

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

\* \* \* \* \*

PUBLIC HEARING

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BEFORE: GREGORY C. FAJT, CHAIRMAN  
Raymond S. Angeli, Jeffrey W. Coy, James B.  
Ginty, Kenneth T. McCabe, Gary A. Sojka,  
Kenneth I. Trujillo,  
David Barasch, Deputy Secretary of the  
Department of Revenue, Representative,  
Rick Burd, representing Russell  
Redding, Secretary of Agriculture

HEARING: Thursday, May 13, 2010  
11:16 a.m.

LOCATION: Pennsylvania Gaming Control Board  
North Office Building, Hearing Room One  
Harrisburg, PA 17106

WITNESSES: Greg Carlin, David Patent, Paul Girvan

Reporter: Alicia R. Brant

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CHAIRMAN:

Please be seated. And again, before each of you speak if you could, please state and spell your name for the stenographer. That'd be helpful.

ATTORNEY DONNELLY:

Good morning, Mr. Chairman and members of the Board. My name is John Donnelly, D-O-N-N-E-L-L-Y. I'm appearing today on behalf of SugarHouse Casino, HSP Gaming. And as you noted, we're asking for a very narrow matter today, an amendment to the Statement of Conditions statement number 56, which would permit us to when we open, which is now scheduled for my birthday, September 22nd of this year, to open with 1,602 slot machines instead of the 1,700 that we anticipated last --- almost a year ago last May. That's condition, statement condition, number 56. Now, this is a bit confusing because we have --- our public input hearing is scheduled for the 19th in Philadelphia. And then we are scheduled to be back here on the 25th for our Table Games Petition, so we don't want to be presumptive on either of those factors. And we realize those are up in the air and pending.

1                   However, part of the presentation today  
2 with regard to these 98 slot machines will come into  
3 the table games factor. And we are anticipating based  
4 on our reading of the statute and our belief that we  
5 have fulfilled all of the requirements to be  
6 authorized to have table games. In our numbers that  
7 we're going to be presenting today we're participating  
8 table games being authorized. Again, I don't want to  
9 be presumptive on that, but it's a factor of how we  
10 had to calculate our numbers and had --- we had to  
11 calculate them to get financing.

12                   Let me go back a year ago because it was  
13 May 6th, one year ago, that Neil Bluhm appeared before  
14 here. And those are still kind of tough economically,  
15 but I will remind the Board that what happened then  
16 was Neil Bluhm said, I'm not sure I can finance this.  
17 There had been a crisis in the market, as you know,  
18 the lawsuits and the recalcitrants at that time of  
19 some of our neighbors had caused us to lose the  
20 financing that we had in place for our initial  
21 facility. We didn't have financing. May 6th of last  
22 year we had no financing. We have looked at a  
23 temporary facility, we looked at bringing in a  
24 riverboat, we looked at a sprung structure type of  
25 facility and we rejected them all. And Neil and Ray

1 came in last May and said, look, here's what we think  
2 we can do. I think I can go out and finance an  
3 interim casino, which will have a core facility and  
4 then I --- and we reviewed the testimony carefully for  
5 this proceeding. They said, and our plan is to build  
6 this interim --- try to get it financed, build this  
7 interim facility --- which, by the way, frankly is not  
8 what we had planned because we are now very much  
9 constrained from the way the world was when we  
10 originally planned it when we had complete funding,  
11 you know, firm commitment letters. But I think I can  
12 do that. And then we're going to --- we think that  
13 with the plan we have is better than the other plan.  
14 We don't want a temporary facility. We don't think  
15 that's competitive. We don't want a boat, that --- no  
16 one seemed to like that. We don't want the sprung  
17 structure. We think that we can build this interim  
18 core, finance it, get it open as quickly as possible  
19 and then we will use the cash flow from that facility.  
20 And we've had discussions with lenders to that effect  
21 to as soon as practicable, start building our garage  
22 out of that. And we've rented some space to the north  
23 of us to do some parking, you'll recall that. And  
24 then if that all happens then we'll go into our Phase  
25 I, which could take us up to 3,000 slot machines, our

1 Phase I. That's what we said last May 6th, almost to  
2 the day.

3                   We went out. We got the financing on the  
4 basis of that plan. The city at that time was being  
5 cooperative and has been cooperative. We're under  
6 construction and it's --- that whole plan was  
7 scheduled for September 22nd. As I said, that wasn't  
8 what we were --- had planned before. We planned a  
9 different facility. That facility is --- and at that  
10 hearing on May 6th Mr. Bluhm said we're contemplating  
11 and plan to go from 1,550 slot machines, which had  
12 been our earlier plan, to 1,700 slot machines in this  
13 new configuration we have. Table games, of course,  
14 were not authorized at the time.

15                   Now, what happened since then? We're in  
16 the process of building that facility. At the time,  
17 May of last year, when we presented to our lenders and  
18 presented to you --- and this is a very important  
19 --- there's going to be a couple of very important  
20 numbers. This is the most important one to me. We  
21 projected gross terminal revenue from slot machines of  
22 \$240 million. That's what we said in our  
23 presentation, that's what Mr. Bluhm testified to,  
24 that's what we presented to our lenders, that's what  
25 we sold to get the financing, \$240 million.

1                   Now, in anticipation of this hearing ---  
2 well, not really even in anticipation of this hearing.  
3 As we budgeted in the spring of this year and started  
4 looking for financing for the table games we needed  
5 approximately \$21.5 million for table games. So, in  
6 the spring of this year we began our budgeting and our  
7 projections and so on. And during the course of that  
8 the optimal mix that we came up with where we'd be  
9 granted table games ranged from 40 to 42, but  
10 currently 40 table games and 1,600 slot machines.  
11 Now, we've bumped that up to 1,602 slot machines.

12                   And that's what we took, recognizing we  
13 needed a Statement of Condition of change and so on,  
14 but we needed to present to lenders and we did present  
15 to lenders. Craig Sweiss (phonetic) was our Loan  
16 Accommodator, if that's the right word, or Chief Loan  
17 Organizer. And we presented numbers that showed ---  
18 mainly demonstrated what kind of gross terminal  
19 revenue would we do with 1,602 slots and 40 table  
20 games. The number was \$240 million, the same number.  
21 That number had nothing to do with this petition, I  
22 will assure you. I kidded around with BIE that, you  
23 know, how --- the fact that these two numbers are  
24 wrong I had nothing to do with, which I had nothing to  
25 do with.



1           Our own budget numbers that we're relying  
2 on and numbers that we presented to Craig Sweiss to  
3 get financing, the \$21.5 which we have received, had  
4 the same gross terminal revenue with 1,600 machines as  
5 it did with 1,700. Plus it adds \$32 million in table  
6 game revenue, but the important number is that by  
7 asking for this reduction of 98 machines we are not  
8 --- our belief, we are not going to lose one penny of  
9 gross terminal revenue. It's going to be the same.

