest in acquisitions in the gaming industry, representatives of several private equity firms, including Fortress/Centerbridge, a group which included Investment Fund A (defined below), and another firm, separately contacted Peter M. Carlino, Chairman and Chief Executive Officer of Penn National, to inquire whether the Company would be willing to consider a potential negotiated acquisition. Mr. Carlino reported these inquiries to Penn National's directors and, consistent with Penn National's philosophy of continually exploring opportunities to create shareholder value, the Board asked Mr. Carlino to invite representatives of Deutsche Bank to make a presentation to the Board regarding current market trends and potential strategic alternatives.

At Penn National's regularly scheduled Board of Directors meeting on February 21, 2007, the Board received a presentation from representatives of Deutsche Bank regarding current market trends and potential strategic alternatives, including a negotiated sale transaction with a financial and/or strategic buyer, dividend recapitalization and continued execution of the current business plan. After discussion, the directors reached a consensus that equity market valuations and debt market receptivity to gaming industry participants were favorable, and thus the Board should further explore strategic alternatives at the present time. In this regard, the directors were aware of the possibility that then-current conditions may present the Board with an opportunity to deliver significant value to Penn National's shareholders, while achieving favorable consequences for the Company's other constituencies, including its employees and the communities it serves. Accordingly, the Board decided to engage legal and financial advisors to assist in its further exploration of strategic options, and delegated to two independent directors, David A. Handler and Barbara Z. Shattuck, the responsibility for identifying and recommending to the Board legal and financial advisors to assist the Board's consideration. Both directors were engaged in the financial services industry and were experienced with respect to the negotiated acquisition process. In regard to the financial advisor, the Board further directed that such advisor should be retained in solely an advisory capacity and should not be permitted to participate in any financing of or relating to any strategic alternative. After full consideration, in early March 2007 the two independent directors recommended that Lazard serve as the Board's financial advisor and that Wachtell, Lipton, Rosen & Katz, which is referred to as Wachtell Lipton, serve as the Board's legal advisor.

The Penn National Board of Directors met on March 16, 2007 with representatives of Lazard and Wachtell Lipton. The representatives of Lazard offered their views on potential strategic alternatives that were available to the Company, and the representatives of Wachtell Lipton discussed directors' responsibilities, disclosure and other legal matters pertaining to a potential exploration of strategic alternatives. After discussion, the directors decided to retain both firms and requested that the representatives of Lazard and Wachtell Lipton develop a process that the Company could undertake to explore its strategic alternatives. The directors requested that any such process which it may decide to authorize be designed to derive the highest values achievable for shareholders while minimizing the risks of unauthorized, premature disclosure or market rumors regarding the Board's consideration of a potential transaction. In this regard, the directors were concerned about the potential negative impact of a broad public auction, whether or not successful, on the Company's operations, employees, shareholders, relations with regulators and pending development opportunities.

The Penn National Board of Directors convened a meeting on March 28, 2007 to further consider with its legal and financial advisors the specifics of the process that the Company could undertake to explore its strategic alternatives. After discussion, the Board concluded that a broad public auction should not be undertaken (for the reasons set forth in the preceding paragraph), and expressed its preference that any process proceed as a confidential, multi-staged approach that would enable the Board to first assess potential values available for the Company from a selected group of potential purchasers before determining whether the process should continue.



## **Table of Contents**

If the Board were to then determine to continue the process, it would progress to a second, non-public stage involving additional due diligence and a potentially larger group of potential purchasers. The multi-stage process would also include a post-signing market check utilizing a go-shop provision in the merger agreement designed to assure that all potentially interested parties would have an opportunity to obtain non-public information about the Company and bid on a largely unimpeded basis, even if not included in the participants selected to be involved in the non-public phase of the process. The Board did not consider any processes for exploring a possible negotiated acquisition other than a broad public auction and the multi-staged process pursued by the Board. The Board therefore authorized and directed Lazard, as a first stage, to contact certain potential purchasers, and the Board discussed with Lazard and agreed that the Fortress/Centerbridge group, Investment Fund A and two other private equity firms (including one of the firms which contacted Mr. Carlino in January) should be contacted in the initial phase of the process. In determining which potential purchasers to contact in the first stage of the process, the Board considered both potential strategic and financial buyers, including those firms that had contacted Mr. Carlino in January, and selected these potential purchasers based on the anticipated likelihood of their interest in Penn National and their ability to complete such an acquisition in a timely manner. In addition, the Board authorized management and the Company's advisors to seek the participation in the process of Deutsche Bank and Wachovia Securities, which is referred to as Wachovia, as the sole providers of debt financing for the selected participants during the initial phase of the process to reduce the likelihood of unauthorized disclosures or market rumors concerning the process. Deutsche Bank and Wachovia were selected because of their familiarity with Penn National and the gaming industry and their experience as lenders to companies in that industry. The Board received updates on the status of discussions with potential purchasers at a meeting on April 9, 2007 and at a regularly scheduled meeting on April 25, 2007.

In late April, all of the potential purchasers selected by the Board, as well as Deutsche Bank and Wachovia, executed confidentiality agreements and commenced their due diligence review of the Company. In the confidentiality agreement each potentially interested party agreed to refrain from having any discussions with management personnel concerning their potential equity investment and employment arrangements to be in effect after consummation of any acquisition. As part of this due diligence, each party was invited to meet with Penn National's management team and Lazard to discuss the Company's business and operations and was also given access to an online data room. All four of the interested parties commenced their review of the material placed in the data room, and management meetings with each of the potential bidders were scheduled for early May; however, prior to their scheduled management meeting, two of the potential purchasers separately informed Lazard that they were no longer interested in pursuing a transaction with the Company.

On May 14, 2007, a bid procedure letter was distributed to potential purchasers. The bid procedure letter requested preliminary transaction proposals from each of the potential purchasers by May 25, 2007.

On May 25, 2007, Fortress/Centerbridge submitted a preliminary indication of interest that included a proposed purchase price of \$63.00 per share, and another potential purchaser, which is referred to as Investment Fund A, submitted a preliminary indication of interest that included a proposed purchase price of \$62.00 per share. On May 29, 2007, the Board met with its legal and financial advisors and reviewed the preliminary indications of interest. Following discussion in which the representatives of Lazard and Wachtell Lipton participated, the Board unanimously concurred that, based on the prices that the directors anticipated could be achieved in a transaction with either bidder as well as the likely terms and conditions to be included in a definitive merger agreement, and taking into consideration the prospects of Penn National's business as a standalone company, the exploration process should proceed to the next (but still confidential) phase. The Board also decided not to expand the number of participants to be included in the next phase of the process after balancing their views as to the likelihood that one or more additional participants would pursue an acquisition of the Company against the risk that increasing the number of participants would adversely effect the confidentiality of the process. The Board therefore directed the representatives of Lazard to request definitive transaction proposals from each bidder reflecting their best offer price and their best terms with regard to regulatory framework, contract terms and financing. On June 5, 2007, a draft merger agreement was sent by Lazard to Fortress/Centerbridge and to Investment Fund A.

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**Table of Contents**

On June 6, 2007, Penn National's Board of Directors convened a regularly scheduled meeting. In addition to conducting general business, the Board further discussed with its legal and financial advisors the indications of interest received on May 25. The representatives of Lazard reported that both parties had indicated that they were willing to increase their proposed purchase price and would be prepared to submit revised proposals as well as comments to the recently distributed draft merger agreement very shortly. The Board also discussed with its legal and financial advisors whether and, if so, when it should permit the potential purchasers to discuss post-transaction equity investment and employment arrangements with Penn National's management. The Board reached a consensus that the bidders should be requested to submit to the Company's management and the Board their proposals for post-transaction equity and employment commitments by management, in light of the bidders' expressed interest in doing so and the directors' desire to understand, as part of their deliberations, the interests that the Company's management personnel would have in the potential transactions to be considered by the Board. The Board directed that all resulting discussions of such matters with management be reported to Lazard and the Board and that at no time should management share with any bidder information about the status, proposed transaction terms or analysis of any other bidder. The directors then determined that the deadline for the potential purchasers to submit definitive transaction proposals would be June 11, and the following day Lazard distributed final bid procedure letters to each of the potential purchasers requesting definitive transaction proposals by such date.

