

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

FORM S-8

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PENN NATIONAL GAMING, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

23-2234473

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

825 Berkshire Boulevard, Suite 200
Wyomissing, Pennsylvania

19610

(Address of Principal Executive Offices)

(Zip Code)

Nonqualified Stock Option Agreement with Peter M. Carlino
(Full title of the plan)

Jordan B. Savitch
Senior Vice President and General Counsel
Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, Pennsylvania 19610
(Name and address of agent for service)

(610) 373-2400

(Telephone number, including area code, of agent for service)

with a copy to:
Robert P. Krauss, Esquire
Ballard Spahr Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, Pennsylvania 19103-7599
(215) 665-8500

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee
Common Stock, par value \$.01 per share	95,000 shares	\$7.95	\$755,250	\$89

- (1) This Registration Statement covers shares of Common Stock of the Registrant, which may be offered or sold pursuant to the Nonqualified Stock Option Agreement with Peter M. Carlino entered into on February 6, 2003. In addition, pursuant to Rule 416(a) under the Securities Act of 1933, as amended, this Registration Statement shall be deemed to cover an indeterminate number of additional shares of Common Stock of the Registrant issuable in the event the number of outstanding shares of the Registrant is increased by stock split, reclassification, stock dividend or similar transactions. The amount of shares being registered reflects the adjustment as a result of the Registrant's March 7, 2005 two-for-one stock split.
- (2) Estimated solely for the purpose of calculating the registration fee. In accordance with Rule 457(h)(1), the price shown is the actual exercise price per share of the options granted pursuant to the terms of the Nonqualified Stock Option Agreement with Peter M. Carlino entered into on February 6, 2003. The exercise price reflects the adjustment as a result of the Registrant's March 7, 2005 two-for-one stock split.

INTRODUCTION

This Registration Statement on Form S-8 registers shares of common stock issuable upon the exercise of options granted to Peter M. Carlino, Chairman and Chief Executive Officer of Penn National Gaming, Inc. ("Penn National" or the "Company"), pursuant to the terms of a Nonqualified Stock Option Agreement, dated February 6, 2003, between Mr. Carlino and the Company.

PART I—INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

The documents containing the information specified in Part I of Form S-8 will be given or sent to Peter M. Carlino as specified by Rule 428 under the Securities Act of 1933, as amended.

PART II—INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Certain Documents by Reference.

The following documents filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, by Penn National (File No. 000-24206) are incorporated herein by reference:

- (a) Penn National's Annual Report on Form 10-K for the fiscal year ended December 31, 2004;
- (b) Penn National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005;
- (c) Penn National's Current Reports on Form 8-K filed January 27, 2005 (Items 2.01 and 9.01); February 8, 2005 (Item 8.01); February 9, 2005 (Items 8.01 and 9.01); February 23, 2005 (Item 1.01); February 25, 2005 (Items 8.01 and 9.01); March 9, 2005 (Item 8.01); March 15, 2005 (Items 1.01 and 9.01); March 16, 2005 (Items 8.01 and 9.01); March 30, 2005 (Item 8.01); April 8, 2005 (Items 1.01, 8.01 and 9.01); June 6, 2005 (Items 1.01 and 9.01); and June 16, 2005 (Items 1.01 and 9.01); and
- (d) The description of Penn National's common stock contained in Penn National's Registration Statement on Form 8-A filed May 26, 1994, including any amendments or reports filed for the purpose of updating such description.

All documents filed by Penn National pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Registration Statement and prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference herein and to be part hereof from the date of filing such documents. Any statement contained herein or in a document incorporated by reference or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that such statement is modified or superseded by any other subsequently filed document which is incorporated or is deemed to be incorporated by reference herein. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Officers and Directors.

Sections 1741 to 1750 of the Pennsylvania Business Corporation Law of 1988, as amended, permit indemnification of directors, officers, employees and agents of a corporation under certain conditions and subject to certain limitations.

Under the provisions of Penn National's Second Amended and Restated Bylaws, Penn National is required to indemnify any Indemnified Representative against any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature ("Liability") incurred in connection with any threatened, pending or completed investigation, action, suit, appeal or proceeding of any nature, whether civil, criminal administrative or investigative, whether formal or informal, and whether brought by in the right of the Company, a class of security holders or otherwise, in which the Indemnified Representative may be involved as a party or otherwise by reason of the fact that such person is or was serving in an Indemnified Capacity, including, without limitation, Liabilities resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except:

- (a) where such indemnification is expressly prohibited by applicable law;
- (b) where the conduct of the Indemnified Representative has been finally determined or otherwise:
 - (i) to constitute willful misconduct or recklessness within the meaning of 15 Pa.C.S. §§ 518(b) and 1746(b) or any superseding provision of law sufficient in the circumstances to bar indemnification against liabilities arising from the conduct; or
 - (ii) to be based upon or attributable to the receipt by the Indemnified Representative from the corporation of a personal benefit to which the Indemnified Representative is not legally entitled; or
- (c) to the extent such indemnification has been finally determined in a final adjudication to be otherwise unlawful.

An Indemnified Representative is any and all directors and officers of the Company, an employee of the Company requested, as part of the Company's disclosure controls and procedures and in connection with the performance of the employee's responsibilities in service to the Company, to provide to the Company a certification or certifications to be used by the Company in connection with the preparation of its periodic reports under the Securities Exchange Act of 1934, as amended; and any other person designated as an Indemnified Representative by the board of directors of the Company (which may, but need not, include any person serving at the request of the Company, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise).

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers, or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in that Act and is therefore unenforceable.