10           Now, that is somewhat counterintuitive,  
11 but it's not in the gaming industry because we know  
12 and you know --- when I say counterintuitive maybe to  
13 the public that having slot machines stay on the floor  
14 does not generate revenue. What generates revenue is  
15 the right mix, the right excitement, the right  
16 attractions that gets people to come in and to play  
17 the games and to play both slot machines, and if table  
18 games, come to play the table games.

19                           COMMISSIONER GINTY:

20           Mr. Donnelly, just so I can follow you I  
21 want to make sure. The \$240 million that's reflected  
22 in your slide here, in both instances that's slot  
23 revenue?

24                           ATTORNEY DONNELLY:

25           Yes, sir.

1 COMMISSIONER GINTY:

2 Okay.

3 ATTORNEY DONNELLY:

4 It has nothing to do with table game  
5 revenue. It's slot revenue.

6 COMMISSIONER GINTY:

7 So, there's no table revenue in there at  
8 all?

9 ATTORNEY DONNELLY:

10 None.

11 CHAIRMAN:

12 The state still gets its 55 percent ---?

13 ATTORNEY DONNELLY:

14 No. It's apples to apples.

15 COMMISSIONER GINTY:

16 Okay.

17 ATTORNEY DONNELLY:

18 Perfect apples to apples. The only  
19 difference is when we did our projection we did it  
20 with 1,600, not 1,602.

21 COMMISSIONER GINTY:

22 Don't confuse it any more. It's \$240  
23 there and it's \$240 and it's all the same with slot  
24 revenue.

25 ATTORNEY DONNELLY:

1                   That's right.   That's right.

2                   MR. TRUJILLO:

3                   Mr. Chairman, can I ask one question?

4                   CHAIRMAN:

5                   Sure, Commission Trujillo.

6                   MR. TRUJILLO:

7                   But with your plan, as I understand it,  
8 that if you have the 1,602 the way you get \$240 is the  
9 additional \$12 million created by the additional play  
10 on the slot machines as a result of having table  
11 games?

12                   ATTORNEY DONNELLY:

13                   No.

14                   MR. TRUJILLO:

15                   Okay.

16                   ATTORNEY DONNELLY:

17                   No. We'll get to that. Now, what's  
18 going to be presented today is we're going to present  
19 two numbers. And the reason we're going to have two  
20 numbers is because to test ourselves. Now, I want to  
21 remind you we're relying on these numbers. We're  
22 budgeting on these numbers, the \$240, we --- our  
23 equity --- Neil Bluhm and those people put their cash  
24 in on those numbers and Craig Sweiss put their  
25 --- and the lenders put on it. So we believe in these

1 numbers completely and to test ourselves and to  
2 prepare for this hearing we asked Paul Girvan from  
3 Innovation Group to look at our projections and come  
4 up with his own projections with 1,600 slots and see  
5 what kind of revenue. He came in higher. He came in  
6 at \$253 give or take. So, he's about, you know, give  
7 or take ten percent higher than us.

8           Just like last May Neil Bluhm stood here  
9 and said, we have numbers from our consultants, and  
10 it's in the transcript, that are about ten percent  
11 higher than we're telling you --- that we're  
12 projecting. We were projecting \$240. We had numbers  
13 about ten percent higher, but we're being  
14 conservative. We're presenting to you the  
15 conservative numbers, we're presenting to our lenders  
16 the conservative numbers and that's where the \$240  
17 came. We have the higher number from Innovation, but  
18 we still --- the number we believe in is \$240 and the  
19 number we put our money, you know, where our mouth is  
20 on the \$240.

21           So, that's why you're going to hear two  
22 numbers. You're going to hear our number, which is  
23 exactly the same as it was last year that we relied on  
24 and you're going to hear Innovation Group's numbers,  
25 which is slightly higher. And we're going to present

1 today why that is and we'll have both our folks and  
2 Innovation tell you why that is, why this mix we  
3 believe will bring additional slot play or will bring  
4 additional excitement and all those other kind of  
5 elements, and why just simply putting a machine on  
6 will not generate revenue.

7           I want to move from that to the statute.  
8 And just to remind everyone, again, and I'm sure  
9 you're aware, but perhaps the press is not aware. The  
10 section of the statute --- this statute was built  
11 originally for the slot machines. And by the way, Mr.  
12 Garvin worked with the General Assembly as a  
13 consultant when the original Slot Machine Bill was  
14 passed and he testified to the table games. So,  
15 Innovation Group --- I know you've heard of them  
16 before. They've been here before you. They've done  
17 studies for this Gaming Board and they're very well  
18 versed and very well respected in the field.

19           When the original statute was passed it  
20 had --- it provided that you have to have at least  
21 1,500 slot machines, but under circumstances you could  
22 go up to 3,000. It had a built-in market test that  
23 folks --- casinos had to do 1,500. Then they could  
24 see what worked and what didn't work and have the  
25 ability to come back and make applications for

1 additional slot machines. Now, those casinos have  
2 been open when the Table Game Petition passed. We  
3 have not been open. We're still not open, as you well  
4 know. The statute very particularly where it says  
5 that you cannot reduce the number of slot machines  
6 from what you had in October, it only affects those  
7 operations that were open. So, we've not governed by  
8 it. We recognize that we are --- we recognize fully  
9 that, of course, the Commonwealth and we and everybody  
10 wants as much revenue as we can generate both from  
11 slots and table games, but I want to make it very  
12 clear that that statute doesn't apply to us. What  
13 applies to us is simply the Statement of Conditions  
14 and that Statement of Conditions came from Neil  
15 Bluhm's plan last year to add another 200 slot  
16 machines from the 1,500 to the 1,700.

17           Now, as the clock has ticked and as we're  
18 still building, that plan has changed. And now we  
19 believe that the best possible revenue generator we  
20 can present both for table games and for slots is what  
21 we're going to present on the 19th and the 25th, which  
22 is 1,602 and 40 table games.

23           Now, the second thing I want to make  
24 important is --- we have an interim casino. Remember  
25 this is our interim casino. Our plan is to open this,

1 operate it, generate as much revenue as we can. And  
2 we've been through this with our lenders and Greg's  
3 going to address that. Put aside money for that  
4 garage, build that garage and then hopefully if our  
5 numbers come in the way we do, we've got to generate  
6 the EBIDTA and then blow into phase two or phase one  
7 into the 1,500 slot machines. That's exactly what we  
8 said last May, the exact same plan. It's all working  
9 now and we were able to --- and Greg can explain  
10 again. We were able to get the lenders to buy into  
11 that plan and accept that plan with the garage and we  
12 will --- Greg will also announce to you that not only  
13 are we renting land for parking, we bought it now,  
14 which gives us even more flexibility and I think put  
15 another, what --- how much? Are we allowed to say  
16 what the number was invested in --- in excess of \$14  
17 million in purchasing that land to throw more equity  
18 into the sink.