On June 11, 2007, Penn National received two transaction proposals: Investment Fund A increased its proposed purchase price by \$3.00 per share to \$65.00 and Fortress/Centerbridge increased its proposed purchase price by \$.60 per share to \$63.60. That evening, Penn National's Board of Directors convened a meeting to discuss the transaction proposals. The Lazard representatives expressed their belief that the small increase in Fortress/Centerbridge's proposed purchase price was likely attributable to its reaction to the negative outcome of the June 9, 2007 referendum which sought voter approval to legalize table games at the Company's Charles Town, West Virginia entertainment complex. A representative of Wachtell Lipton then discussed Investment Fund A's and Fortress/Centerbridge's proposed revisions to the draft merger agreement. The directors reached a consensus that the purchase price and other transaction terms proposed by both Fortress/Centerbridge and by Investment Fund A should be improved. The directors believed that an immediate, direct response to Fortress/Centerbridge would maximize the Company's ability to negotiate a more favorable price and contract terms with that bidder and, if the Company were able to obtain an improved price and contract terms from Fortress/Centerbridge, to then negotiate most effectively with Investment Fund A for improvements in its bid.

Later on the evening of June 11, 2007, as directed by the Company's Board of Directors, a representative of Lazard informed a senior representative of Fortress/Centerbridge of the Board's disappointment with its proposed purchase price and contract terms and requested improvement in each. On June 12, 2007, representatives of Wachtell Lipton also discussed Fortress/Centerbridge's proposed revisions to the draft merger agreement with Willkie Farr & Gallagher LLP, Fortress/Centerbridge's legal advisors, which is referred to as Willkie Farr. Also on June 12, representatives of Wachtell Lipton and Lazard discussed the proposed financing of Investment Fund A's acquisition proposal with representatives of Investment Fund A and its lead lender; and the Company's regulatory counsel and its senior regulatory personnel, as well as a representative of Wachtell Lipton, discussed briefly aspects of Investment Fund A's approach to obtaining regulatory approval with that bidder's regulatory counsel.

On the evening of June 12, 2007, the Board of Directors convened a meeting to discuss further with its legal and financial advisors the transaction proposals that had been received on June 11 and to receive an update from its financial and legal advisors regarding discussions with Investment Fund A's and Fortress/Centerbridge's financial and legal advisors. The representatives of Lazard reported that Fortress/Centerbridge personnel had advised Lazard that such bidder had overestimated the negative impact of the West Virginia referendum on their valuation of the Company and would be providing a revised proposal. A representative of Wachtell Lipton reported that appropriate resolutions had been reached on most of the issues raised in Fortress/Centerbridge's revised draft, although certain important issues remained open, including the termination fees and the increase in the purchase price if the merger were not to be completed by a specified date. The Board then reached a

**Table of Contents**

consensus that Wachtell Lipton should discuss Investment Fund A's and Fortress/Centerbridge's proposed revisions to the draft merger agreement with their respective legal advisors with the goal of obtaining improved terms and finalizing each party's proposed merger agreement as soon as practicable.

On June 13, 2007, Wachtell Lipton sent a revised draft merger agreement to Willkie Farr. The representatives of Wachtell Lipton also discussed Investment Fund A's proposed revisions to the draft merger agreement with Investment Fund A's legal advisors but were not able to make progress in such discussions.

On June 14, 2007, Fortress/Centerbridge raised its proposed purchase price to \$66.00 per share (from the \$63.60 per share indicated in its June 11 proposal). On that date Penn National's Board of Directors met to further discuss the transaction proposals that had been received from Investment Fund A and Fortress/Centerbridge on June 11. The representatives of Wachtell Lipton discussed legal aspects of Investment Fund A's and Fortress/Centerbridge's transaction proposals, including their respective financing commitments, proposed employment and equity ownership arrangements with Mr. Carlino (which, it was reported, would be required by Fortress/Centerbridge to be completed contemporaneously with the definitive documentation and, in the case of Investment Fund A, were at a preliminary stage) and proposed terms of the merger agreement with each bidder. In addition, the Board received reports from its regulatory advisors concerning each bidder's regulatory approval strategy, including the conclusion that Fortress/Centerbridge was willing to adopt a regulatory approach more likely to lead to regulatory approval than the approach being taken by Investment Fund A. The Board also discussed with its legal and financial advisors the risk of an unauthorized public disclosure or market rumors, which would likely be detrimental to the process and to other aspects of Penn National's business, if the merger negotiations were not completed very promptly. Accordingly, the representatives of Lazard were instructed to immediately contact Fortress/Centerbridge and seek improvement in its proposed price and the resolution of a significant open contract issue, and the Company's directors then discussed with its legal and financial advisors how best to advise Investment Fund A that it would need to make improvements of its price and contract terms (including those involving regulatory approval), on a very expedited basis, if it wished to reach an agreement with the Company.

During recesses of the Board meeting, a representative of Lazard spoke to Fortress/Centerbridge and a representative of Wachtell Lipton spoke to a senior representative of Investment Fund A's corporate parent and in each instance advised the bidders in accordance with the Board's instructions. In response, Fortress/Centerbridge raised its proposed transaction price to \$67.00 per share, which it indicated was its best and final offer, and responded positively to the proposal made by the Board to resolve a significant contract issue.

When the Board meeting resumed following these various communications, the directors reached the consensus that, absent a significant improvement by Investment Fund A in its price and contract terms (which the directors viewed as extremely unlikely based on the negotiations thus far with Investment Fund A), the Fortress/Centerbridge transaction at \$67.00 per share, on the contract terms described at the Board meeting, was the most attractive transaction that was achievable at that time, and that the Company's best interests would be served by completing the negotiation of such transaction at the earliest time practicable. Accordingly, the directors instructed Wachtell Lipton to work through the evening to finalize the terms of the merger agreement with Fortress/Centerbridge's legal advisors, and decided to reconvene in the morning to consider Fortress/Centerbridge's final proposal and contract and any revised proposal which may be received from Investment Fund A. The Board requested that Lazard be prepared to deliver at the meeting a fairness opinion on Fortress/Centerbridge's \$67.00 per share proposal. Later that evening a representative of Lazard spoke to a representative of Investment Fund A and reiterated the advice that had been conveyed earlier in the day by the Wachtell Lipton representative concerning Investment Fund A's price and contract terms (including those involving regulatory approval).

On the morning of June 15, 2007, Penn National's Board of Directors (other than Mr. Carlino, who was not present) met to further consider the proposed Fortress/Centerbridge transaction. At the meeting, a representative of Wachtell Lipton discussed the issues that had not been resolved at the conclusion of the previous day's Board

## **Table of Contents**

meeting and the proposed resolution of such issues. The representatives of Lazard then presented a financial analysis of the proposed transaction, and delivered Lazard's oral opinion, which was subsequently confirmed in writing, to the effect that, as of such date and based upon and subject to the factors and assumptions explained in their presentation and set forth in their written opinion, the \$67.00 in cash proposed to be exchanged for each share of Penn National common stock pursuant to the proposed merger agreement was fair from a financial point of view to Penn National's shareholders (other than Parent, its affiliates and any holder who exchanges their shares of common stock for shares of Parent or its affiliates in connection with the merger). The Board (other than Mr. Carlino, who was not present) then voted to declare it advisable for, fair to, and in the best interests of Penn National and its shareholders for Penn National to enter into the proposed merger agreement, approved and adopted the proposed merger agreement and determined to recommend the approval and adoption of the proposed merger agreement by Penn National's shareholders.

Following the Board meeting, Penn National and Fortress/Centerbridge executed the Merger Agreement and issued a joint press release announcing the transaction.

Beginning on Monday, June 18, 2007, pursuant to the go-shop provisions set forth in the Merger Agreement, certain potential acquirers contacted Lazard, and Lazard contacted certain potential acquirers that they had identified and discussed with the Board. The potential acquirers contacted by Lazard were chosen on the basis of their likelihood of interest in participating in a transaction with the Company, their ability to consummate a transaction with the Company and/or their potential interest in the gaming industry. During the go-shop period, Lazard contacted in excess of 21 parties, and 2 parties contacted Lazard. Of these 23 parties, 12 were financial buyers and 11 were strategic buyers. None of these contacts progressed to the stage where a party requested a draft confidentiality agreement for the purpose of receiving access to confidential due diligence materials or indicated, prior to the end of the go-shop period, that it would be interested in making a proposal to acquire the Company. The go-shop period under the Merger Agreement ended at 11:59 p.m., eastern time, on July 30, 2007.

### **Recommendation of Our Board of Directors; Reasons for the Merger**

The Penn National Board of Directors (other than Mr. Carlino, who recused himself), at a meeting held on June 15, 2007, determined that the Merger Agreement and the transactions contemplated by the Merger Agreement were advisable for, fair to and in the best interests of Penn National and its shareholders, and approved and adopted the Merger Agreement and the transactions contemplated by the Merger Agreement. The Penn National Board of Directors (other than Mr. Carlino, who recused himself) recommends that Penn National's shareholders vote FOR the approval and adoption of the Merger Agreement at the Penn National special meeting.