We have in force and effect policies insuring our directors and officers against losses which they may become legally obligated to pay by reason of any actual or alleged error or misstatement or misleading statement or act or omission or neglect or breach of duty by the directors and officers in the discharge of their duties, individually or collectively, or any matter claimed against them solely by reason of their being directors or officers. Such coverage is limited by the specific terms and provisions of the insurance policies.

The foregoing summaries are necessarily subject to the complete text of the relevant document or statute.

Item 7. Exemption From Registration Claimed.

Not applicable.

Item 8. Exhibits.

- 4.1 Nonqualified Stock Option Agreement, dated February 6, 2003, between Penn National Gaming, Inc. and Peter M. Carlino.
- 4.2 Specimen copy of Common Stock Certificate (incorporated by reference to Exhibit 3.6 of Penn National Gaming Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003).
- 5 Opinion of Ballard Spahr Andrews & Ingersoll, LLP as to the legality of the securities to be offered.
- 23.1 Consent of BDO Seidman, LLP.
- 23.2 Consent of Ballard Spahr Andrews & Ingersoll, LLP (included as part of Exhibit 5 of this Registration Statement on Form S-8).
- 24 Power of Attorney (included in signature page of this Registration Statement on Form S-8).

Item 9. Undertakings.

The undersigned registrant hereby undertakes:

- (a) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933, as amended;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment hereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, that are incorporated by reference in the registration statement.

Provided, further, however, that paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the registration statement is for an offering of asset-backed securities on Form S-1 or Form S-3, and the

information required to be included in a post-effective amendment is provided pursuant to Item 1100(c) of Regulation AB.

(b) That, for the purpose of determining any liability under the Securities Act of 1933, as amended, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Penn National hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, as amended, each filing of Penn National's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended), that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of Penn National pursuant to the foregoing provisions, or otherwise, Penn National has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Penn National of expenses incurred or paid by a director, officer or controlling person of Penn National in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, Penn National will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Wyomissing, Commonwealth of Pennsylvania, on June 17, 2005.

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

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

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jordan B. Savitch and Robert S. Ippolito, and each or any one of them, his true and lawful Attorneys-in-Fact (the "Attorneys-in-Fact"), with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement on Form S-8, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said Attorneys-in-Fact, and each of them, full power and authority to perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said Attorneys-in-Fact, or any of them, or his or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
<hr/> /s/ PETER M. CARLINO <hr/> Peter M. Carlino	Chairman of the Board; Chief Executive Officer and Director (Principal Executive Officer)	June 17, 2005
<hr/> /s/ KEVIN DESANCTIS <hr/> Kevin DeSanctis	President and Chief Operating Officer	June 17, 2005
<hr/> /s/ WILLIAM J. CLIFFORD <hr/> William J. Clifford	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)	June 17, 2005
<hr/> /s/ ROBERT S. IPPOLITO <hr/> Robert S. Ippolito	Vice President, Secretary and Treasurer (Principal Accounting Officer)	June 17, 2005
<hr/> /s/ HAROLD CRAMER <hr/> Harold Cramer	Director	June 17, 2005

/s/ DAVID A. HANDLER

Director

June 17, 2005

David A. Handler

/s/ ROBERT P. LEVY

Director

June 17, 2005

Robert P. Levy

/s/ JOHN M. JACQUEMIN

Director

June 17, 2005

John M. Jacquemin

/s/ BARBARA Z. SHATTUCK

Director

June 17, 2005

Barbara Z. Shattuck

EXHIBIT INDEX

Number	Exhibit
4.1	Nonqualified Stock Option Agreement, dated February 6, 2003, between Penn National Gaming, Inc. and Peter M. Carlino.
4.2	Specimen copy of Common Stock Certificate (incorporated by reference to Exhibit 3.6 of Penn National Gaming Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
5	Opinion of Ballard Spahr Andrews & Ingersoll, LLP as to the legality of the securities to be offered.
23.1	Consent of BDO Seidman, LLP.
23.2	Consent of Ballard Spahr Andrews & Ingersoll, LLP (included as part of Exhibit 5 of this Registration Statement on Form S-8).
24	Power of Attorney (included in signature page of this Registration Statement on Form S-8).

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PENN NATIONAL GAMING, INC
NONQUALIFIED STOCK OPTION

This Nonqualified Stock Option ("Option") is granted as of the 6th day of February, 2003 by Penn National Gaming, Inc., a Pennsylvania corporation (the "Company") to Peter M. Carlino (the "Optionee").

B A C K G R O U N D:

The Optionee is an employee of the Company. The Company desires to grant to the Optionee, and the Optionee desires to accept from the Company, a Nonqualified Stock Option. This Agreement shall serve to memorialize the action taken by the Compensation Committee at its meeting on February 5, 2003. This Option is not granted pursuant to that certain Amended and Restated 1994 Stock Option Plan of the Company, as amended (the "Plan", a copy of which is attached hereto as Exhibit "A"). Notwithstanding the foregoing sentence, any capitalized terms used herein shall have the meanings ascribed to them in the Plan, unless the context requires otherwise, and the provisions of this Option shall be interpreted as if the Option were granted under the plan and in accordance with the terms and conditions of the Plan.

NOW THEREFORE, in consideration of the above premises and of the undertakings set forth herein, the parties hereto, intending to be legally bound, hereby agree as follows:

1. *Grant.* The Company hereby grants to the Optionee an Option to purchase on the terms hereinafter set forth all or any part of an aggregate of FORTY SEVEN THOUSAND AND FIVE HUNDRED (47,500) shares (the "Option Shares") of the Company's \$.01 par value Common Stock ("Common Stock") at an exercise price of \$15.9000 per share (the "Option Price") pursuant to the Plan.