19                   So, that's where we are and we want to  
20 make it as plain as we can that we're doing exactly  
21 what we said last year. We haven't changed one thing.  
22 And I invite everybody --- and I know BIE and your  
23 legal staff have already looked at the transcripts and  
24 the presentations and the slides. \$240, Mr. Ginty.  
25 \$240 then, \$240 now. It hasn't changed a bit. I want

1 to emphasize that these are the numbers that we  
2 believe in.

3           Today I'm going to be presenting for  
4 testimony Greg Carlin who's the CEO of HSP Gaming. I  
5 know you all know him. David Patent from Rush Street  
6 who's the COO in the best gaming experience, and Paul  
7 Girvan, who I spoke of, is from the Innovation Group.  
8 I also would like to introduce Wendy Hamilton's here  
9 who's the General Manager of SugarHouse and I don't  
10 think the Board has met her before. Paul, just to  
11 introduce a little more before you --- in addition to  
12 conducting the initial gaming site for the General  
13 Assembly and testifying --- he's got I think 20 years  
14 plus in research in the gaming industry with regard to  
15 projections and numbers and works for any number of  
16 financing groups and so on and governments, and I  
17 think the best you can get out there. With that I  
18 will introduce Greg Carlin and we'll, of course, be  
19 available for questions afterwards. I have in front  
20 of you a small copy of the PowerPoint that we're going  
21 to be presenting. Thank you. Greg.

22           MR. CARLIN:

23           Thanks, John. Greg, G-R-E-G, Carlin,  
24 C-A-R-L-I-N. Commissioner and Chairman, thank you for  
25 having us here today. I wanted to follow up on John's



1 testimony, update the Board on our progress since our  
2 presentation one year ago before we had our financing.  
3 In September of 2009 we closed our loan from CS First  
4 Boston. We closed our loan in September of 2009 from  
5 CS First Boston. It was actually the first Greenfield  
6 casino to be financed since the financial crisis, and  
7 actually since the financial crisis there's only been  
8 two casinos financed, two Greenfield casinos financed,  
9 our project here in Philadelphia and a project that  
10 we're doing in Des Plaines, Illinois.

11           The loan size was \$185 million. It was a  
12 term loan, the interest rate's about 12 and a quarter  
13 percent. It's a five year facility. We also have a  
14 \$35 million FF&E financing. As part of that loan  
15 there's actually two unique features when we are  
16 negotiating the loan documents that were in that loan.  
17 One of them was an accordion feature, which basically  
18 permitted us to upsize the loan in the case where  
19 table games were legalized in Pennsylvania. So, as  
20 part of the negotiation, before we closed the loan, we  
21 left an accordion feature to upsize the loan. And we  
22 actually went out to the market in March of this year  
23 and actually borrowed the money to pay for the Table  
24 Game License and also the changes we needed to make to  
25 our slot force. We raised an additional \$21.5 million

1 for our loan for table games.

2           Another unique feature of our loan last  
3 year when we closed is that it has what's called  
4 liquidity reserve. You know, typically if --- a bank  
5 loan like this when you finance a project like this a  
6 lot of your cash flow has to be swept to pay down the  
7 loan. Well, we negotiated with the lenders to allow  
8 us to put our cash flow that we generate from the  
9 property into a reserve account that we can use to  
10 build a garage.

11           So, the way the liquidity reserve works,  
12 we put all of our cash flow into this account and once  
13 we raise half the money that we --- half the money of  
14 the budget for our garage we can then draw that money  
15 down and start construction on the garage. We expect  
16 to do that, you know, sometime six to nine months  
17 after we're open. So, we have the ability and the  
18 flexibility to build our garage under the financing.

19           Also last year when we were here Neil  
20 told you about the parcel that we had leased to the  
21 north of our property. It's about a four and a half  
22 acre parcel, and you know, we decided when we were  
23 finalizing our plans that it made more sense to  
24 actually own that parcel. So, we purchased it for  
25 \$14.2 million when we closed our loan back in

1 September. So we have an additional four acres, which  
2 makes a big difference for us for parking additional  
3 --- service parking, flexibility and it's a big  
4 addition and a big improvement to our plans. So,  
5 we're very happy we were able to do that.

6           As John mentioned, we're under  
7 construction and we're expecting to open in September,  
8 probably September 22nd, 2010. We're very happy with  
9 our progress. I was in Philadelphia last week, took a  
10 walk through the project. I think it's going to be  
11 fantastic. We've got huge floor to ceiling windows  
12 that are overlooking the river and pretty much  
13 anywhere on the casino floor you can see out the back  
14 windows and it's just a --- it's going to be a really  
15 nice facility. And I invite all of you to come to  
16 Philly and take a tour while we're under construction.  
17 We'd be happy to arrange that.

18           Next I want to talk about the petition  
19 that --- it's something that's very important for us.  
20 We think that in order to be competitive with Atlantic  
21 City that, you know, we need to have the right mix of  
22 tables and slot machines. And with the newly passed  
23 legislation, you know, we feel that the right mix is  
24 roughly the 1,602 slots and 40 tables. When you're  
25 running a table game operation it's real important to

1 have the critical mass in order to maximize our total  
2 revenue. You know, with the smaller compliment tables  
3 we don't feel like we'll have the proper mix and we  
4 don't feel like we'll have the proper customer  
5 experience because folks may come in and if the tables  
6 are too busy they're going to drive to Atlantic City,  
7 or they're going to, you know, go somewhere else. We  
8 really need to have the right product mix in order to  
9 maximize our revenue. And based on all of our  
10 analysis the mix that we're proposing we think is the  
11 right mix.

12                   As John mentioned, last year when we were  
13 here before the Board we projected \$240 million of  
14 gross terminal revenue. And that number was less than  
15 --- we also had Innovation Group do a projection as  
16 well and their numbers were higher than our numbers.  
17 We felt it was prudent to go with the more  
18 conservative number when we underwrote our financing  
19 and underwrote our projections and what the property  
20 was going to do. We are confident that with the lower  
21 number of tables we'll still generate the \$240 million  
22 of gross terminal revenue. We did ask Innovation  
23 Group to run their model to confirm our analysis and  
24 Paul is here today to talk to you about his results.  
25 Next I'm going to pass it off to David Patent to give

1 you some more details about our plans on the ---.

