

PENNSYLVANIA GAMING CONTROL BOARD

PUBLIC HEARING

MOUNT AIRY #1, LLC PETITION FOR APPROVAL OF CORPORATE
RESTRUCTURING AND TO VACATE THE BOARD'S 2/5/2008 AND
6/4/2009 ORDERS

SEPTEMBER 23, 2009, 10:02 A.M.

STATE MUSEUM AUDITORIUM
HARRISBURG, PENNSYLVANIA

BEFORE:

GREGORY C. FAJT, CHAIRMAN
RAYMOND S. ANGELI
JEFFREY W. COY
JAMES B. GINTY
KENNETH T. McCABE
SANFORD RIVERS
GARY A. SOJKA

ALSO PRESENT:

DAVID BARRISH, EX-OFFICIO REPRESENTATIVE
FRANK JARBALA, EX-OFFICIO REPRESENTATIVE
KEITH WELKS, EX-OFFICIO REPRESENTATIVE

HILLARY M. HAZLETT, REPORTER
NOTARY PUBLIC

1 CHAIRMAN FAJT: Good morning, everybody. I'm
2 Greg Fajt, Chairman of the Gaming Control Board.

3 Just as a housekeeping matter, I would like
4 everyone to turn off their cell phones, BlackBerries,
5 PDAs. Those devices interfere with our communication
6 system that we have, so thank you.

7 Today, we have Frank Jarbala representing
8 Secretary of Agriculture Russell Redding.

9 Keith Welks is here as the Ex-Officio Designee
10 representing State Treasurer Rob McCord.

11 Dave Barrish is here representing Revenue
12 Secretary Steve Stetler.

13 Thank you all for joining us today.

14 A quorum of the Board is present. Today's
15 proceedings are called to order. I would like to ask
16 every one to stand and join me in the Pledge of
17 Allegiance.

18 (Pledge of Allegiance.)

19 CHAIRMAN FAJT: We have two items before the
20 Board today in the way of Public Hearings, which will
21 take place prior to our public meeting.

22 The first item addresses two Petitions filed by
23 Mount Airy #1, LLC, for Approval of Corporate
24 Restructuring and to Vacate the Board's February 5th,
25 2008 and June 3rd, 2009 Orders.

1 The second hearing addresses the Application
2 for Renewal of Downs Racing, LP's, Category 1 Slot
3 Machine License.

4 Let's begin. May I have all parties involved
5 in the Mount Airy #1, LLC, Petitions please come
6 forward. Will those who will present evidence, please
7 stand and be sworn.

8 (Witnesses sworn en masse.)

9 CHAIRMAN FAJT: Thank you. If it is okay with
10 the Board, we'll hear from both representatives of Mount
11 Airy and then our Office of Enforcement Counsel and
12 reserve our questions until the conclusion of their
13 presentations.

14 MR. DONNELLY: Good morning Mr. Chairman,
15 members of the Board.

16 John Donnelly appearing on behalf of Mount
17 Airy. I will be very brief because there has been
18 literally a ton of paperwork in front of you, as you are
19 all well aware.

20 We are seeking today two applications that have
21 been merged. One is to seek to vacate the previous June
22 3rd, 2009, and to the extent necessary, the other Orders
23 suspending Louis DeNaples under certain conditions and I
24 know there have been several modifications, the most
25 recent one is the June Order, and secondly to approve a

1 restructuring.

2 I think the removal of the current suspension
3 under the June of 3rd and the restructuring both track
4 the agreement that was reached with the Dauphin County
5 prosecutor. Again, there has been extensive paperwork
6 submitted to your staff, which you are well aware of.

7 As to the restructuring, the restructuring is
8 state planning driven. It is very similar to what we
9 originally had contemplated when first licensed and what
10 we originally brought to the Board's attention as far
11 back as 2007. That is, as you well know, got derailed
12 with the indictment.

13 Now that that is over, again, Mr. DeNaples
14 wants to engage in the estate planning.

15 In essence what will happen with your approval,
16 is the existing LLC will be transferred -- the interest
17 that Mr. DeNaples owns, 100 percent, will be transferred
18 to a holding company.