2. *Term.* The Option granted hereunder shall be exercisable for a period of nine years commencing on the first anniversary of the date hereof, and in accordance with the following vesting schedule:

Date	Number of Vested Shares
February 6, 2004	11,875
February 6, 2005	11,875
February 6, 2006	11,875
February 6, 2007	11,875

Except as provided in Article 8 of the Plan (relating to termination of employment after vesting), the Option may be exercised only during the continuance of the Optionee's employment. Once any Option Shares become vested, the Option's exercisability is intended to be cumulative and is not to be affected by the subsequent vesting of other Option Shares.

3. *Method of Exercise and Payment.* The Option shall be exercised by written notice, specifying the number of Option Shares to be purchased and accompanied by payment in the amount of the Option Price multiplied by the number of shares of Common Stock designated in such election to purchase. The purchase price shall be paid in full, in cash or by certified or cashier's check payable to the order of the Company, upon the exercise of the Option; provided, however, that in lieu of cash or check, with the approval of the Committee appointed by the Board of Directors of the Company to administer the Plan at or prior to exercise, the Optionee may exercise the Option in the manner provided in Article 5.4 of the Plan relating to "Cashless Exercise," or by tendering to the Company shares of the Company's Common Stock owned by the Optionee and having a fair market value equal to the cash exercise price applicable to the Option (with the fair market value of such stock to be determined in the manner provided in Article 5 of the Plan) or by delivering such combination of cash

and such shares as the Committee in its sole discretion may approve. The shares of Common Stock so purchased shall be issued to the Optionee as the record owner of such shares of Common Stock as of the close of business on the date on which the Option is exercised, in whole or in part, and the Option Price is paid. Certificates representing the shares of Common Stock so purchased shall be delivered to the Optionee promptly and in no event later than ten days after the Option shall have been so exercised.

4. *Transfers.* This Option is not transferable by the Optionee other than by will or pursuant to the laws of descent and distribution in the event of the Optionee's death, in which event the Option may be exercised by the heirs or legal representatives of the Optionee. Any attempt at assignment, transfer, pledge or disposition of the Option contrary to the provisions hereof, or the levy of any execution, attachment or similar process on the Option, shall be null and void and without effect.

5. *Adjustments on Changes in Common Stock.* The number of Option Shares covered by this Option and the Option Price shall be appropriately adjusted in the event of a stock dividend, stock split or other increase or decrease in the number of issued shares of Common Stock of the Company resulting from a subdivision or consolidation of such Common Stock or other capital adjustment (not including the issuance of Common Stock on the conversion of other securities of the Company which are convertible into Common Stock) effected without receipt of consideration by the Company.

6. *Rights of the Company.* Neither the Optionee nor his legal representative, legatees or distributees, as the case may be, will be or will be deemed to be a holder of any shares subject to this Option unless and until certificates for such shares are issued to him or them upon exercise of this Option. No dividends shall be payable on any stock subject to this Option prior to the issuance of such shares on exercise of this Option.

7. *Legal Requirements.* If the listing, registration or qualification of the Option Shares on any securities exchange or under any Federal or state law, or the consent or approval of any governmental regulatory body is necessary as a condition of or in connection with the purchase of such Option Shares, the Company shall not be obligated to issue or deliver the certificates representing the Option Shares as to which the Option has been exercised unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained. This Option does not hereby impose on the Company a duty so to list, register, qualify or effect or obtain consent or approval. If registration is considered unnecessary by the Company or its counsel, the Company shall cause a legend to be placed on the Option Shares being issued calling attention to the fact that they have been acquired for investment and have not been registered, and such other legends as maybe considered necessary by the Company or its counsel.

8. *Option Shares to Be Purchased for Investment.* Unless the Company has heretofore notified the Optionee that a registration statement covering the Option Shares has become effective under the Securities Act of 1933, as amended, and the Company has not hereafter notified the Optionee that such registration is no longer effective or that the prospectus contained therein is no longer current, it shall be a condition to any exercise of the Option that the Option Shares acquired upon such exercise be acquired for investment and not with a view to distribution, and the person effecting such exercise shall submit to the Company a certificate of such investment intent, together with such other evidence supporting the same as the Company may request. The Company shall be entitled to restrict the transferability of the Option Shares issued upon any such exercise to the extent necessary to avoid risk of violation of the Securities Act of 1933, as amended, or any other Federal or state securities laws or any rules or regulations promulgated thereunder. Such restrictions and any such other restrictions as may be deemed necessary by the Company or its counsel may, at the option of the Company, be noted or set forth in full on the share certificates.

9. *Withholding Taxes.*

(a) As a condition of the exercise of the Option, subject to the provisions of Subsection 9(b), the Company requires that the Optionee pay or reimburse any taxes which the Company is required to withhold in connection with the exercise of the Option.

(b) The Optionee may satisfy the withholding obligation described in Subsection 9(a), in whole or in part, by electing to have the Company withhold shares of Common Stock (otherwise issuable upon the exercise of the Option) having a fair market value equal to the amount required to be withheld. An election by the Optionee to have shares withheld for this purpose shall be subject to the following restrictions:

- (i) it must be made prior to the date on which the amount of tax to be withheld is determined;
- (ii) it shall be irrevocable; and
- (iii) it shall be subject to disapproval by the Committee.

10. *Notices.* Any notice to be given to the Company shall be addressed to the Treasurer of the Company at its principal executive office and any notice to be given to the Optionee shall be addressed to the Optionee at the address then appearing on the records of the Company or at such other address as either party hereafter may designate in writing to the other. Any such notice shall be deemed to have been duly given when deposited in the United States mail addressed as aforesaid, registered or certified mail and with proper postage and registration or certification fees prepaid.

11. *Relationship.* Nothing herein contained shall affect the rights of the Company or any subsidiary to terminate the Optionee's contractual relationship, services, responsibility, duties or authority to represent the Company or any subsidiary at any time for any reason whatsoever.