In reaching this decision, the Penn National Board of Directors consulted with Penn National's management and its legal and financial advisors and considered a variety of factors, including the following material factors, among others:

the attractiveness of the financial terms of the merger, which provided for Penn National shareholders to receive \$67.00 in cash per share, which represented a premium of approximately 31% based on the closing price on the Nasdaq Global Market of Penn National common stock on June 14, 2007 (the last trading day prior to the execution and announcement of the Merger Agreement); and the fact that the consideration to be paid in the merger is all cash, which provides certainty of value to Penn National's shareholders;

the results of the exploration process the Board had authorized, including its negotiations with Investment Fund A; and the fact that Penn National and its legal and financial advisors had extensive, arm's-length negotiations with Fortress/Centerbridge and Investment Fund A over several months, which, among other things, resulted in Fortress/Centerbridge increasing the merger consideration from the initial offer price of \$63.00 to \$67.00 per share;

**Table of Contents**

the financial analyses presented by Lazard to the Penn National Board of Directors, and the opinion of Lazard dated as of June 15, 2007 to the effect that, as of that date, and subject to and based upon the factors and assumptions set forth in such opinion, the consideration to be received by holders of shares of Penn National common stock, (other than rollover investors, Parent and its affiliates if any) in the merger was fair to such holders from a financial point of view;

its view that the terms of the Merger Agreement, including termination fees, would not preclude a proposal for an alternative transaction involving Penn National (see The Merger Agreement Termination Fees ); in this regard the terms of the Merger Agreement included (i) a 45-day go-shop period during which Penn National was permitted to actively seek competing proposals for a business combination or acquisition, which period the Board believed provided sufficient time for any potentially interested party to conduct sufficient due diligence to make such a competing proposal, and (ii) the right to terminate the Merger Agreement and accept a superior proposal prior to shareholder approval of the Merger Agreement, subject to payment of a customary break-up fee and certain other conditions and the ability, after the end of the 45-day go-shop period, to explore unsolicited proposals which the Company may receive; further, the break-up fee was at a reduced amount for parties that, by the end of the go-shop period, had made a bona fide proposal to acquire the Company or who were engaged in ongoing discussions with the Company regarding a bona fide proposal to acquire the Company that, in either instance, the Company's Board of Directors determined constituted a superior proposal or could reasonably be expected to lead to a superior proposal;

that the Merger Agreement is subject to a relatively limited number of closing conditions;

the requirement that Fortress/Centerbridge pay a termination fee of \$200 million to Penn National in certain circumstances, including if the required gaming approvals are not obtained and other conditions to the merger are satisfied (see The Merger Agreement Termination Fees );

its expectation, based on its experience and the advice which it received, that the regulatory and other approvals required in connection with the merger were likely to be received in a timely manner and without unacceptable conditions (although the directors were aware of the risk that such expectation might not be fulfilled);

the financing commitments that Fortress/Centerbridge delivered were from reputable, experienced and financially sound lenders and equity financing sources and such financing commitments are subject to minimal conditions to the obligations of such institutions to fund such commitments, each as described under the caption (see Financing by Parent of Merger and Related Transactions );

Fortress/Centerbridge's intention to maintain the headquarters of the Company in Wyomissing, Pennsylvania for at least three years after the effective time; and

that the transaction will be subject to the approval of Penn National's shareholders.

The Penn National Board of Directors was also aware of and considered the following adverse factors associated with the proposed merger, among others:

that Penn National did not undertake a broad public auction prior to entering into the Merger Agreement, although the Penn National Board of Directors was satisfied that the Merger Agreement provided the Board with an adequate opportunity to solicit proposals during the go-shop period and thereafter to respond to unsolicited proposals and during or after the go-shop period to terminate the Merger Agreement and accept a superior proposal prior to Penn National shareholder approval of the Merger Agreement;

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the possibility that the regulatory and other approvals required in connection with the merger may not be received in a timely manner and that regulatory or governmental authorities might seek to impose conditions on or otherwise prevent or delay the merger (and that the merger may not be completed as a result of conditions imposed by regulatory authorities);

**Table of Contents**

the requirement that Penn National pay a termination fee of \$100 million or \$200 million to Fortress/Centerbridge, and reimburse certain of their expenses, under certain circumstances (see [The Merger Agreement Termination Fees](#) );

that the Merger Agreement provides that the Company's right to terminate the Merger Agreement and receive the termination fee of \$200 million and other amounts payable pursuant to the Merger Agreement is the sole and exclusive monetary remedy of the Company and its subsidiaries against Parent, Merger Sub and any of their respective affiliates, shareholders, partners, members, directors, officers or agents (see [The Merger Agreement Remedies](#) and [The Merger Agreement Termination Fees](#) );

that the shareholders of Penn National (other than Mr. Carlino and possibly certain of his affiliates and certain members of Penn National's management who may be given the opportunity to exchange their shares of Penn National common stock for, or to purchase, interests in PNG Holdings) will have no ongoing equity participation in the surviving corporation following the merger, meaning that such shareholders will cease to participate in Penn National's future earnings or growth;

that the proposed merger will be a taxable transaction with respect to the shares of Penn National stock that are converted into cash in the merger;

that holders of Penn National common stock do not have appraisal rights under Pennsylvania law, irrespective of whether or how they vote at the special meeting;

that members of the Company's Board of Directors and the Company's executive officers may have interests in the transaction that are different from, and in addition to, the interests of the Company's shareholders generally (See [Special Factors Interests of the Company's Directors and Executive Officers in the Merger](#) ); and

the potential impact of the restrictions under the Merger Agreement on Penn National's ability to take certain actions during the period prior to the consummation of the merger (which may delay or prevent Penn National from undertaking business opportunities that may arise pending completion of the merger), the potential for diversion of management and employee attention and for increased employee attrition during that period and the potential effect of such occurrences on Penn National's business and relations with customers and service providers.

In addition, the Board was aware that Mr. Carlino would be entering into arrangements simultaneously with the execution of the Merger Agreement providing that he, and possibly certain of his affiliates, would invest in, and become a member of, PNG Holdings and that he and other members of Penn National's management would remain employed in substantially their respective current capacities following the completion of the transaction. The Board was aware of these interests and had reviewed with Wachtell Lipton a letter agreement, term sheet and employment agreement setting forth the material terms of these arrangements for Mr. Carlino. See [Interests of Our Directors and Executive Officers in the Merger](#).

In the course of reaching its decision to approve the Merger Agreement, the merger and the other transactions contemplated by the Merger Agreement, the Board of Directors did not consider the liquidation value of the Company's assets because the Company is a viable going concern business and the trading history of its common stock is indicative of its value as such. Further, the Board of Directors did not consider net book value as a factor because it believed that net book value is not a useful indicator of the value of the Company as a going concern but rather is derived from historical costs. The Company's net book value per share as of June 30, 2007 was \$11.91. This value is substantially below the per share cash consideration to be paid in the Merger.

In analyzing the transaction relative to the going concern value of Penn National, the Board of Directors took into account the Company's stock price as of June 13, 2007 and its 52 week high as of such date of \$54.38, which the Board considered a useful indicator of the Company's going concern value, and expressly adopted the analyses and methodologies used by Lazard, including the precedent transaction analysis, comparable public companies analysis and discounted cash flow analysis. See below under [Opinion of Lazard Frères & Co. LLC](#).





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## **Table of Contents**

The foregoing discussion of the factors considered by the Penn National Board of Directors is not intended to be exhaustive, but, rather, includes the material factors considered by the Penn National Board of Directors. In reaching its decision to approve the Merger Agreement, the merger and the other transactions contemplated by the Merger Agreement, the Penn National Board of Directors did not quantify or assign any relative weights to the factors considered, and individual directors may have given different weights to different factors. The Penn National Board of Directors considered all these factors as a whole, including discussions with, and questioning of, Penn National management and Penn National financial and legal advisors, and overall considered the factors to be favorable to, and to support, its determination. The Penn National Board of Directors also relied on the experience of Lazard, its financial advisor, for analyses of the financial terms of the merger and for their opinion as to the fairness of the consideration in the merger to Penn National's shareholders.

For the reasons set forth above, the Penn National Board of Directors (other than Mr. Carlino, who recused himself) determined that the merger, the Merger Agreement and the transactions contemplated by the Merger Agreement are advisable for, fair to, and in the best interests of Penn National and its shareholders and substantively and procedurally fair to the unaffiliated shareholders of Penn National, and approved and adopted the Merger Agreement and the transactions contemplated by the Merger Agreement. In addition, in consideration of the factors discussed above and the role of Penn National's independent directors in the strategic exploration process, the Board of Directors determined that procedural safeguards adopted by the Board of Directors support its decision and provide evidence of the procedural fairness of the merger to Penn National's unaffiliated shareholders. The Board of Directors believes that the merger is procedurally fair despite the fact that it did not retain an unaffiliated representative to act solely on behalf of Penn National's shareholders for purposes of negotiating the terms of the Merger Agreement and that the transaction is not structured so that approval of at least a majority of unaffiliated security holders is required. The Penn National Board of Directors (other than Mr. Carlino, who recused himself) recommends that Penn National's shareholders vote FOR approval and adoption of the Merger Agreement at the Penn National special meeting.