19 The holding company, in turn, will sell its
20 interests to a trust that has been established -- a
21 grant or trust established by his daughter Lisa, who is
22 currently the COO of the property and was licensed as a
23 Key Employee. She will then own 100 percent of the
24 company, the licensed casino. That is what we are
25 asking for today.

1 There will be a second step that we anticipate
2 to come back at a later date where Lisa under agreement
3 -- existing agreement will disburse with your approval
4 her interest to other of Mr. DeNaples' children and
5 grandchildren into other grants or trusts.

6 So at the end of the day with ultimate approval
7 each of those children's trusts, grandchildren's trusts
8 will own one-seventh each of the entity.

9 Today, we are taking those first steps, so we
10 are stopping at the level of the transfer to Lisa. The
11 reason we are postponing other things is a number of
12 reasons, but not everybody is licensed and we have
13 applied -- filed license applications and the other
14 siblings are being investigated as we speak.

15 I have one more statement, which is that JP
16 Morgan has reviewed this, the lender has approved this,
17 approved up to these stages of the transaction. There
18 has been a recasting of the financing governing this
19 property.

20 So, all we need is the approval of the Board to
21 go forward with these initial steps.

22 Mr. DeNaples is here today. I know there is a
23 concern by the Board as to financial stability of the
24 entity because, of course, this Board has been looking
25 to Mr. DeNaples in the past and he is here to assure the

1 Board that with the very, very, very significant
2 investment he has in this property ranging in the area
3 of \$250 million with guarantees and so on, he is not
4 going anywhere.

5 Lisa DeNaples, as I said, is Key Employee and
6 has been operating the facility. Everybody is very,
7 very comfortable with her business acumen.

8 She went through, under the auspices of the
9 trustee, Anthony Ceddia, kind of an executive training
10 program where he allowed her to move from station to
11 station and learn the business during this period of
12 time.

13 So with that, I'll turn it over to any
14 questions, again, knowing you have been extensively
15 briefed and there has been extensive papers submitted.

16 CHAIRMAN FAJT: Thank you. OEC have any
17 questions?

18 MS. DAVENPORT: Not at this time.

19 MR. PITRE: I have one question.

20 CHAIRMAN FAJT: Go ahead, Cyrus.

21 MR. PITRE: I would like to question
22 Mr. DeNaples with regard to the capital contributions
23 that you have made in the past.

24 With this, if the Board should adopt this
25 restructuring, would you continue to make capital

1 contributions if it became necessary to continue the
2 successful operations of Mount Airy Casino?

3 MR. DeNAPLES: Yes, sir.

4 MR. PITRE: And would those capital
5 contributions come directly from you to the trust?

6 MR. DeNAPLES: Yes, sir.

7 MR. PITRE: Okay. That is the only questions,
8 concerns that we had with regard to this.

9 CHAIRMAN FAJT: Okay. Does Mount Airy have any
10 questions for Enforcement Counsel?

11 MR. DONNELLY: No, sir.

12 CHAIRMAN FAJT: Thank you.

13 Any of the members, any of the Board members
14 have questions?

15 Commissioner Ginty?

16 COMMISSIONER GINTY: Cyrus, this is directed to
17 you. Mr. Donnelly mentioned it earlier; but this
18 arrangement, as I understand, is consistent with the
19 agreement that Mr. DeNaples entered into an agreement
20 with the District Attorney of Dauphin County?

21 MR. PITRE: It is consistent with that
22 agreement.

23 COMMISSIONER GINTY: Did that agreement
24 contemplate Mr. DeNaples continued financial support of
25 Mount Airy?

1 MR. PITRE: Yes, it did.

2 CHAIRMAN FAJT: Commissioner Sojka?

3 COMMISSIONER SOJKA: Yes. Just an extension of
4 that and that is we just heard Mr. DeNaples' testimony
5 concerning continued support.

6 Do we have documentation on that as well?

7 MR. PITRE: We have made several
8 recommendations to the Board that we would like to be
9 imposed as conditions with this restructuring.

10 Mr. DeNaples has said on the record that he
11 will continue to make capital contributions as it
12 becomes necessary.

13 We also would like something in writing to that
14 effect. We have given them time. Our condition gives
15 them time to draft that if the Board should adopt that
16 condition, to draft, I guess, a document that would show
17 that he would continue to make capital contributions as
18 necessary.