12. *Non-defined Terms.* Any initially capitalized term not defined herein shall have the meaning given to it in the Plan.

13. *Amendment.* This Option may not be amended except by an agreement in writing executed by the parties hereto, and approved by the Committee appointed by the Board of Directors of the Company to administer the Plan.

14. *Governing Law.* This Option shall be governed by and construed in accordance with the internal laws (without reference to the law of conflicts) of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the Company has granted this Option on the day and year first above written.

Attest:

PENN NATIONAL GAMING, INC.

/s/ ROBERT S. IPPOLITO

By: /s/ KEVIN DESANCTIS

ROBERT S. IPPOLITO, SECRETARY

KEVIN DESANCTIS, PRESIDENT AND CHIEF OPERATING OFFICER

(Corporate Seal)

Witness:

ACCEPTED BY:

/s/ SUSAN MONTGOMERY

/s/ PETER M. CARLINO

PETER M. CARLINO

AMENDED AND RESTATED
PENN NATIONAL GAMING, INC.
1994 STOCK OPTION PLAN
(AMENDED AND RESTATED AS OF FEBRUARY 19, 1997)
(AMENDMENTS RATIFIED BY THE SHAREHOLDERS OF THE
CORPORATION ON APRIL 30, 1997)

ARTICLE 1. PURPOSE OF THE PLAN

1.1 *Purpose*—The Penn National Gaming, Inc. 1994 Stock Option Plan (the "Plan") is intended to provide eligible employees and Directors of Penn National Gaming, Inc. and its subsidiaries an opportunity to acquire Common Stock of the Corporation. The Plan is designed to help the Corporation attract, retain and motivate employees and Directors to make substantial contributions to the success of the Corporation's business.

1.2 *Stock Options to Be Granted*—Options granted under this Plan are intended to be Incentive Stock Options within the meaning of Code Section 422(b); however, Nonqualified Stock Options may also be granted within the limitations of the Plan herein described.

ARTICLE 2. DEFINITIONS

2.1 *"Agreement"*—The written instrument evidencing the grant of an Option. A Participant may be issued one or more Agreements from time to time, reflecting one or more Options.

2.2 *"Board"*—The Board of Directors of Penn National Gaming, Inc.

2.3 *"Code"*—The Internal Revenue Code of 1986, as amended.

2.4 *"Committee"*—The Committee which the Board appoints to administer the Plan.

2.5 *"Common Stock"*—The common stock of the Penn National Gaming, Inc. (\$.01 par value) as described in the Corporation's Articles of Incorporation, or such other stock as shall be substituted therefor.

2.6 *"Corporation"*—Penn National Gaming, Inc. or any Subsidiary.

2.7 *"Director"*—A member of the Board (or the Board of Directors of any Subsidiary) who is not an Employee.

2.8 *"Employee"*—Any Key Employee, executive officer or non-executive officer employed by the Corporation. "Key Employee" means any employee of the Corporation determined by the Committee to be in a position to make substantial contributions to the success of the Corporation's business.

2.9 *"Exchange Act"*—The Securities Exchange Act of 1934, as amended.

2.10 *"Incentive Stock Option"*—A stock option intended to satisfy the requirements of Code Section 422(b).

2.11 *"Nonqualified Stock Option"*—A stock option other than an Incentive Stock Option.

2.12 *"Optionee"*—A Participant who is awarded a Stock Option pursuant to the provisions of the Plan.

2.13 *"Participant"*—An Employee or Director who receives a grant of an option under the Plan.

2.14 *"Plan"*—Penn National Gaming, Inc. 1994 Stock Option Plan.

2.15 *"Retirement"*—Separation from service on account of early, normal or late retirement, in accordance with the retirement policies of the Corporation, or as determined by the Board.

2.16 *"Securities Act"*—The Securities Act of 1933, as amended.

2.17 *"Stock Option" or "Option"*—An award of a right to purchase Common Stock pursuant to the provisions of the Plan.

2.18 *"Subsidiary"*—Any direct or indirect subsidiary of the Corporation or other entity which is controlled by the Corporation, as determined by the Committee, including a subsidiary corporation as defined in Code Section 424(f) that is a subsidiary of the Corporation.

ARTICLE 3. ADMINISTRATION OF THE PLAN

3.1 *The Committee*—The Plan shall be administered by a committee of the Board (the "Committee") composed of two or more members of the Board, all of whom are "non-employee directors," as such term is defined under the rules and regulations adopted from time to time by the Securities and Exchange Commission pursuant to Section 16(b) of the Exchange Act, including specifically but without limitation, Rule 16b-3 and any successor rule, and are "outside directors," as such term is defined under the regulations adopted from time to time by the Internal Revenue Service pursuant to Section 162(m) of the Code. The Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board.

3.2 *Power of the Committee*—

- (a) The Committee shall be vested with full authority to make such rules and regulations as it deems necessary or desirable to administer the Plan and to interpret the provisions of the Plan, unless otherwise determined by the Board. Any determination, decision or action of the Committee in connection with the construction, interpretation, administration or application of the Plan shall be final, conclusive and binding upon all Optionees and any person claiming under or through an Optionee, unless otherwise determined by the Board.
- (b) Subject to the terms, provisions and conditions of the Plan and subject to review and approval by a majority of the disinterested members of the Board, the Committee shall have exclusive jurisdiction to:
 - (1) determine who are the Corporation's Directors, Key Employees, executive officers and non-executive officers and therefore Participants under the Plan;
 - (2) select the Participants to be granted Options (it being understood that more than one Option may be granted to the same person);
 - (3) determine the number of shares subject to each Option;
 - (4) determine the date or dates when the Options will be granted;
 - (5) determine the purchase price of the shares subject to each Option in accordance with Article 5 of the Plan;
 - (6) determine the date or dates when each Option may be exercised and the term of the Option pursuant to Article 7 of the Plan,
 - (7) determine whether or not an Option constitutes an Incentive Stock Option; and
 - (8) prescribe the form, which shall be consistent with the Plan, of the Agreement evidencing any Options granted under the Plan.