### **Purposes and Reasons of Mr. Carlino**

The purposes for Mr. Carlino engaging in the merger are (i) to enable our shareholders to realize a premium on their shares of Penn National common stock based on the closing price of shares of our common stock on June 14, 2007 and (ii) to immediately realize in cash the value of the substantial majority of his and his family's equity holdings in Penn National through his receipt of the per share merger price of \$67.00 in cash.

### **Purposes and Reasons of Parent, Merger Sub and Fortress/Centerbridge**

For Parent and Merger Sub, the purpose of the merger is to effectuate the transactions contemplated by the Merger Agreement. For Fortress/Centerbridge, the purpose of the merger is to allow them to own controlling equity interests in Penn National and to bear the rewards and risks of such ownership after shares of Penn National common stock cease to be publicly traded. Parent, Merger Sub and Fortress/Centerbridge did not consider any alternatives for achieving these purposes. The transaction was structured in the manner described in this proxy statement in order to provide Parent, Merger Sub and Fortress/Centerbridge the best opportunity to achieve the purposes described above and will have the effect of Penn National ceasing to be a publicly traded company and becoming an indirect subsidiary of Parent. Parent, Merger Sub and Fortress/Centerbridge have undertaken to pursue the transaction at this time in light of the opportunities they perceive to strengthen Penn National's competitive position, strategy and financial performance under a new form of ownership.

### **Position of Mr. Carlino Regarding the Fairness of the Merger**

Under the rules governing going private transactions, Mr. Carlino is required to express his beliefs as to the substantive and procedural fairness of the merger to Penn National's unaffiliated shareholders. Mr. Carlino is making the statements included in this subsection solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

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**Table of Contents**

Mr. Carlino, in his capacity as a member of our Board of Directors, participated in the deliberations of the Board of Directors regarding the merger and the other transactions contemplated by the Merger Agreement. In such capacity, he received advice from the Board's legal and financial advisors. However, Mr. Carlino recused himself from the meeting of our Board of Directors held on June 15, 2007 at which the Board determined that the Merger Agreement and the transactions contemplated by the Merger Agreement were advisable for, fair to and in the best interests of Penn National and its shareholders, and approved and adopted the Merger Agreement and the transactions contemplated by the Merger Agreement. As disclosed under "Interests of the Company's Directors and Executive Officers in the Merger," Mr. Carlino has interests in the merger different from, and in addition to, those of the other stockholders of the Company.

Mr. Carlino has not performed, or engaged a financial advisor to perform, any valuation or other analysis for the purposes of assessing the substantive and procedural fairness of the merger to Penn National's unaffiliated shareholders. Mr. Carlino, solely in his capacity as a member of Penn National's Board of Directors, received advice from the Board's legal and financial advisors during the deliberations of the Board of Directors regarding the merger; provided, however, he did not receive advice from such legal and financial advisors in his individual capacity as to the fairness of the merger to him.

Mr. Carlino believes that the merger is substantively and procedurally fair to the unaffiliated shareholders of Penn National. Mr. Carlino has expressly adopted the analyses used by the Board in its determination of the fairness of the merger consideration to be received by Penn National's shareholders, from a financial point of view, based upon the reasonableness of the Board's analyses and conclusions and Mr. Carlino's knowledge of Penn National, as well as the factors considered by, and the findings of, the Board with respect to the fairness of the merger consideration to be received by Penn National's shareholders.

In making his determination that the merger is substantively and procedurally fair to Penn National's unaffiliated shareholders, Mr. Carlino considered the following material factors, among others:

the attractiveness of the financial terms of the merger, which provided for Penn National shareholders to receive \$67.00 in cash per share, which represented a premium of approximately 31% based on the closing price on the Nasdaq Global Market of Penn National common stock on June 14, 2007 (the last trading day prior to the execution and announcement of the Merger Agreement); and the fact that the consideration to be paid in the merger is all cash, which provides certainty of value to Penn National's shareholders;

the results of the exploration process the Board had authorized, including its negotiations with Investment Fund A; and the fact that Penn National and its legal and financial advisors had extensive, arm's-length negotiations with Fortress/Centerbridge and Investment Fund A over several months, which, among other things, resulted in Fortress/Centerbridge increasing the merger consideration from the initial offer price of \$63.00 to \$67.00 per share;

the financial analyses presented by Lazard to the Penn National Board of Directors, and the opinion of Lazard dated as of June 15, 2007 to the effect that, as of that date, and subject to and based upon the factors and assumptions set forth in such opinion, the consideration to be received by holders of shares of Penn National common stock (other than the rollover investors, Parent and its affiliates, if any) in the merger was fair to such holders from a financial point of view;

that the terms of the Merger Agreement, including termination fees, would not preclude a proposal for an alternative transaction involving Penn National (see "The Merger Agreement - Termination Fees"); in this regard the terms of the Merger Agreement included (i) a 45-day go-shop period during which Penn National was permitted to actively seek competing proposals for a business combination or acquisition, which period the Board believed provided sufficient time for any potentially interested party to conduct sufficient due diligence to make such a competing proposal, and (ii) the right to terminate the Merger Agreement and accept a superior proposal prior to shareholder approval of the Merger Agreement, subject to payment of a customary break-up fee and certain other conditions and

**Table of Contents**

the ability, after the end of the 45-day go-shop period, to explore unsolicited proposals which the Company may receive; further, the break-up fee was at a reduced amount for parties that, by the end of the go-shop period, had made a bona fide proposal to acquire the Company or who were engaged in ongoing discussions with the Company regarding a bona fide proposal to acquire the Company that, in either instance, the Company's Board of Directors determined constituted a superior proposal or could reasonably be expected to lead to a superior proposal;

that the Merger Agreement is subject to a relatively limited number of closing conditions;

the requirement that Fortress/Centerbridge pay a termination fee of \$200 million to Penn National in certain circumstances, including if the required gaming approvals are not obtained and other conditions to the merger are satisfied (see *The Merger Agreement Termination Fees*);

his expectation, based on his experience and the advice which Penn National received, that the regulatory and other approvals required in connection with the merger were likely to be received in a timely manner and without unacceptable conditions (although he and the directors were aware of the risk that such expectation might not be fulfilled);

the financing commitments that Fortress/Centerbridge delivered were from reputable, experienced and financially sound lenders and equity financing sources and such financing commitments are subject to minimal conditions to the obligations of such institutions to fund such commitments, each as described under the caption *Financing by Parent of Merger and Related Transactions*;

Fortress/Centerbridge's intention to maintain the headquarters of the Company in Wyomissing, Pennsylvania for at least three years after the effective time; and

that the transaction will be subject to the approval of Penn National's shareholders.

Mr. Carlino was also aware of and considered the following adverse factors associated with the proposed merger, among others:

that Penn National did not undertake a broad public auction prior to entering into the Merger Agreement, although the Penn National Board of Directors was satisfied that the Merger Agreement provided the Board with an adequate opportunity to solicit proposals during the go-shop period and thereafter to respond to unsolicited proposals and during or after the go-shop period to terminate the Merger Agreement and accept a superior proposal prior to Penn National shareholder approval of the Merger Agreement;

the possibility that the regulatory and other approvals required in connection with the merger may not be received in a timely manner and that regulatory or governmental authorities might seek to impose conditions on or otherwise prevent or delay the merger (and that the merger may not be completed as a result of conditions imposed by regulatory authorities);

the requirement that Penn National pay a termination fee of \$100 million or \$200 million to Fortress/Centerbridge, and reimburse certain of their expenses, under certain circumstances (see *The Merger Agreement Termination Fees*);

that the Merger Agreement provides that the Company's right to terminate the Merger Agreement and receive the termination fee of \$200 million and other amounts payable pursuant to the Merger Agreement is the sole and exclusive monetary remedy of the Company and its subsidiaries against Parent, Merger Sub and any of their respective affiliates, shareholders, partners, members, directors, officers or agents (see *The Merger Agreement Remedies* and *The Merger Agreement Termination Fees*);

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that the shareholders of Penn National (other than Mr. Carlino and possibly certain of his affiliates and certain members of Penn National's management who may be given the opportunity to exchange their shares of Penn National common stock for, or to purchase, interests in PNG Holdings) will have no

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**Table of Contents**

ongoing equity participation in the surviving corporation following the merger, meaning that such shareholders will cease to participate in Penn National's future earnings or growth;

that the proposed merger will be a taxable transaction with respect to the shares of Penn National stock that are converted into cash in the merger;

that holders of Penn National common stock do not have appraisal rights under Pennsylvania law, irrespective of whether or how they vote at the special meeting;

that members of the Company's Board of Directors and the Company's executive officers may have interests in the transaction that are different from, and in addition to, the interests of the Company's shareholders generally (See "Special Factors - Interests of the Company's Directors and Executive Officers in the Merger"); and

the potential impact of the restrictions under the Merger Agreement on Penn National's ability to take certain actions during the period prior to the consummation of the merger (which may delay or prevent Penn National from undertaking business opportunities that may arise pending completion of the merger), the potential for diversion of management and employee attention and for increased employee attrition during that period and the potential effect of such occurrences on Penn National's business and relations with customers and service providers.