2 COMMISSIONER GINTY:

3 Can I ask a question so I can follow  
4 this?

5 MR. CARLIN:

6 Sure.

7 COMMISSIONER GINTY:

8 You include in this chart and in  
9 subsequent charts the one time license fee, but even  
10 without that license fee, as I do some quick math  
11 here, you will be producing more taxes as a result of  
12 adding the table games as well; is that ---?

13 MR. CARLIN:

14 That's correct. Yes.

15 COMMISSIONER GINTY:

16 I mean, I just want to keep an apple to  
17 apple type of comparison, and you know, in throwing  
18 that \$16 million some people might argue is --- so,  
19 you're going to pay that in any event, so --- but it  
20 still comes out as more in taxes to the state even  
21 without the \$16 million?

22 MR. CARLIN:

23 Correct. We feel like this maximizes  
24 revenue for both the state and our operations,  
25 correct.

1                   MR. PATENT:

2                   The spelling of my name is David,  
3 D-A-V-I-D, last name Patent, P-A-T-E-N-T. Mr.  
4 Chairman, members of the Board, good morning. What  
5 I'd like to talk to you about this morning is why in  
6 our experience and our analysis we believe that slot  
7 revenue is not going to be adversely affected by the  
8 relatively minor reduction in the number of games that  
9 we're proposing. And I'm going to talk to you mainly  
10 from an operator's perspective as someone who has  
11 managed casinos in multiple jurisdictions and been  
12 responsible also from a corporate standpoint for  
13 overseeing casino operations across, at the time, all  
14 the jurisdictions that Harrah's operated in. I  
15 actually spent seven years with Harrah's. It was nice  
16 to see some former friends and colleagues. Well,  
17 still friends, hopefully former colleagues in the room  
18 today. And then Mr. Girvan will be able to give you  
19 the consultant's analysis more from a numbers  
20 standpoint of how we get to those numbers.

21                   And I think the key point is that based  
22 on our experience and our analysis, the mix of slots  
23 and table games that we have come up with generates  
24 not only more slot play, but more overall revenue,  
25 which leads to more gaming tax revenue for

1 Pennsylvania than we would have if we were with 1,700  
2 slots. And that's not even to mention the hundreds of  
3 additional jobs that we're going to be creating  
4 through the hiring of approximately 400 to --- well,  
5 approximately 400 people with the table game addition.

6           Now, I'm usually, almost always hesitant,  
7 to contradict something that our lawyer says, but  
8 Commissioner Trujillo, your question earlier I believe  
9 actually got to one of the main reasons why we will  
10 see an increase in slot revenue and that is the  
11 companion effect that you get when you add tables to  
12 the mix. And I'll address that in a little more  
13 detail in a moment, but I want to talk about what to  
14 some people is somewhat counterintuitive. It's to  
15 say, well, you're reducing the number of slots. How  
16 does that not reduce your revenue? So, I do want to  
17 address it. There's really four reasons why that's  
18 the case. First of all, adding slots doesn't  
19 necessarily mean you're adding revenue. There's a  
20 number of examples quite recently actually in areas  
21 that are not that far from where we are where casinos  
22 have --- they've undergone expansions, they've added  
23 slot machines and it hasn't been accretive to their  
24 revenue. And conversely reducing slots doesn't  
25 necessarily reduce revenue.

1                   One of the key issues is that your  
2 occupancy during the day, it's a flow. You start  
3 relatively light during the day, you build during the  
4 day and then as you get into the evening hours you  
5 have higher occupancy. And the only time that you're  
6 really potentially impacting your revenue is when you  
7 would be at full occupancy and all the games on the  
8 floor are taken. And people say, you know what,  
9 there's no games to play here, I'm either going to  
10 shorten my time --- because, you know, they lose time  
11 when they're walking around looking to find a game or  
12 they just leave the casino. And the number of hours  
13 that you're really in that zone of constrained  
14 occupancy is very, very small and Mr. Girvan will show  
15 you exactly what the financial impact of that is based  
16 on the modeling we've done for this casino.

17                   Number two though, as an operator if you  
18 are faced with a situation where you have fewer slots  
19 there are some things you can do to improve your  
20 revenues. You can configure your games such that it  
21 requires a higher bet for customers, you can change  
22 your mix of denominations. There's a lot of things  
23 you can do to yield your floor more effectively and  
24 these are things that we've actually have looked at  
25 and have been doing as we've gone from 1,700 slots



1 projected down to 1,602. So, just doing more with  
2 less as it were.

3           Number three, customers. They change  
4 their behavior as well. They can time shift. The  
5 time that they come to your casino if they believe  
6 that there are going to be times when it's going to be  
7 hard to get on a game. So, a customer who might have  
8 come at nine o'clock may now say, you know what, if I  
9 come at eight o'clock then I have a better chance of  
10 getting a game. So, the customers kind of figure it  
11 out too as well so that they --- if they want to come  
12 to your casino, and we hope there's lots who do want  
13 to come to our casino, they can enjoy all the benefits  
14 of being on the casino floor that they would.

15           But I think for us probably the most  
16 important reason is what we call the companion effect  
17 of table games. Table game players bring with them to  
18 the casino people who play slots. And the addition of  
19 table games allows couples, friends, husbands and  
20 wives, boyfriends and girlfriends to --- you  
21 potentially might be getting one visitor or maybe even  
22 none. You now can get two because if you got a  
23 gentleman who likes to play table games who's married  
24 to someone who likes to play slots and there's only  
25 slots available, well, maybe she comes to the casino,

1 maybe she doesn't, but he most likely is not. And  
2 we've seen and it's actually quantified. Mr. Girvan  
3 can get into that, that you see quite a measurable  
4 bump in slot revenue when you add table games because  
5 of that companion effect. And we actually think for  
6 our casino in particular it's going to be stronger  
7 than for other casinos given where we're located and  
8 the demographic that we're going to be attracting.  
9 You know, we're an urban casino, we're right --- you  
10 know, not that far from Center City, Philadelphia. We  
11 think we're going to have a younger demographic, more  
12 urban that tends to be more drawn to table games. And  
13 we're also at a, you know, pretty good show point for  
14 Atlantic City, which obviously has a significant table  
15 game business where we're going to --- if we have the  
16 right mix of table games --- and that's really the  
17 key, its not just to have a couple of table games, but  
18 to have that right mix where you can offer a broad  
19 range of games and the right numbers so that there are  
20 seats available on the games. We will be a compelling  
21 alternative to Atlantic City, and with bringing those  
22 customers then also we believe we can bring some of  
23 the slot customers who wouldn't be coming to the  
24 casino but for the table games.