3.3 *Terms*—The grant of an Option under the Plan shall be evidenced by an Agreement, which may include any terms and conditions consistent with this Plan, as the Committee may determine.

3.4 *Liability*—No member of the Board or the Committee shall be liable for any action or determination made in good faith by the Board or the Committee with respect to this Plan or any Options granted under this Plan.

ARTICLE 4. COMMON STOCK SUBJECT TO THE PLAN

4.1 *Common Stock Authorized*—The aggregate number of shares of Common Stock for which Options may be granted under the Plan shall not exceed 3,000,000 shares. The limitation established by the preceding sentence shall be subject to adjustment as provided in Article 9 of the Plan.

4.2 *Shares Available*—The Common Stock to be issued upon exercise of Options shall be made available at the discretion of the Board, either from authorized but unissued Common Stock or from Common Stock acquired by the Corporation, including shares purchased in the open market. In the event that any outstanding Option under the Plan for any reason expires or is terminated, the shares of Common Stock allocable to the unexercised portion of such Option may thereafter be regranted subject to Option under the Plan.

4.3 *Individual Optionee Limit*—No Optionee shall receive Options for more than 1,000,000 shares in the aggregate. The limitation established by the preceding sentence shall be subject to adjustment as provided in Article 9 of the Plan.

ARTICLE 5. STOCK OPTIONS

5.1 *Exercise Price*—The exercise price per share of Common Stock shall be equal to or greater than 100 percent of the fair market value of one share of Common Stock on the date the Option is granted, except that the purchase price per share shall be 110 percent of such fair market value in the case of an Incentive Stock Option granted to any individual described in Section 6.2 of the Plan. The exercise price shall be subject to adjustment as provided in Article 9 of the Plan.

5.2 *Limitation on Incentive Stock Options*—The aggregate fair market value (determined as of the date an Option is granted) of the stock with respect to which Incentive Stock Options are exercisable for the first time by any individual in any calendar year (under the Plan and all other plans maintained by the Corporation) shall not exceed \$100,000.

5.3 *Determination of Fair Market Value*—

- (a) During such time as Common Stock is not listed on an established stock exchange or exchanges but is listed on the NASDAQ National Market System, the fair market value per share shall be the closing sale price for the Common Stock on the day the Option is granted, and if no sale of Common Stock is reported on that day, the fair market value shall be the closing price for the Common Stock for the next preceding day on which a sale is reported.
- (b) During such time as the Common Stock is not listed on an established stock exchange or exchanges or on the NASDAQ National Market System, fair market value per share shall be the mean between the closing dealer "bid" and "asked" prices for the Common Stock on the day the Option is granted, and if no "bid" and "asked" prices are quoted for the day of the grant, the fair market value shall be determined by reference to such prices on the next preceding day on which such prices were quoted.
- (c) If the Common Stock is listed on an established stock exchange or exchanges, the fair market value shall be deemed to be the closing price of Common Stock on the principal exchange on the day the Option is granted or, if no sale of Common Stock has been made on such principal stock exchange on that day, the fair market value shall be determined by reference to such price on any other stock exchange selected by the Committee where the Common Stock is so listed, and if no sale of Common Stock has been made on such exchange on that day, then by reference to the next preceding day on which a sale occurred.
- (d) In the event that none of the foregoing clauses (a) through (c) are applicable, then fair market value will be the price established by the Committee in good faith.

5.4 *Cashless Exercise.* At the request of a Participant, and to the extent permitted by applicable law, the Corporation may, in its sole discretion, permit the Optionee to exercise the Option by selectively approving arrangements with a brokerage firm under which such brokerage firm, on behalf of the Participant, shall pay to the Corporation the exercise price of the Stock Options being exercised, and the Corporation, pursuant to an irrevocable notice from the Participant, shall promptly deliver the shares being purchased to such brokerage firm.

5.5 *Reload Option.* In the discretion of the Committee, any Option may be accompanied by a reload option. A reload option gives an Optionee a new Option to acquire the number of shares that the Optionee uses to pay the purchase price upon exercise of any Option. A reload option shall be subject to all the same terms and conditions as the original Option except that (i) the exercise price of the shares subject to the reload option shall be determined at the time the original Option is exercised, and (ii) the reload option shall conform to all provisions of the Plan in effect at the time the original Option is exercised.

ARTICLE 6. ELIGIBILITY

6.1 *Participation*—Options shall be granted only to persons who are Employees or Directors of the Corporation, as determined by the Committee, and ratified by a majority of the disinterested members of the Board.

6.2 *Incentive Stock Option Eligibility.* Notwithstanding any provision of the Plan, an individual who owns more than 10 percent of the total combined voting power of all classes of outstanding stock of the Corporation shall not be eligible for the grant of an Incentive Stock Option, unless the special requirements set forth in Sections 5.1 and 7.2(i) of the Plan are satisfied. For purposes of this Section 6.2, in determining stock ownership, an individual shall be considered as owning the stock owned, directly or indirectly, by or for such individual's brothers and sisters (whether by the whole or half blood), spouse, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be considered as being owned proportionately by or for its shareholders, partners or beneficiaries. "Outstanding stock" shall include all stock actually issued and outstanding immediately before the grant of the Option. "Outstanding stock" shall not include shares authorized for issue under outstanding Options held by the Optionee or by any other person.