The foregoing discussion of the factors considered by Mr. Carlino is not intended to be exhaustive, but, rather, includes the material factors considered by Mr. Carlino. In reaching his decision as to the fairness of the merger, Mr. Carlino did not quantify or assign any relative weights to the factors considered. Mr. Carlino considered all of these factors as a whole, including discussions with, and questioning of, Penn National management and Penn National's financial and legal advisors, and overall considered the factors to be favorable to, and to support, his determination that the merger is fair to the unaffiliated shareholders of Penn National. Mr. Carlino, as a member of the Company's Board of Directors, also relied on the experience of Lazard, the Board's financial advisor, for analyses of the consideration to be received by Penn National's shareholders (other than the rollover investors, Parent and its affiliates, if any) in the merger and for their opinion as to the fairness of the merger consideration to be received by such holders in the merger from a financial point of view.

**Position of Parent, Merger Sub and Fortress/Centerbridge Regarding the Fairness of the Merger**

Under the rules governing going private transactions, Parent, Merger Sub and Fortress/Centerbridge are required to express their beliefs as to the substantive and procedural fairness of the merger to Penn National's unaffiliated shareholders. Parent, Merger Sub and Fortress/Centerbridge are making the statements included in this subsection solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

The interests of the unaffiliated stockholders of Penn National were represented by the Board of Directors, which had the exclusive authority to review, evaluate and negotiate the terms and conditions of the Merger Agreement on behalf of Penn National, with the assistance of the Board of Directors' independent financial and legal advisors. Accordingly, Parent, Merger Sub and Fortress/Centerbridge did not undertake a formal evaluation of the merger or engage a financial adviser for that purpose. Parent, Merger Sub and Fortress/Centerbridge believe that the Merger Agreement and the merger are substantively and procedurally fair to the unaffiliated shareholders on the basis of the factors described under "Recommendation of Our Board of Directors; Reasons for the Merger" and agree with the analyses and conclusions of the Board of Directors, based upon the reasonableness of those analyses and conclusions, which they adopt, and their respective knowledge of Penn National, as well as the factors considered by, and the findings of, the Board of Directors with respect to the fairness of the merger to such unaffiliated shareholders. In addition, Parent, Merger Sub and Fortress/Centerbridge considered the fact that the Board of Directors received, solely for its benefit and use, an opinion from Lazard to the effect that, as of the date of its opinion, and based upon and subject to the factors, assumptions, limitations, qualifications and other conditions set forth in the opinion, the merger consideration of

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**Table of Contents**

\$67.00 per share to be received pursuant to the Merger Agreement by the public holders of shares of Penn National common stock (other than Parent, its affiliates and any holder who exchanges their shares of common stock for shares of Parent or its affiliates in connection with the merger) was fair, from a financial point of view, to such holders. See Recommendation of Our Board of Directors; Reasons for the Merger.

The foregoing discussion of the information and factors considered and given weight by Parent, Merger Sub and Fortress/Centerbridge in connection with the fairness of the Merger Agreement and the merger is not intended to be exhaustive but is believed to include all material factors considered by Parent, Merger Sub and Fortress/Centerbridge. Parent, Merger Sub and Fortress/Centerbridge did not find it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the Merger Agreement and the merger. Parent, Merger Sub and Fortress/Centerbridge believe that the foregoing factors provide a reasonable basis for their belief that the merger is fair to Penn National and its unaffiliated stockholders.

**Opinion of Lazard Frères & Co. LLC**

Under an engagement letter, dated as of March 28, 2007, Penn National retained Lazard to perform financial advisory services and to render an opinion to the Board of Directors of Penn National as to the fairness, from a financial point of view, to holders of Penn National's common stock of the consideration to be received by such holders in the merger. Lazard has delivered to Penn National's Board of Directors a written opinion, dated June 15, 2007, that, as of that date, the \$67.00 per share in cash consideration to be received by the holders of Penn National's common stock (other than the rollover investors, Parent and its affiliates, if any) in the merger was fair to such holders, from a financial point of view.

Rollover investors means any holder of shares of common stock who may, immediately prior to the effective time of the merger, contribute their shares of Penn National common stock in exchange for equity interests of Parent or another entity that will own Penn National, directly or indirectly, following the effective time of the merger.

**The full text of the Lazard opinion is attached as Annex B to this proxy statement and is incorporated into this proxy statement by reference. The description of the Lazard opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of the Lazard opinion set forth as Annex B. You are urged to read the Lazard opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Lazard in connection with the opinion. Lazard's written opinion is directed to Penn National's Board of Directors and only addresses the fairness to the holders of Penn National's common stock of the consideration to be received by such holders in the merger from a financial point of view as of the date of the opinion. Lazard's written opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to Penn National or the underlying business decision by Penn National to engage in the merger, and is not intended to and does not constitute a recommendation to any holder of Penn National common stock as to how such holder should vote with respect to the merger or any matter relating thereto. Lazard's opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Lazard as of, the date of the Lazard opinion. Lazard assumed no responsibility for updating or revising its opinion based on circumstances or events occurring after the date of the opinion. The following is only a summary of the Lazard opinion. You are urged to read the entire opinion.**

In connection with its opinion, Lazard:

Reviewed the financial terms and conditions of the Merger Agreement;

Analyzed certain publicly available historical business and financial information relating to Penn National;

**Table of Contents**

Reviewed various financial forecasts and other data provided to Lazard by the management of Penn National relating to its business;

Held discussions with members of the management of Penn National with respect to the business and prospects of Penn National;

Reviewed public information with respect to certain other companies in lines of business Lazard believed to be generally comparable to the business of Penn National;

Reviewed the financial terms of certain business combinations involving companies in lines of business Lazard believed to be generally comparable to those of Penn National;

Reviewed the historical stock prices and trading volumes of Penn National common stock; and

Conducted such other financial studies, analyses and investigations as Lazard deemed appropriate.

Lazard relied upon the accuracy and completeness of the foregoing information, and did not assume any responsibility for any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Penn National or concerning the solvency or fair value of Penn National, and was not furnished with any such valuation or appraisal. With respect to financial forecasts, Lazard assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Penn National as to the future financial performance of Penn National. Lazard assumed no responsibility for and expressed no view as to such forecasts or the assumptions on which they were based. Lazard was authorized to solicit a limited number of parties regarding the potential transaction with respect to Penn National prior to June 15, 2007.

In rendering its opinion, Lazard assumed that the merger would be consummated on the terms described in the Merger Agreement, without any waiver or modification of any material terms or conditions of the agreement by Penn National. In addition, Lazard assumed the accuracy of the representations and warranties contained in the Merger Agreement and all agreements related thereto. Lazard did not express any opinion as to any tax or other consequences that might result from the merger, nor did its opinion address any legal, tax, regulatory or accounting matters, as to which Lazard understood that Penn National obtained such advice as it deemed necessary from qualified professionals. Lazard did not express any opinion as to the price at which shares of Penn National common stock might trade subsequent to the announcement of the merger.

The following is a summary of the material financial and comparative analyses which Lazard deemed appropriate for this type of transaction and that were performed by Lazard in connection with rendering its opinion. The summary of Lazard's analyses described below is not a complete description of the analyses underlying Lazard's opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, is not readily susceptible to summary description. In arriving at its opinion, Lazard considered the results of all the analyses and did not attribute any particular weight to any factor or analysis considered by it; rather, Lazard made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of the analyses. For purposes of Lazard's review, Lazard utilized, among other things, certain projections of the future financial performance of Penn National as described below, as prepared by the management of Penn National.

In its analyses, Lazard considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Penn National. No company, transaction or business used in Lazard's analyses as a comparison is identical to Penn National or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies or transactions analyzed. The estimates contained in Lazard's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or

## Table of Contents

securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Lazard's analyses are inherently subject to substantial uncertainty.