25                   And then I would say last, but not least

1 just from my personal experience when I was at  
2 Harrah's, we underwent a number of experiments where  
3 we had slots of certain sizes and we said, you know  
4 what, let's try to reduce the number of slots to make  
5 room for either --- other amenities or just we wanted  
6 to make customers more comfortable. There are  
7 obviously some expense at the time, considerations.  
8 And I remember at least three different instances  
9 where we reduced the slot floor size and actually  
10 found revenue didn't go down at all. It actually went  
11 up. In New Orleans we did it, Harrah's Las Vegas and  
12 the Rio, where I used to work, we did it and also at  
13 my former property in Chicago. You know, we had 2,000  
14 slots, we'd go down to 1,900. You loosen up the floor  
15 a little bit and in no case did we ever see revenue go  
16 down. So, we're quite confident that the reduction of  
17 slots from 1,700 to 1,602 is at worse revenue neutral,  
18 but we think quite possibly --- actually, most likely  
19 revenue positive for us, which is great for the State  
20 as well. I'm going to turn it over to Mr. Girvan who  
21 can take you through the Innovation Group analysis.  
22 Thank you.

23 MR. GIRVAN:

24 Good morning, Mr. Chairman. Good  
25 morning, Board members.

1                   CHAIRMAN:

2                   Good morning.

3                   MR. GIRVAN:

4                   It's a pleasure to be back here. My name  
5 is Paul Girvan. I'm less hesitant to contradict my  
6 attorney friend and my friend here. And it's  
7 G-I-R-V-A-N, not Givens. We were asked to take a look  
8 --- we have had association with SugarHouse now for  
9 some years. We did some of their original projections  
10 and we also, as noted earlier, we did work for the  
11 Commonwealth in terms of determining where licenses  
12 should be and then projecting what the particular  
13 revenues of those licenses would generate some years  
14 ago. It is really gratifying to be back here to see  
15 how far the Commonwealth has progressed in comparison  
16 to some of your surrounding states. I think both  
17 yourselves, the Legislator and the operators have done  
18 an excellent job here in this state.

19                   I think the issue really boils down to  
20 two or three factors. Firstly, if you're going to be  
21 competitive with Atlantic City --- and indeed  
22 SugarHouse is going to be competitive within the  
23 Philadelphia market, it really needs to have the  
24 correct or at least a competitive mix of table games  
25 and slot positions. And I think that's a key point,

1 and I'll show you a chart of that in a second.

2                   Secondly, I think, you know, with that  
3 mix --- and I don't want to belabor the point on  
4 companion play, but with that mix I think you will  
5 maximize revenues and you will also maximize tax  
6 receipts to the Commonwealth. Finally, I think when  
7 you look at the issue of reducing the slot machines by  
8 a small number and adding table games --- I think in  
9 both cases, both in terms of the overall slot revenue  
10 and the table game revenue, the impact on the  
11 Commonwealth will be a positive in both cases.

12                   Now, on this chart here I want --- you  
13 know, this speaks to the point that it is absolutely  
14 necessary for SugarHouse to be able to be competitive  
15 both with Atlantic City and all of Philadelphia  
16 casinos in its ability to provide sufficient table  
17 games. Without sufficient number of table games what  
18 you're going to see is you're going to see extreme  
19 overcrowding on the table games on a Saturday ---  
20 Friday night. You're going to see table minimums  
21 increase such that you will squeeze out of the market  
22 a number of folks. The lower end of the income scale  
23 will not be able to afford to play the games. And  
24 finally you can really mitigate some of the ---  
25 sorry. I'm jumping ahead.

1           The last point I wanted to make in this  
2 chart was that by reducing the number of table games  
3 what you're going to do is you're going to reduce the  
4 number of table players that are going to come to your  
5 facility. Therefore, you're going to reduce the  
6 number of people who come to your city in terms of ---  
7 come to your facility in terms of companion play, that  
8 is the slot players that come along with the table  
9 game players. If they're not coming because they  
10 can't find a table then their companion is not going  
11 to come and play the slots either, so there's going to  
12 be a loss in --- the number of table games reduced  
13 there will ultimately be a loss in slot play.

14           So, as I said, there's a net impact on  
15 slot revenue, additional slot revenue in addition to  
16 table games will have a strong companion effect on  
17 SugarHouse slots given its location. And by this ---  
18 I mean, because it's competing directly with the  
19 Atlantic City market where there's a much higher level  
20 of slot play --- I think it's over 31 percent of  
21 revenue in the Atlantic City market are generated by  
22 table games. It's going to be a significant market to  
23 operate and you need a sufficient number of table  
24 games to be able to capture that companion play.

25           We have estimated that the potential

1 companion play with 42 games could amount to as much  
2 as 4.8 percent of slot revenue, and we're estimating  
3 that slot revenue at \$253 million as opposed to the  
4 \$240 that the SugarHouse folks had established. So,  
5 that's a substantial amount of money. You know, there  
6 is a potential for some capacity constraints, but you  
7 know, the reduction of 98 slots may impact capacity.  
8 And I want to emphasize May, because I'm not entirely  
9 convinced of that myself yet, but that will only occur  
10 in a few hours on a Friday evening and a Saturday  
11 evening. If you look at the --- if we look at our  
12 estimates the original estimate we had for SugarHouse  
13 with no tables was 1,700 slots was \$252.6 million. We  
14 believe that the additional slot revenue from the  
15 companion play at 42 table games even with --- even  
16 reducing the number of slots to 1,602 is about \$12.1  
17 million. And again, I'm subtracting from that about a  
18 million dollars, which I am estimating could be lost,  
19 and I emphasize could be lost, in companion play for  
20 net additional slot revenue of \$11.2 million.

21                   This is a really important chart here  
22 when we get to discuss, you know, how this sort of  
23 counterintuitive factor comes into play. On this  
24 chart you'll see two lines. The lower line is the  
25 occupancy rate. That is the number of slots that are

1 occupied by time of day on a Saturday with 1,700  
2 slots. Now, if we reduce the number of slots to 1,602  
3 then occupancy will obviously increase and you can see  
4 that increase in the red line.

5           Now, if we can accept the fact that we're  
6 generating the revenue with 1,700 slots, I'm going to  
7 make the assumption and I have made the assumption in  
8 this chart, that the maximum occupancy experienced  
9 with 1,700 slots is essentially a theoretical maximum  
10 we can achieve. So, if we reduce the number of slots  
11 by 98 the occupancy increases and as you can see there  
12 for a few hours, the occupancy rate exceeds that  
13 theoretical maximum. It's only for a few hours. All  
14 the area beneath these lines represents slot machines  
15 being operated, so only for a very few hours and only  
16 for a very small proportion of the total number of  
17 slots during those hours are we actually potentially  
18 losing revenue. And I'm sure we might want to come  
19 back to this chart later and ask some questions, but  
20 it's a very small amount. In fact, I've estimated  
21 that on a Saturday night it could be --- it could  
22 account for less than one percent of revenue on a  
23 Saturday. On a Friday night it'd probably be about .5  
24 percent, .9, .5 percent total and that's annual. So,  
25 that's a very, very small proportion of overall



1 revenues.