ARTICLE 7. TERM OF EXERCISE OF OPTIONS

7.1 *Vesting*—An Optionee's interest in the right to exercise an Option granted hereunder, determined only by reference to continuous employment with the Corporation following the date of grant of the Option, shall vest at such times and in such increments as the Board of Directors shall determine from time to time.

7.2 *Termination*—Each Option granted under the Plan shall terminate on the date determined by the Committee and approved by a majority of the disinterested members of the Board, and specified in the Agreement; provided, however, that (i) each Incentive Stock Option granted to an individual described in Section 6.2 of the Plan shall terminate not later than five years after the date of the grant, (ii) each other Incentive Stock Option shall terminate not later than ten years after the date of grant, and (iii) each Option granted under the Plan which is intended to be a Nonqualified Stock Option shall terminate not later than ten years and one month after the date of grant. Each Option granted under the Plan shall become exercisable only after the earlier of the date on which (i) the Optionee has completed continuous employment with the Corporation or provided services as a Director to the Corporation, immediately following the date of the grant of the Option, in accordance with Section 7.1 above, or (ii) a Change of Control occurs. If a Change of Control or an event described in Section 8.3 hereof occurs, Stock Options granted to Key Employees and nonexecutive officers shall become immediately exercisable notwithstanding the application of the determinations made pursuant to

Section 7. 1 of the Plan. In addition, if a Change of Control or an event described in Section 8.3 hereof occurs, Stock Options granted to executive officers and Directors shall become exercisable, as follows:

Period of Continuous Employment Following Grant	Cumulative Vested Percentage
Less than one year	0
One year or more	50
Two years or more	100

The Committee at its discretion may provide further limitations on the exercisability of Options granted under the Plan. An Option may be exercised only during the continuance of the Optionee's employment, except as provided in Article 8 of the Plan.

7.3 *Exercise*—

- (a) A person electing to exercise an Option shall give written notice to the Corporation of such election and of the number of shares he has elected to purchase, in such form as the Committee shall have prescribed or approved, and shall at the time of exercise tender the full purchase price of the shares he has elected to purchase. The purchase price shall be paid in full, in cash, upon the exercise of the Option, provided, however, that in lieu of cash, with the approval of the Committee at or prior to exercise, an Optionee may exercise an Option by complying with the method(s) of exercise described in Section 5.4, or by tendering to the Corporation shares of Common Stock owned by the Optionee (or attesting to the ownership of shares of Common Stock) having a fair market value equal to the cash exercise price applicable to the Option (with the fair market value of such stock to be determined in the manner provided in Article 5 hereof) or by delivering such combination of cash and such shares as the Committee in its sole discretion may approve. Notwithstanding the foregoing, Common Stock acquired pursuant to the exercise of an Incentive Stock Option may not be tendered as payment unless the holding period requirements of Code Section 422(a)(1) have been satisfied.
- (b) A person holding more than one Option at any relevant time may, in accordance with the provisions of the Plan, elect to exercise any such Options in any order.
- (c) For purposes of Subsection 7.2 above, a "Change of Control" shall be deemed to have occurred if:
 - (1) any "Person" (which for purposes of this Section 7 shall mean as such term is used in Sections 13(d) and 14(d) of the Exchange Act), except for any of the Corporation's employee benefit plans, or any entity holding the Corporation's voting securities for, or pursuant to, the terms of any such plan (the "Benefit Plan(s)"), is or becomes the beneficial owner, directly or indirectly, of the Corporation's securities representing 19.9% or more of the combined voting power of the Corporation's then outstanding securities other than pursuant to a transaction described in (4) below;
 - (2) there occurs a contested proxy solicitation of the Corporation's shareholders that results in the contesting party obtaining the ability to vote securities representing 19.9% or more of the combined voting power of the Corporation's then outstanding securities;
 - (3) there occurs a sale, exchange, transfer or other disposition of substantially all of the assets of the Corporation to another entity, except to an entity controlled directly or indirectly by the Corporation;

- (4) there occurs a merger, consolidation, or other reorganization of the Corporation, unless:
- (A) the shareholders of the Corporation immediately before such merger, consolidation or reorganization own, directly or indirectly immediately following such merger, consolidation or reorganization, at least 51% of the combined voting power of the outstanding voting securities of the corporation resulting from such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation or reorganization;
 - (B) the individuals who were members of the Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least 51% of the members of the board of directors of the Surviving Corporation; and
 - (C) no Person (other than the Corporation or any Subsidiary, any Benefit Plan (or any trust forming a part thereof) maintained by the Corporation, the Surviving Corporation or any Subsidiary, or any Person who, immediately prior to such merger, consolidation or reorganization had beneficial ownership of 20% or more of the then outstanding voting securities) has beneficial ownership of 20% or more of the combined voting power of the Surviving Corporation's then outstanding voting securities;
- (5) a plan of liquidation or dissolution of the Corporation other than pursuant to bankruptcy or insolvency laws is adopted; or
- (6) during any period of two consecutive years, individuals, who at the beginning of such period constituted the Board cease for any reason to constitute at least a majority of the Board unless the election, or the nomination for election by the Corporation's shareholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period;

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of this Plan:

- (A) in the event of a sale, exchange, transfer or other disposition of substantially all of the assets of the Corporation, or a merger, consolidation or other reorganization involving the Corporation and a Participant alone or with other Participants, or any entity in which the Participant (alone or with other Participants) has, directly or indirectly, at least a 5% equity or ownership interest; or
- (B) in a transaction otherwise commonly referred to as a "management leveraged buyout."