**The financial analyses summarized below include information presented in tabular format. In order to fully understand Lazard's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Lazard's financial analyses.**

The financial analyses that Lazard utilized in providing its opinion were based upon two alternative sets of projections. Information in the following summary referred to as the "Management Case" for Penn National represents the case developed by Penn National management. Information in the following summary referred to as the "Analyst Case" for Penn National means that financial projection scenario based on publicly available analyst projections for Penn National as of June 13, 2007. Given the lack of a meaningful group of analyst estimates for 2010 and 2011, for those two years Lazard assumed earnings before interest, taxes, depreciation and amortization, or EBITDA, growth and capital expenditures equal to management projections.

### *Precedent Transactions Analysis*

Lazard reviewed and analyzed selected recent precedent merger and acquisition transactions involving companies in the gaming industry. In performing these analyses, Lazard analyzed certain financial information and transaction multiples relating to companies involved in the selected transactions and compared such information to the corresponding information for Penn National.

Specifically, Lazard reviewed 12 merger and acquisition transactions since February 2000 with a value of over \$1 billion involving companies in the gaming industry for which sufficient public information was available. To the extent publicly available, Lazard reviewed, among other things, the enterprise values implied by the precedent transactions as a multiple of the target's last twelve months, or LTM, EBITDA and next fiscal year, or NFY, EBITDA as of the time the transaction was announced.

The precedent transactions were (listed by acquiror followed by the acquired company and the date these transactions were publicly announced):

Goldman Sachs & Co. Whitehall Street Real Estate Funds - American Casino and Entertainment Properties LLC (4-23-07);

Fertitta Colony Partners LLC - Station Casinos, Inc. (2-26-07);

Texas Pacific Group / Apollo Management L.P. - Harrah's Entertainment, Inc. (12-19-06);

Columbia Sussex Corporation - Aztar Corporation (5-19-06);

Management/Investor Group - Kerzner International Limited (5-1-06);

Penn National Gaming, Inc. - Argosy Gaming Company (11-3-04);

Colony Capital LLC - Harrah's Entertainment, Inc./Caesars Entertainment, Inc. assets (9-27-04);

Harrah's Entertainment, Inc. - Caesars Entertainment (7-14-04);



MGM Mirage Mandalay Resort Group (6-16-04);

Boyd Gaming Corporation Coast Casinos, Inc. (2-9-04);

Harrah's Entertainment, Inc. Horseshoe Gaming Holding Corp. (9-11-03); and

MGM Grand, Inc. Mirage Resorts, Incorporated (2-23-00).

**Table of Contents**

Lazard calculated the following multiples for the selected transactions used in its analysis:

	<b>Enterprise Value as a Multiple of LTM EBITDA (Median)</b>	<b>Enterprise Value as a Multiple of NFY EBITDA (Median)</b>
All Comparable Transactions	10.0x	9.6x

Based on the foregoing, Lazard applied LTM EBITDA multiples of 10.0x to 12.0x to Penn National's fiscal year 2007 projected EBITDA and determined an implied price per share range for Penn National common stock under the Management Case of \$40.89 to \$55.09 and an implied price per share range for Penn National common stock under the Analyst Case of \$41.02 to \$55.25, as compared to the merger consideration of \$67.00 per share of Penn National common stock.

Lazard also determined a NFY EBITDA multiple reference range of 9.0x to 11.0x and applied such range to the fiscal year 2008 projected EBITDA for Penn National to calculate an implied price per share range for Penn National common stock under the Management Case of \$45.26 to \$62.02 and an implied price per share range for Penn National common stock under the Analyst Case of \$41.21 to \$57.13, as compared to the merger consideration of \$67.00 per share of Penn National common stock.

*Comparable Public Companies Analysis*

Lazard reviewed and analyzed selected public companies in the gaming industry that it viewed as reasonably comparable to Penn National based on Lazard's knowledge of the gaming industry. In performing these analyses, Lazard reviewed and analyzed certain financial information, valuation multiples and market trading data relating to the selected comparable companies and compared such information to the corresponding information for Penn National. Specifically, Lazard compared Penn National to the following four publicly traded companies in the gaming industry:

Boyd Gaming Corporation;

Ameristar Casinos, Inc.;

Pinnacle Entertainment, Inc.; and

Isle of Capri Casinos, Inc.

Based on IBES estimates and other public information, Lazard reviewed, among other things, enterprise values of the selected comparable companies as a multiple of the comparable company's EBITDA for each of the 2007 and 2008 fiscal years. A company's enterprise value is equal to its short and long term debt plus the market value of its common equity and the value of any preferred stock (at liquidation value), minus its cash and cash equivalents.

Lazard calculated the following trading multiples :

	<b>Enterprise Value/ 2007P EBITDA</b>	<b>Enterprise Value/ 2008P EBITDA</b>
Comparable Companies (median)	9.9x	8.7x

Based on the foregoing, Lazard applied enterprise value/2007P EBITDA multiples of 9.0x to 11.0x to Penn National's fiscal year 2007 projected EBITDA and determined an implied price per share range for Penn National common stock under the Management Case of \$33.66 to \$47.99 per share and an implied price per share range for Penn National common stock under the Analyst Case of \$33.79 to \$48.14 per share, as compared to the merger consideration of \$67.00 per share of Penn National common stock.

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Lazard also applied enterprise value/2008P EBITDA multiples of 8.0x to 10.0x to Penn National's fiscal year 2008 projected EBITDA and determined an implied price per share range for Penn National common stock

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**Table of Contents**

under the Management Case of \$36.83 to \$53.64 per share and an implied price per share range for Penn National common stock under the Analyst Case of \$33.18 to \$49.17 per share, as compared to the merger consideration of \$67.00 per share of Penn National common stock.

*Discounted Cash Flow Analysis*

Lazard performed a discounted cash flow analysis of Penn National to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that Penn National could generate during fiscal years ending December 31, 2008 through 2011. Lazard calculated estimated terminal values for Penn National by applying a range of EBITDA terminal value multiples of 9.0x to 11.0x to Penn National's fiscal year 2011 estimated EBITDA. The unlevered, after-tax free cash flows and terminal values were discounted to present value using discount rates ranging from 9.0% to 11.0%, which were based on Penn National's estimated weighted average cost of capital. Lazard also calculated the estimated present value of Penn National's federal cash tax benefit generated by deductible goodwill relating to Argosy Lawrenceburg and Argosy Joliet. Lazard assumed a net debt of \$3.1 billion as of December 31, 2007.

Based on the foregoing, Lazard calculated an implied price per share range for Penn National common stock of \$49.94 to \$71.42 for the Management Case and an implied price per share range for Penn National common stock of \$45.66 to \$65.92 for the Analyst Case, as compared to the merger consideration of \$67.00 per share of Penn National common stock.

*Miscellaneous*

Lazard's opinion and financial analyses were not the only factors considered by Penn National's Board of Directors in its evaluation of the merger and should not be viewed as determinative of the views of Penn National's Board of Directors or Penn National's management.

In connection with Lazard's services as Penn National's financial advisor, Penn National has agreed to pay to Lazard a fee of \$500,000, which fee became payable upon the execution of Lazard's engagement, and a fee of \$1.5 million, which fee became payable upon the rendering of Lazard's opinion. Penn National has also agreed to pay Lazard a transaction fee of approximately \$20 million, which is referred to as the transaction fee, \$18 million of which is contingent upon the closing of the merger. If Lazard failed to deliver to Penn National's Board of Directors an opinion stating that the consideration to be received by Penn National's shareholders in the merger was fair from a financial point of view to such shareholders, it is unlikely that the Board would have approved the merger, preventing Lazard's transaction fee from becoming payable. Penn National has also agreed to reimburse Lazard for its reasonable out-of-pocket expenses, including the reasonable expenses of legal counsel, and to indemnify Lazard and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Lazard has from time to time in the past provided, and may currently or in the future provide, investment banking services to private equity funds managed by an affiliate of Fortress Investment Group LLC, Centerbridge Partners, L.P. or their respective affiliates or to one or more of their respective portfolio companies, for which Lazard has received or may receive customary fees. For rendering investment banking services in connection with private equity transactions during the years 2005-2007, Lazard received payments from Centerbridge Partners, L.P. and private equity funds managed by an affiliate of Fortress Investment Group LLC not exceeding 1% of Lazard's revenues for each such year. In addition, in the ordinary course of their respective businesses, affiliates of Lazard and LFCM Holdings LLC (an entity indirectly owned in large part by managing directors of Lazard) may actively trade securities of Penn National for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Lazard is an internationally recognized investment banking firm and is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings,

## **Table of Contents**

secondary distributions of listed and unlisted securities, private placements, leveraged buyouts, and valuations for real estate, corporate and other purposes. Lazard was selected to act as investment banker to Penn National because of its expertise and its reputation in investment banking and mergers and acquisitions.