19 COMMISSIONER SOJKA: Fine. Thank you.

20 CHAIRMAN FAJT: Commissioner McCabe?

21 COMMISSIONER McCABE: I have a question for
22 Mr. DeNaples.

23 For these capital contributions that may be
24 required of you in the future, where would those funds
25 come from?

1 MR. DeNAPLES: From my personal assets.

2 MR. McCABE: Thank you.

3 MR. PITRE: And we have verified that

4 Mr. DeNaples does have the necessary assets.

5 CHAIRMAN FAJT: Commissioner Rivers?

6 COMMISSIONER RIVERS: My question is also for

7 Mr. DeNaples. I have two.

8 One, during the last 19 months, has the LLC
9 missed any payment of any type?

10 MR. DeNAPLES: No, sir.

11 COMMISSIONER RIVERS: Okay. During the
12 refinancing that you went through, I guess you have gone
13 through one or two refinancings?

14 MR. DeNAPLES: Yes, sir.

15 COMMISSIONER RIVERS: Sir, one or two?

16 MR. DeNAPLES: Two.

17 COMMISSIONER RIVERS: Were there any
18 significant questions that the investment bankers posed
19 to you that would cause us any concern?

20 MR. DeNAPLES: No, sir.

21 COMMISSIONER RIVERS: Thank you.

22 CHAIRMAN FAJT: Any other questions?

23 Thank you very much. This will conclude Mount
24 Airy's portion of our public hearing.

25 Cyrus, go head.

1 MR. PITRE: We do have one witness from the
2 Bureau of Investigations Unit.

3 CHAIRMAN FAJT: I apologize.

4 MR. PITRE: Just to verify that he has read the
5 report and issued a report to the Board with any
6 concerns and our conditions with regard to those
7 concerns.

8 CHAIRMAN FAJT: Do you want to bring your
9 witness?

10 MS. DAVENPORT: Good morning, Commissioners.
11 Nan Davenport, OEC.

12 Today, I have a witness from the Financial
13 Investigations Unit from the Bureau of Investigations
14 and Enforcement.

15 If you would state your name and spell it for
16 the record?

17 MR. O'NEIL: Rich O'Neil, O--'N-e-i-l.

18 MS. DAVENPORT: And your title, sir?

19 MR. O'NEIL: Forensic accountant.

20 MS. DAVENPORT: Has the BIE's Financial
21 Investigation Unit reviewed Mount Airy's Petition and
22 its supporting documents related to the proposed
23 restructuring?

24 MR. O'NEIL: I have.

25 MS. DAVENPORT: Has FIU analyzed the relief

1 requested in the Petition.

2 MR. O'NEIL: Yes.

3 MS. DAVENPORT: Did FIU create a report on the
4 grant or trust to Lisa DeNaples and Mount Airy's
5 proposed restructuring, analyzing the relief requested?

6 MR. O'NEIL: Yes, I did.

7 MS. DAVENPORT: And was it submitted to the
8 Board?

9 MR. O'NEIL: It was.

10 MS. DAVENPORT: If the Board grants the relief
11 requested in the Petition, did FIU recommend certain
12 conditions?

13 MR. O'NEIL: Yes.

14 MS. DAVENPORT: Are those before the Board
15 today?

16 MR. O'NEIL: Yes, they are.

17 MS. DAVENPORT: Okay. Thank you.

18 MR. O'NEIL: Thank you.

19 CHAIRMAN FAJT: Mr. O'Neil, could you stay
20 there for a second.

21 MR. O'NEIL: Sure.

22 CHAIRMAN FAJT: Does Mount Airy counsel have
23 any question for the OEC or Mr. O'Neil?

24 MR. DONNELLY: No. Thank you.

25 CHAIRMAN FAJT: Thank you.

1 Any other questions from the Board of
2 Enforcement Counsel?

3 Thank you.

4 This will conclude the Mount Airy portion of
5 our public hearing. Following the license renewal of
6 Downs Racing, LP, the Board will recess into Executive
7 Session to further consider the matter.

8 And I now ask that we clear the front tables,
9 and if the representatives for Downs Racing could come
10 forward, please.

11 (The hearing concluded at 10:13 a.m.)

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1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the notes
3 taken by me on the within proceedings and that this is a
4 correct transcript of the same.

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Hillary M. Hazlett, Reporter
Notary Public

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