Notwithstanding clause (1) of the preceding paragraph, a Change of Control shall not be deemed to have occurred if a Person becomes the beneficial owner, directly or indirectly, of the Corporation's securities representing 20% or more of the combined voting power of the Corporation's then outstanding securities solely as a result of an acquisition by the Corporation of its voting securities which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 20% or more of the combined voting power of the Corporation's then outstanding securities; provided, however, that if a Person becomes a beneficial owner of 20% or more of the combined voting power of the Corporation's then outstanding securities by reason of share purchases by the Corporation and shall, after such share purchases by the Corporation, become the beneficial owner, directly or indirectly, of any additional voting securities of the Corporation, then a Change of Control of the Corporation shall be deemed to have occurred with respect to such Person

under clause (1) of the preceding paragraph. In no event shall a Change of Control of the Corporation be deemed to occur under such clause (1) above with respect to Benefit Plans.

ARTICLE 8. TERMINATION OF EMPLOYMENT AFTER VESTING

8.1 *Retirement*—In the event of Retirement, an Option shall lapse at the earlier of the term of the Option or:

- (a) In the case of an Incentive Stock Option, three months from the date of Retirement; and
- (b) In the case of Options other than Incentive Stock Options, up to 24 months, at the discretion of the Committee, from the date of Retirement.

8.2 *Termination Before Retirement*—In the event of voluntary termination of employment at the election of the Optionee or termination at the election of the Corporation, all Options shall lapse as of the earlier of the term of the Option or 30 days from date of termination.

8.3 *Death or Disability*—In the event of termination due to death or "Disability" as defined in Code Section 72(m)(7), an Option shall lapse at the earlier of the term of the Option or one year after termination due to such cause.

8.4 *Forfeiture*—In the event

- (a) an Optionee's employment is terminated by the Corporation for cause, or
- (b) an Optionee engages in competition with the Corporation in breach of a written agreement between the Optionee and the Corporation or, in the absence of a written agreement on the subject, within 12 months after termination of his employment.

the Corporation shall have the right to purchase from the Optionee all shares of Common Stock acquired pursuant to the Plan, at a price equal to the lesser of the amount paid for such shares by the Optionee or the then fair market value of the shares determined under Section 5.3. If the Optionee has previously disposed of Common Stock acquired under the Plan, the Corporation shall have the right to recover from the Optionee the excess of the amount received by the Optionee upon disposition of such Common Stock over the exercise price of such Common Stock. An Optionee shall be considered to engage in competition with the Corporation if he engages in any business in which the Corporation has engaged within two years prior to termination of the Optionee's employment with the Corporation, within 100 miles of any facility at which the Corporation has engaged in business, whether as employee, officer, director, proprietor, partner or owner of more than 1% of the equity interest in a business that engages in competition with the Corporation.

ARTICLE 9. ADJUSTMENT PROVISIONS

9.1 *Share Adjustments*—

- (a) In the event that the shares of Common Stock of the Corporation, as presently constituted, shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares or otherwise) or if the number of such shares of stock shall be increased through the payment of a stock dividend, then, subject to the provisions of Subsection (c) below, there shall be substituted for or added to each share of stock of the Corporation which was theretofore appropriated, or which thereafter may become subject to an Option under the Plan, the number and kind of shares of stock or other securities into which each outstanding share of the stock of the Corporation shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be. Outstanding options shall also be appropriately amended as to price and other terms, as may be necessary to reflect the foregoing events.
- (b) If there shall be any other change in the number or kind of the outstanding shares of the stock of the Corporation, or of any stock or other securities into which such stock shall have been changed, or for which it shall have been exchanged, and if a majority of the disinterested members of the Board shall, in its sole discretion, determine that such change equitably requires an adjustment in any Option which was theretofore granted or which may thereafter be granted under the Plan, then such adjustment shall be made in accordance with such determination.
- (c) The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge, to consolidate, to dissolve, to liquidate or to sell or transfer all or any part of its business or assets.

9.2 *Corporate Changes*—A dissolution or liquidation of the Corporation, or a merger or consolidation in which the Corporation is not the Surviving Corporation, shall cause each outstanding Option to terminate, except to the extent that another corporation may and does in the transaction assume and continue the Option or substitute its own options.

9.3 *Fractional Shares*—Fractional shares resulting from any adjustment in Options pursuant to this Article 9 may be settled as the Board or the Committee (as the case may be) shall determine.

9.4 *Binding Determination*—To the extent that the foregoing adjustments relate to stock or securities of the Corporation, such adjustments shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Notice of any adjustment shall be given by the Corporation to each holder of an Option which shall have been so adjusted.

ARTICLE 10. GRANT OF STOCK OPTIONS TO DIRECTORS

10.1 *Grant*—Stock Options may be granted to Directors under the Plan, subject to any limitations of applicable law.

10.2 *Termination*—Notwithstanding the provisions of Article 8 hereof, if a Director's service with the Corporation terminates by reason of Disability or Retirement as a director of the Corporation, any vested Option held by such Director may be exercised for a period of three years from the date of such termination or until the expiration of the Option, whichever is earlier. If a Director's service with the Corporation terminates by reason of death or under mutually satisfactory conditions, or if a Director dies within the three-year period following the termination by reason of Disability or Retirement from active service as a Director of the Corporation or within the one-year period following termination

under mutually satisfactory conditions, any vested Option held by such Director may be exercised for a period of one year from the date of such termination or post-termination death, as the case may be, or until the expiration of the stated term of the Option, whichever is earlier. All applicable provisions of this Plan not inconsistent with this Article 10 shall apply to Options granted to Directors; provided, however, that the Committee may not exercise discretion under any provisions of this Plan with respect to Options granted under this Article 10 to the extent that such discretion is inconsistent with Rule 16b-3 of the Exchange Act.

ARTICLE 11. GENERAL PROVISIONS

11.1 *Effective Date*—The Plan shall become effective upon its adoption by the Board, provided that any grant of an Option is subject to the approval of the Plan by the shareholders of the Corporation within 12 months of adoption by the Board.