2                   So, when we look at what our projections  
3 are with the addition of table games, the addition of  
4 companion play and subtracting our small reduction due  
5 to potential capacity issues our projection for slot  
6 revenue is \$264 million. That's an increase of \$11  
7 million total as I've indicated earlier. Table  
8 revenue we're estimating at \$32 million, and again,  
9 the table tax revenue to the state will be \$5 million,  
10 license is \$16.5. The gross terminal revenue would  
11 increase under this --- under my projections from \$139  
12 million to \$145 million, which is an increase of \$6  
13 million total. With a total tax, gaming tax, to the  
14 state of --- increase of \$28 million in total. That's  
15 the end of my part of the presentation in terms of the  
16 numbers.

17                   ATTORNEY DONNELLY:

18                   I'd just like to bring Greg back to  
19 address the job --- or David, you're going to address  
20 the jobs?

21                   MR. PATENT:

22                   Yes.

23                   MR. GIRVAN:

24                   Can I say one more thing? I think these  
25 numbers are very highly conservative because I've

1 operated in a number of states, and I have seen slot  
2 occupancies in excess of 95 percent in numerous  
3 jurisdictions. So, really what I'm dealing with here  
4 is an extremely conservative estimate. Even taking  
5 just a very small \$1 million decline I believe that to  
6 be extremely conservative because I have seen early  
7 --- literally early occupancy percentages on a number  
8 of casinos for these time periods. And this chart I  
9 showed is based on --- part of that chart is based on  
10 those and I've seen numbers well in excess of 95  
11 percent for three to four hours on a Saturday night.  
12 So, I believe that the theoretical maximum, which I  
13 put in there which is 89 percent, is really taking a  
14 very, very conservative approach to this.

15                   And I also believe there's a number of  
16 ways, and as David pointed out earlier, to get around  
17 that. People will shift times. You can control this  
18 by putting in --- changing your slots mix to put in  
19 more attractive machines such --- the machines that  
20 aren't attractive that aren't being operated then  
21 remove from the floor. Those are the ones we're going  
22 to take out. We're going to leave in the really  
23 attractive machines that people play on.

24                   CHAIRMAN:

25                   Thank you. Go ahead.

1                   MR. PATENT:

2                   Mr. Chairman and Commissioners, just  
3 briefly on the issue of jobs. It has been established  
4 I know when Harrah's Chester was testifying to you  
5 earlier, table games is a very labor intensive aspect  
6 of gaming. We estimate to be hiring over 300 dealers,  
7 approximately 60 supervisory and managerial positions  
8 in table games and approximately 40 other jobs being  
9 created in security, cashiering and some of the  
10 peripheral areas for a total of about 400 jobs.  
11 That's with the 40 table games. With a lower number  
12 of table games, obviously that number of jobs drops  
13 pretty drastically and it doesn't create any  
14 additional slot jobs. At 1,700 slots our slot  
15 employment is the same as it is at 1,602 slots, so  
16 it's really hundreds of jobs with, you know, payroll  
17 taxes and other things that --- in order to benefit  
18 the state.

19                   ATTORNEY DONNELLY:

20                   With that I'd like to have Greg back.

21                   CHAIRMAN:

22                   Mr. Donnelly, is there a --- can I just  
23 ask that you stay seated? We're having trouble with  
24 the stenographer and the system over there. So, maybe  
25 move a little closer to the mic and --- thank you.

1                   MR. CARLIN:

2                   Just in closing, I wanted to say that we  
3 think this production is actually a positive both to  
4 our operations and to the Commonwealth as far as  
5 maximizing tax revenue. And you know, we hope that  
6 the Board agrees with that assessment. We're happy to  
7 answer questions and --- from anybody.

8                   CHAIRMAN:

9                   Great. Thank you.

10                  ATTORNEY DONNELLY:

11                  Thank you. OEC, questions for the  
12 SugarHouse folks?

13                  ATTORNEY MILLER:

14                  Thank you, Mr. Chairman. I would ask,  
15 first of all, that this condition, 56, HSP agreed to  
16 this condition; did they not?

17                  ATTORNEY DONNELLY:

18                  We did.

19                  ATTORNEY MILLER:

20                  And you agreed to the condition because  
21 the facility that you were intending to build would  
22 have 1,700 slot machines in it; correct?

23                  MR. CARLIN:

24                  Correct.

25                  ATTORNEY MILLER:

1                   Now, you're telling us today that you  
2 think that the right mix would be 1,602 slot machines  
3 and 40 table games, and that right mix would generate  
4 the most revenue. Is that what you're saying?

5                   MR. CARLIN:

6                   That's correct.

7                   ATTORNEY MILLER:

8                   Okay. Now, is it possible to put table  
9 games in this facility with 1,700 slot machines, and  
10 if so, how many table games?

11                  MR. CARLIN:

12                  It is possible. We estimate that we  
13 could comfortably fit approximately 20 or so table  
14 games in the facility with 1,700 slot machines.

15                  ATTORNEY MILLER:

16                  Okay. So, you're actually reducing the  
17 number of slot machines in reality in addition to the  
18 mix that you want to get and you're actually reducing  
19 it because you don't have enough square footage to put  
20 1,700 table games --- or excuse me, 1,700 slot  
21 machines and 40 table games in this building; isn't  
22 that right?

23                  MR. CARLIN:

24                  That's correct.

25                  ATTORNEY MILLER:

1           Okay. Now, when you envisioned building  
2 this interim facility and presented it to the Board  
3 did you consider table games?

4           MR. CARLIN:

5           We did. In fact, when we went and raised  
6 our financing, we specifically negotiated this  
7 accordion feature so that we could fund the money for  
8 table games.

9           ATTORNEY MILLER:

10           And at that time when you considered  
11 table games and presented this facility to the Board  
12 for approval you still asked the Board to approve the  
13 facility with 1,700 slot machines; is that correct?

14           MR. CARLIN:

15           That's correct.

16           CHAIRMAN:

17           Now, you're coming to the Board and  
18 saying, even though we considered table games with our  
19 initial presentation we now want to reduce the number  
20 of slot machines. And I'm just asking, is it because  
21 you just didn't build a big enough building or because  
22 you really and truly believe this will maximize  
23 revenue for the Commonwealth?

24           MR. CARLIN:

25           Well, operators change their mix all the

1 time based on supply and demand, so we currently  
2 believe that based --- with table games passing and  
3 other operators plans in Atlantic City that the right  
4 mix of slot machines to table games is 1,602 and 40  
5 tables.