### **Certain Effects of the Merger**

If the Merger Agreement is approved and adopted by the Company's shareholders, and certain other conditions to the closing of the merger are satisfied, Merger Sub will be merged with and into the Company, with the Company being the surviving corporation. As such, pursuant to Pennsylvania law, upon the merger becoming effective, all property, rights, privileges, immunities, powers, franchises, licenses and authority of the Company and Merger Sub will vest in the Company, and all debts, liabilities, obligations, restrictions and duties of each of the Company and Merger Sub will become the debts, liabilities, obligations, restrictions and duties of the Company.

Following the effective time, Parent, together with any other person who is or may become a direct or indirect equity investor in Parent, which may include members of our management (as described more fully under "Special Factors" Interests of the Company's Directors and Executive Officers in the Merger ) will be the sole owners of the Company and its business. Therefore, current shareholders of the Company (other than any such direct or indirect equity investors in Parent) will cease to have direct or indirect ownership interests in the Company or rights as Company shareholders, will not participate in any future earnings or growth of the Company, will not benefit from any appreciation in value of the Company, and will not bear the future risks of the Company's operations.

Upon completion of the proposed merger, Company shares will no longer be listed on any stock exchange or quotation system, including the NASDAQ Global Select Market, which is referred to as the NASDAQ. In addition, the Company may also elect, upon or after the completion of the merger, to terminate the registration of Company's securities and its reporting obligations with respect to such securities under the Exchange Act upon application to the SEC. This would make certain provisions of the Exchange Act, such as the requirement of furnishing a proxy or information statement in connection with shareholders' meetings and filing periodic reports with the SEC, no longer applicable to the Company.

Immediately after the effective time of the merger, Parent will cause certain individuals who are affiliated with Fortress and Centerbridge, as agreed upon in the Merger Agreement, to be the directors of the surviving corporation. The officers of the Company immediately prior to the effective time of the merger will be the initial officers of the surviving corporation.

Following consummation of the merger, Parent will own directly or indirectly 100% of our outstanding common stock and will therefore have a corresponding interest in Penn National's net book value and net earnings. It is currently expected that immediately following the closing, Mr. Carlino will own approximately 2% of the outstanding equity interests of PNG Holdings, of which Parent is a direct, wholly owned subsidiary. Each holder of common stock of PNG Holdings will have an interest in Penn National's net book value and net earnings in proportion to his ownership interest.

**Table of Contents**

The table below sets forth the interest in the outstanding equity interests of PNG Holdings and in Penn National's net book value and net earnings for Mr. Carlino and affiliates of Fortress and Centerbridge before and after the merger, based on the historical net book value of Penn National as of June 30, 2007 and the historical net earnings of Penn National for the six months ended June 30, 2007.

	Ownership of Penn National Prior to the Merger(1)(2)			Expected Ownership of Penn National		
	Net Earnings for the			After the Merger(2)		
	% Ownership	Six Months Ended June 30, 2007	Net Book Value as of June 30, 2007	% Ownership	Six Months Ended June 30, 2007	Net Book Value as of June 30, 2007
Peter M. Carlino	13.6%	\$ 11,024	\$ 138,488	2%	\$ 1,625	\$ 20,411
Private Equity Funds managed by an affiliate of Fortress	0%			76%	61,742	775,612
Private Equity Funds managed by Centerbridge	0%			22%	17,873	224,519

(1) Based upon beneficial ownership as of September 30, 2007, net income for the six months ended June 30, 2007 and net book value as of June 30, 2007. For detail on the calculation of Mr. Carlino's beneficial ownership, see Security Ownership of Principal Shareholders and Management.

(2) All dollars amounts in thousands.

**Plans for Penn National After the Merger**

After the effective time of the merger, and excluding the transactions contemplated in connection with the merger as described in this proxy statement, Fortress/Centerbridge anticipates that the Company's operations will be conducted substantially as they are currently being conducted, except that it will cease to be an independent, publicly traded company and will instead be an indirect wholly owned subsidiary of Parent. After the effective time of the merger, Wesley Edens, William Doniger, Steven Price, Mark Gallogly and Peter M. Carlino will become the directors of the Company, and the officers of the Company immediately prior to the effective time of the merger will remain the officers of the Company, in each case until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

**Financing by Parent of Merger and Related Transactions**

The total amount of funds necessary to complete the merger and the related transactions is anticipated to be approximately \$9.417 billion, consisting of:

- (1) approximately \$6.305 billion to pay the Company's shareholders and holders of options and restricted shares the amounts due to them under the Merger Agreement, assuming a merger consideration of \$67.00 per share (which further assumes completion of the merger on or before June 15, 2008, when the ticking fee of \$0.0149 per day begins to apply);
- (2) approximately \$2.783 billion to refinance certain existing net debt of the Company and its subsidiaries; and
- (3) approximately \$328 million to pay related fees and expenses in connection with the merger.

These payments are expected to be funded by a combination of (1) borrowings under debt facilities and (2) equity financing from affiliates of Fortress and Centerbridge. Parent has obtained equity and debt financing commitments described below in connection with the transaction contemplated by the Merger Agreement. In accordance with the Merger Agreement, Parent is obligated to use best efforts to obtain the financing on the terms and conditions described in the commitment letters as promptly as practicable.



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**Table of Contents**

*Equity Financing*

Affiliates of each of Fortress and Centerbridge have collectively agreed to directly or indirectly provide, or cause to be provided, up to \$3.061 billion of cash to Parent, which will constitute the equity portion of the merger financing. Subject to certain conditions, each such investor may assign its equity commitment obligation to one or more investment or other funds which are its affiliates and, subject to the Company's prior consent, such transferring investor will not have liability vis-à-vis Parent or the Company in respect of such transferred obligations, provided that the transferee will (i) represent and warrant that it has sufficient irrevocable commitments from its limited partners and members to fund its pro rata portion of its obligation, (ii) make the same representations and warranties made by the transferring investor in its equity commitment, (iii) assume all obligations of the transferring investor under its equity commitment, and (iv) execute and deliver an equity commitment letter to the affiliates of each of Fortress and Centerbridge, Parent and the Company.

Each of the equity commitments is generally subject to the satisfaction or waiver of all of the conditions to Parent's and Merger Sub's obligation to effect the closing of the merger under the Merger Agreement in accordance with its terms and the availability of the debt financing commitments in an amount that is sufficient to complete the merger and the related transactions. Subject to certain exceptions described in the paragraph below, each of the equity commitment letters will terminate upon the earlier of (1) the effective time of the merger or (2) the termination of the Merger Agreement in accordance with its terms.

In connection with the equity commitments, the affiliates of each of Fortress and Centerbridge will be obligated to fund a pro rata portion (based on their respective equity commitments) of any reverse termination fee payable by Parent to the Company, any amounts payable pursuant to the indemnification and/or reimbursement obligations of Parent under the Merger Agreement and any amounts arising from certain claims described in the Merger Agreement, provided that the aggregate liability of the Fortress affiliates will not exceed an amount equal to (x) \$156 million plus (y) 78% of the aggregate amount of other liabilities or obligations of Parent to third parties, and the aggregate liability of the Centerbridge affiliates will not exceed an amount equal to (x) \$44 million plus (y) 22% of the aggregate amount of other liabilities and obligations of Parent to third parties. The obligation to fund such amounts to the Company will remain in full force and effect until six months after the termination of the Merger Agreement, provided that the obligation will not terminate as to any claim made by the Company against Parent prior to that date.

*Debt Financing*

Parent has received a debt commitment letter, dated June 15, 2007, from Deutsche Bank Securities Inc., Deutsche Bank AG New York Branch, Wachovia Bank, National Association, Wachovia Investment Holdings, LLC and Wachovia Capital Markets, LLC (which is referred to collectively as the Debt Financing Sources) to provide the following, subject to conditions set forth in the debt commitment letter:

to Merger Sub (which is referred to in this context as the borrower), up to \$5.100 billion of senior secured credit facilities (not all of which is expected to be drawn at closing) for the purpose of financing the merger, refinancing certain existing indebtedness of the Company and its subsidiaries, paying fees and expenses incurred in connection with the merger and for financing the working capital needs and other general corporate purposes of the borrower and its subsidiaries; and

to the borrower, up to \$2.000 billion of unsecured term loans for the purpose of financing the merger, refinancing of certain existing indebtedness of the Company and its subsidiaries and paying fees and expenses incurred in connection with the merger.

In the event the definitive documentation with respect to the facilities is not negotiated, executed and delivered on or before June 15, 2008, subject to extension by an additional 120 days if the end date under the Merger Agreement is extended see The Merger Agreement Termination of the Merger Agreement then the debt commitments will automatically terminate unless the Debt Financing Sources agree to an extension.