11.2 *Termination of the Plan*—Unless previously terminated by the Board, the Plan shall terminate on, and no options shall be granted after, the tenth anniversary of its adoption by the Board.

11.3 *Limitation on Termination, Amendment or Modification*

- (a) The Board may at any time terminate, amend, modify or suspend the Plan, provided that without the approval of the stockholders of the Corporation no amendment or modification shall be made by the Board which:
 - (1) increases the maximum number of shares of Common Stock as to which Options may be granted under the Plan;
 - (2) changes the class of eligible Participants; or
 - (3) otherwise requires the approval of shareholders in order to maintain the exemption available under Rule 16b-3 (or any similar rule) under the Exchange Act.
- (b) No amendment, modification, suspension or termination of the Plan shall in any manner affect any Option theretofore granted under the Plan without the consent of the Optionee or any person validly claiming under or through the Optionee.

11.4 *No Right to Employment*—Neither anything contained in the Plan or in any instrument under the Plan nor the grant of any Option hereunder shall confer upon any Optionee any right to continue in the employ of the Corporation or of any Subsidiary or limit in any respect the right of the Corporation or of any Subsidiary to terminate the Optionee's employment at any time and for any reason.

11.5 *Withholding Taxes*—

- (a) Subject to the provisions of Subsection (b), the Corporation will require that an Optionee or any other person or entity receiving Common Stock upon exercise of an Option, as a condition of the exercise of an Option other than an Incentive Stock Option, pay or reimburse any taxes which the Corporation is required to withhold in connection with the exercise of the Option.
- (b) An Optionee may satisfy the withholding obligation described in Subsection (a), in whole or in part, by electing to have the Corporation withhold shares of Common Stock (otherwise issuable upon the exercise of an Option) having a fair market value equal to the amount required to be withheld. An election by an Optionee to have shares withheld for this purpose shall be subject to the following restrictions:
 - (1) it must be made prior to the date on which the amount of tax to be withheld is determined (the "Tax Date");

(2) it shall be irrevocable; and

(3) it shall be subject to disapproval by the Committee.

11.6 *Listing and Registration of Shares—*

- (a) No Option granted pursuant to the Plan shall be exercisable in whole or in part if at any time the Board shall determine in its discretion that the listing, registration or qualification of the shares of Common Stock subject to such Option on any securities exchange or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition, of, or in connection with, the granting of such Option or the issue of shares thereunder, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.
- (b) If a registration statement under the Securities Act with respect to the shares issuable upon exercise of any Option granted under the Plan is not in effect at the time of exercise, as a condition of the issuance of the shares, the person exercising such Option shall give the Committee a written statement, satisfactory in form and substance to the Committee, that such person is acquiring the shares for such person's own account for investment and not with a view to distribution. The Corporation may place upon any stock certificate for shares issuable upon exercise of such Option the following legend or such other legend as the Committee may prescribe to prevent disposition of the shares in violation of the Securities Act or other applicable law:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 ("ACT") AND MAY NOT BE SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT WITH RESPECT TO THEM UNDER THE ACT OR A WRITTEN OPINION OF COUNSEL FOR THE CORPORATION THAT REGISTRATION IS NOT REQUIRED."

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[PENN NATIONAL GAMING, INC NONQUALIFIED STOCK OPTION](#)

[LETTERHEAD OF BALLARD SPAHR ANDREWS & INGERSOLL, LLP]

June 17, 2005

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

Re: Penn National Gaming, Inc.—Nonqualified Stock Option Agreement with Peter M. Carlino—Registration Statement on Form S-8

Ladies and Gentlemen:

We have acted as counsel to Penn National Gaming, Inc. (the "Company") in connection with the registration under the Securities Act of 1933, as amended, of 95,000 shares of the Company's common stock, par value \$0.01 per share (the "Shares"), issuable upon the exercise of a nonqualified stock option granted to Peter M. Carlino by the Company (the "Option").

In rendering our opinion, we have reviewed the Nonqualified Stock Option Agreement (the "Agreement"), dated February 6, 2003, between the Company and Peter M. Carlino evidencing the Option and such certificates, documents, corporate records and other instruments and matters of law as in our judgment are necessary or appropriate to enable us to render the opinion expressed below. In giving this opinion, we are assuming the authenticity of all instruments presented to us as originals, the conformity with the originals of all instruments presented to us as copies and the genuineness of all signatures.

The opinion expressed below is based on the assumption that Mr. Carlino will acquire the Shares strictly in accordance with the terms of the Agreement.

Based on the foregoing, we are of the opinion that the Shares, when issued pursuant to the Option (including the payment of any exercise price and the satisfaction of any vesting restrictions) in accordance with the terms and conditions thereof, will be legally issued, fully paid and non-assessable.

This opinion is limited to the matters expressly stated herein. No implied opinion may be inferred to extend this opinion beyond the matters expressly stated herein.

This opinion is limited to the Federal law of the United States of America and the laws of the Commonwealth of Pennsylvania.

We consent to the filing of this opinion as Exhibit 5 to the Registration Statement on Form S-8 being filed with respect to the offering of the Shares.

Very truly yours,

/s/ Ballard Spahr Andrews & Ingersoll, LLP

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[Exhibit 5](#)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of Penn National Gaming, Inc. and subsidiaries of our reports dated March 25, 2005, relating to the consolidated financial statements, and the effectiveness of Penn National Gaming, Inc. and subsidiaries' internal control over financial reporting, which appear in the Company's Annual Report to Shareholders on Form 10-K for the fiscal year ended December 31, 2004.

/s/ BDO Seidman, LLP
BDO Seidman, LLP

Philadelphia, PA

June 17, 2005

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[Exhibit 23.1](#)

[CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)