6 ATTORNEY MILLER:

7 Now, you haven't purchased these slot  
8 machines yet; have you?

9 MR. CARLIN:

10 We have not.

11 ATTORNEY MILLER:

12 So I'm thinking that saving --- having 98  
13 less slot machines is going to save you probably about  
14 a half a million dollars. Is that a round enough  
15 figure?

16 MR. CARLIN:

17 It could be. Actually you bring up a  
18 very good point, which is as part of our mix with  
19 1,700 slot machines we had a fair number of electronic  
20 table games in the mix, which we no longer really have  
21 a need for given that we have a lot of table games.  
22 So, at the time the 1,700 number did include lots of  
23 electronic table games where our current plan includes  
24 a much smaller amount of electronic table games.

25 ATTORNEY MILLER:

1 Well, the bottom line is you're going to  
2 save about half a million dollars and that half a  
3 million dollars is part of the funding that you're  
4 going to use for your table games; is that right?

5 MR. CARLIN:

6 We raised \$16 and a half --- we raised  
7 \$21 and a half million through financing and the half  
8 a million dollar savings is part of the overall  
9 construction budget. Correct.

10 ATTORNEY MILLER:

11 And it's, in fact, included in the budget  
12 for the table games. Is that not true?

13 MR. CARLIN:

14 It's in our overall total budget, yes.

15 ATTORNEY MILLER:

16 Okay. Now, I'll note that --- and Mr.  
17 Donnelly was discussing Mr. Bluhm's testimony at the  
18 May 6th, 2009 Board meeting and we have a transcript  
19 of that. You know, Mr. Bluhm was asked a question at  
20 that time by Chairman Collins and I'll paraphrase, but  
21 she asked him why --- at that time on May 6th why have  
22 your numbers, your gross terminal revenue numbers, and  
23 your machine numbers increased in 2009 from 2006? And  
24 I'll paraphrase his answer and that was, because we're  
25 having 1,700 machines instead of 1,500 in our original



1 plan and gaming has been very good in Pennsylvania.  
2 Now, having said that --- and I think you'll agree  
3 that that's what occurred. Having said that, we are  
4 now a year later and your numbers from Innovations are  
5 even higher. You're projecting \$265 for less machines  
6 than you --- how does that compute? I just don't  
7 understand that and maybe you can enlighten me. Is it  
8 because gaming is doing so well in Pennsylvania or is  
9 it because --- well, you tell me.

10 MR. GIRVAN:

11 Can I make a point?

12 ATTORNEY MILLER:

13 Yeah.

14 MR. GIRVAN:

15 I mean, I think a 200 slot increase from  
16 1,500 is about a 15 percent increase. I mean, that's  
17 a significant amount of capacity, and yes, I think at  
18 that level, you know, we're projecting a certain level  
19 of visitation and to accommodate that visitation  
20 you're going to need about 1,600 slots. You know, a  
21 15 percent increase really makes a significant  
22 difference when you start looking at these occupancy  
23 charts we just looked at, so there would be a more  
24 significant decline. What we're talking about here is  
25 a five percent decline, which is really operating at

1 the extreme margin of the occupancy rate. You know, I  
2 think there's things you can do when you're making a  
3 five percent reduction that can minimize or negate any  
4 decline in revenue. I think when you're talking a 15  
5 percent increase in the slots that's a significant  
6 addition and I think that would be --- that's a  
7 different ballgame altogether. I think it would be  
8 --- you know, if you go back to that chart you would  
9 then see, I think, a much more significant decline in  
10 revenue. If you take this down to --- you know, that  
11 would probably take, you know, this down to a line  
12 somewhere around --- you know, probably from the 70  
13 percent to the 90 percent is what you'd be losing.  
14 That'd be a much more significant decline in revenue.

15           In this case it's the other way around.  
16 We get an increase in revenue regarding the 15 percent  
17 additional slots and then we're taking a very, very  
18 small decline by subtracting five percent. So, really  
19 what we're saying is it's not the 15 percent we really  
20 needed, it was the 10 percent. And we think the  
21 addition of table games then will bring additional  
22 slot play through companion play, which will offset  
23 that.

24           MR. PATENT:

25           I'm sorry. There's one other point we

1 need to consider and that is we're really talking  
2 about two different worlds. One is the world when  
3 only slots were legalized in Pennsylvania and now the  
4 world where we are going to have table games. And the  
5 need for, we believe, all the competitors in  
6 Pennsylvania to be able to compete fairly against each  
7 other with an appropriate mix of slots and table  
8 games. So, while it is true that we could fit some  
9 number of table games, we believe it is approximately  
10 20 on the floor with 1,700 slots, that does not put us  
11 in a position to effectively compete against either  
12 Atlantic City or our friends to the south or to the  
13 north of us. The chart that Paul showed, showed you  
14 that with 40 table games on the floor. We match  
15 approximately the mix that Parx and Chester are  
16 proposing for their floor. They're both proposing  
17 approximately 80 table games for facilities that'll  
18 house approximately 3,000 slots. We're going to have  
19 approximately half the number of slots and half the  
20 number of tables. If we're down to 20 table games,  
21 our mix of tables is merely half of what those are and  
22 we're not in a position effectively to compete against  
23 either Chester or Parx, and we think that's a very  
24 important point.

25 ATTORNEY PITRE:

1                   But to interrupt, there's no projection  
2 of the 1,700 slots with the 20 plus table games, so  
3 how do we know based on what you've presented thus far  
4 that the 1,700 slots and the mix of 20 plus table  
5 games wouldn't give the Commonwealth a higher tax rate  
6 coming in and wouldn't make --- and also wouldn't make  
7 your property more profitable? Because the number I'm  
8 concerned about is the \$51.5 million in EBIDTA needed  
9 for the parking garage. And that's a number that I'm  
10 really concerned about you needing.

11                   MR. GIRVAN:

12                   I eventually looked at that particular  
13 scenario and what we're projecting is potentially a  
14 reduction --- if you go to 20 table games not only do  
15 you reduce your table revenue, but you also reduce  
16 your slot revenue by approximately \$4.5 million, which  
17 results in about a \$2.5 million reduction to taxes in  
18 the Commonwealth of Pennsylvania.

19                   ATTORNEY PITRE:

20                   So you're telling me that with 1,700  
21 slots and 20 plus table games you're going to have  
22 lower slot play than you would have with just 1,700  
23 slots and no table games?

24                   MR. GIRVAN:

25                   Yes, yes. Because you're losing --- with

1 seven percent of your floor and table games you are  
2 losing a large proportion of the companion play  
3 because people can't get to the table games. So, why  
4 would they bring someone to the facility if they can't  
5 play tables?