## Table of Contents

The documentation governing the debt financing has not been finalized and, accordingly, the actual terms may differ from those described in this proxy statement. Parent has agreed in the Merger Agreement to use its best efforts to obtain the financing on the terms and conditions described in the commitment letters as promptly as practicable. If any portion of the debt financing under the debt commitment letter becomes unavailable in the manner or form contemplated by such letters, Parent is obligated under the Merger Agreement to use its best efforts to promptly notify the Company and to arrange to obtain any such portion from alternative sources in an amount sufficient to consummate the merger and the transactions contemplated by the Merger Agreement on terms not materially less favorable, taken as a whole, to Parent and Merger Sub, as promptly as practicable following the occurrence of such event.

Parent may agree to amendments or modifications to, or grant waivers of, any condition or other material provision under the debt commitment letters without the consent of the Company so long as such amendment, modification or waiver would not impose new or additional conditions or otherwise amend, modify or waive any of the conditions to the receipt of the financing in a manner that may cause any delay in the satisfaction of the conditions set forth in the Merger Agreement. In addition, Parent may enter into new debt financing commitments so long as the terms of the new debt financing do not impose new or additional conditions or adversely amend the existing conditions to the receipt of financing or cause or increase the possibility of causing any delay in the satisfaction of the conditions set forth in Merger Agreement.

Although the debt financing described in this proxy statement is not subject to a due diligence or market out, such financing may not be considered assured. As of the date of this proxy statement, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described herein is not available as anticipated.

### *Conditions Precedent to the Debt Commitments*

The availability of the senior secured credit facilities and unsecured term loan facility contemplated by the debt commitment letter is subject, among other things, to:

the execution and delivery of definitive documentation, delivery of customary opinions, documents and certificates, and, subject to certain qualifications and exceptions, the execution of certain guarantees and the creation of certain security interests;

the absence of certain competing issuances of debt by or on behalf of Parent, the Company or any of their respective affiliates prior to and during syndication of the senior secured credit facilities and unsecured term loan facility;

the consummation of the merger in accordance with the Merger Agreement (with no provision of the Merger Agreement having been waived, amended, supplemented or modified in a manner that would reasonably be expected to be materially adverse to the lenders under such debt facilities without the prior written consent of Deutsche Bank Securities Inc. and Wachovia Capital Markets, LLC (which shall not be unreasonably withheld), including but not limited to the definition of Material Adverse Effect on the Company );

the consummation of the equity financing;

redemption or satisfaction and discharge of the Company's 6 7/8% senior subordinated notes due 2011 and 6 3/4% senior subordinated notes due 2015, and repayment of all obligations, and termination of all commitments, under the Company's existing credit facilities and all other debt outstanding other than certain immaterial indebtedness; in addition, any indebtedness incurred under the Merger Agreement shall be refinanced on the closing date with additional common equity from Parent in excess of the amount required under the equity commitment letters;

payment of required fees and expenses; and

receipt of specified financial statements and other financial information with respect to the Company.



## **Table of Contents**

### *Senior Secured Credit Facilities*

The borrower under the senior secured credit facilities at the closing of the merger will be Merger Sub. The senior secured credit facilities will be comprised of a \$4.600 billion term loan facility with a term of seven years (which is expected to be drawn in full as of the closing date of the merger) and a \$500 million revolving credit facility with a term of six and one-half years (of which \$100 million is available to be drawn on the closing date of the merger). The revolving credit facility will include sublimits for the issuance of letters of credit and swingline loans.

The obligations under the senior secured credit facilities will be guaranteed by Parent and, subject to customary exceptions, each direct and indirect wholly owned domestic subsidiary of Parent, and will be secured by, subject to customary exceptions, collateral substantially similar to the collateral required to secure the Company's existing credit facilities.

The senior secured credit facilities will contain representations and warranties, affirmative and negative covenants, a financial covenant applicable to the revolving credit facility and events of default, in each case, usual and customary for facilities of this type.

Deutsche Bank Securities Inc. and Wachovia Capital Markets, LLC have been appointed as joint bookrunners for the senior secured credit facilities. Wachovia Bank, National Association will act as sole administrative agent for a syndicate of financial institutions.

### *Unsecured Term Loan Facility*

The borrower under the unsecured term loan facility at the closing of the merger will be Merger Sub. The unsecured term loan facility will be comprised of a \$2.000 billion term loan facility with a term of eight years (which is expected to be drawn in full as of the closing date of the merger).

The obligations under the unsecured term loan facility will be guaranteed by Parent and, subject to customary exceptions, each direct and indirect wholly owned domestic subsidiary of Parent. The obligations under the unsecured term loan facility will not be secured.

The unsecured term loan facility will contain representations and warranties, affirmative and negative covenants and events of default, in each case, usual and customary for facilities of this type.

Deutsche Bank Securities Inc. and Wachovia Capital Markets, LLC have been appointed as joint bookrunners for the unsecured term loan facility. Deutsche Bank AG New York Branch will act as sole administrative agent for a syndicate of financial institutions.

## **Interests of the Company's Directors and Executive Officers in the Merger**

In considering the recommendation of the Board of Directors (other than Mr. Carlino, who recused himself) to vote FOR the approval and adoption of the Merger Agreement, the Company's shareholders should be aware that the members of the Company's Board of Directors and the Company's executive officers have interests in the transaction that are different from, and/or in addition to, the interests of the Company's shareholders generally. The members of the Board of Directors were aware of these differing interests and potential conflicts and considered them, among other matters, in evaluating and negotiating the Merger Agreement and the merger and in recommending to the shareholders that the Merger Agreement be approved and adopted. References in this section to the Company's executive officers refer to the following individuals who are currently classified by the Company as executive officers: Peter M. Carlino, William J. Clifford, Leonard M. DeAngelo, Jordan B. Savitch and Robert S. Ippolito.

**Table of Contents***Stock Options and Other Equity-Based Awards<sup>1</sup>*

Pursuant to the Company's equity incentive plans, the vesting of all theretofore unvested Company stock options will be accelerated upon consummation of the merger. As described below see The Merger Agreement Treatment of Stock, Stock Options and Other Stock-Based Awards the Merger Agreement provides that, as of the effective time, all outstanding options to acquire Company shares under the Company's equity incentive plans will be cancelled, and the holder of each such option will receive from the Company at the effective time, or as soon as practicable thereafter from the surviving corporation, an amount in cash, without interest, equal to the product of (1) the number of Company shares previously subject to such option and (2) the excess, if any, of the merger consideration over the purchase price per share previously subject to such option. The estimated aggregate amount payable to all executive officers and directors in settlement of options is anticipated to be \$179.1 million.

The Merger Agreement also provides that, upon consummation of the merger, all unvested shares of restricted stock will vest and become free of restrictions immediately prior to the effective time and will be cancelled and converted into the right to receive the merger consideration. The estimated aggregate value for all executive officers and directors of such restricted stock is anticipated to be \$27.9 million. The following table summarizes the number of outstanding unvested stock options and shares of restricted stock expected to be held by our executive officers and directors as of June 30, 2008:

Name	Shares of Common Stock Underlying Unvested Options	Shares of Restricted Stock	Total Cash Consideration to be Received
<b>Directors</b>			
(other than Peter M. Carlino)			
Harold Cramer	52,500		1,645,950
David A. Handler	52,500		1,645,950
John M. Jacquemin	52,500		1,645,950
Robert P. Levy	52,500		1,645,950
Barbara Z. Shattuck	52,500		1,645,950
<b>Executive Officers</b>			
Peter M. Carlino	525,000	259,179	33,824,493
William J. Clifford	200,000	53,713	10,029,771
Leonard M. DeAngelo	277,500	54,692	13,163,939
Jordan B. Savitch	97,500	25,289	4,815,413
Robert S. Ippolito	90,000	23,526	4,487,442

*Change of Control Agreements<sup>1</sup>*

Each of our executive officers is party to a separate employment agreement with the Company, which provides them with certain protections upon a change of control. Under the employment agreements, the executive officers will generally be entitled to the following upon, or following, the merger:

A lump sum cash payment, 75% of which is payable on the date of the change of control and the remaining 25% is payable within 90 days thereafter, equal to three times the sum of the applicable executive's highest rate of base salary during the 24-month period immediately prior to the change of control and the greater of the highest amount of bonus compensation paid to the executive in respect of either the first or second full calendar year immediately preceding the change of control;

<sup>1</sup> All calculations regarding options, restricted stock and change of control payments assume (a) that the maximum payout for each executive officer pursuant to the Company's 2007 annual incentive payment plan is achieved and (b) a closing date of the merger on June 30, 2008.

**Table of Contents**

If the executive's employment is terminated following the merger, the executive and his family would not receive any additional cash severance payments but w