6 ATTORNEY PITRE:

7 If I have 1,700 slots and I'm going to  
8 generate ---?

9 MR. GIRVAN:

10 It's not slots, it's the people that  
11 generate the money.

12 ATTORNEY PITRE:

13 Right. So, if I'm going to base it on  
14 1,700 slots I can do \$240 and 1,600 slots plus 40  
15 tables I can do the same, \$240, on the slot machines.  
16 You're telling me that 1,700 slots with table games is  
17 going to be less than that \$240 that they said they  
18 can bring in GTR?

19 MR. GIRVAN:

20 I'm working on my numbers, so you may be  
21 --- rather than me talking I can show you the specific  
22 numbers, but what I'm saying is if you've only got 20  
23 table games you're not going to get --- that's half of  
24 the table players coming, so you're going to reduce  
25 your companion play by half.

1                   ATTORNEY MILLER:

2                   But you're already projecting \$400 per  
3 slot machine with 1,700 games?

4                   MR. GIRVAN:

5                   I've seen a situation way above that in  
6 many markets.

7                   ATTORNEY MILLER:

8                   All right. Well, that's what you were  
9 predicted. That's what Mr. Bluhm was predicted,  
10 approximately \$400 per machine per day with just slot  
11 machines. Now, are you telling us that with only 20  
12 table games that \$400 per win, per day will not  
13 increase, that it will decrease?

14                   MR. GIRVAN:

15                   No, I'm not saying that.

16                   ATTORNEY MILLER:

17                   Well, what are you saying?

18                   MR. GIRVAN:

19                   What I'm saying, it'd be a lot less than  
20 it would be if you had 1,600 slots and 42 table games.

21                   MR. PATENT:

22                   Yeah, I think there's confusion here,  
23 because the question I heard from the OEC was 1,700  
24 slots and 20 tables versus 1,700 slots and no tables,  
25 and then we also have what we're proposing, which is

1 1,600 and 40 tables. Nobody is arguing that 1,700  
2 slots and 20 tables makes less money than 1,700 slots  
3 and zero tables.

4 ATTORNEY MILLER:

5 Okay.

6 MR. PATENT:

7 The issue is what can we do to maximize  
8 the tax receipts to the state as well as our EBIDTA?  
9 And based on our best professional judgment as  
10 operators, 1,600 slots and 40 tables gets us to the  
11 maximum number for the state and also for our own  
12 EBIDTA.

13 MR. TRUJILLO:

14 It's a reduction in the ---.

15 ATTORNEY MILLER:

16 Correct. That's what I'm saying.

17 CHAIRMAN:

18 Enforcement Counsel continue.

19 ATTORNEY MILLER:

20 But if you could put 1,700 slot machines  
21 and 40 tables into your facility would you do it?

22 MR. CARLIN:

23 You say if we could do it?

24 ATTORNEY MILLER:

25 I'm asking you. If you could increase

1 the square footage and put 1,700 slots and 40 tables  
2 or 1,700 slots or 50 or 60 would you do it?

3 MR. CARLIN:

4 I believe we would if we could figure out  
5 a way to make room for it as well as have, you know,  
6 space for the employees and the food and --- you know,  
7 we have a very, very minimal food and beverage at this  
8 facility. I'm already quite nervous that we've cut  
9 back to about as low as you can get. We have two food  
10 outlets compared, you know, to Parx and Chester, which  
11 have --- I can't count the number, but I think at  
12 least three times that number. The executive offices  
13 are actually going to be located for the most part  
14 across the street, so we believe we've done everything  
15 we can as reasonable casino operators to clear out as  
16 much space as possible on the floor for gaming  
17 consistent with an operation that, you know, can house  
18 the Gaming Board, house employees and also offer at  
19 least a minimum food and beverage. We would love to  
20 have 1,700 slots and 40 table games.

21 ATTORNEY PITRE:

22 Well, I think what I'd be interested in  
23 seeing are the projections for 1,700 slots and the 20  
24 plus tables to see what that number would be.

25 MR. PATENT:



1 We'd be happy to get those to you.

2 MR. CARLIN:

3 We'd be happy to get those to you. One  
4 other point I wanted to make, Mr. Miller, is we  
5 actually were able to expand our gaming floor by about  
6 4,000 square feet of additional gaming space. We  
7 built in some terraces and we rearranged F&B, so we  
8 did pick up about 4,000 square feet of gaming with the  
9 addition of tables.

10 CHAIRMAN:

11 Any other questions from Enforcement  
12 Counsel? Do you have a presentation?

13 ATTORNEY PITRE:

14 No, sir.

15 CHAIRMAN:

16 Okay. Any follow-up questions that you  
17 guys have for ---?

18 ATTORNEY DONNELLY:

19 Well, I'd just like to emphasize again,  
20 this is why we raised it in the beginning. Sure we'd  
21 love to have a facility five times as big, but we were  
22 here last May and we said we're going to finance what  
23 we can finance and build what we can build. We've  
24 seen how difficult it is, so it's, I guess, an  
25 academic exercise to wonder what could happen in other

1 real world circumstances. But we're dealing with  
2 real world circumstances.

3           It was a minor miracle that Mr. Bluhm was  
4 able to get this facility financed when he did and  
5 everyone on the Board knows that. We all know what it  
6 was like back then. So, we have what we have. And as  
7 Greg pointed out, we squeezed, and squeezed and  
8 squeezed. And Enforcement Counsel points out very  
9 appropriately and I want to pause before I --- we're  
10 focused on exactly what they are focused on. EBIDTA,  
11 cash flow, revenue to get that garage built and keep  
12 expanding this place and we're doing what we firmly  
13 believe and our experts believe is going to get us  
14 there. And that's what our creditors believe, that's  
15 what our investors believe.

16           CHAIRMAN:

17           Thank you. We'll now take some questions  
18 from the Board. Commissioner Trujillo?

19           MR. TRUJILLO:

20           Thank you, Mr. Chairman. I have really  
21 kind of a --- Mr. Donnelly, this might be a question  
22 for you, kind of a threshold legal question because  
23 I'm trying to just analytically get this right. And  
24 Mr. Carlin, by the way, it's good to see you. I  
25 haven't seen you in about five years and actually when

1 I saw you I was reminded of something I told the  
2 Chairman yesterday, which is my favorite saying about  
3 Ben Franklin is --- that he says wine is proof that  
4 God loves us and wants us to be happy. But after  
5 seeing you I thought, you know, it's also my  
6 appointment to this Board is proof that Governor  
7 Rendell has a sense of humor.

8                   But what I wanted to ask you, Mr.  
9 Donnelly, was --- I'm trying to understand the legal  
10 position, which is --- is it that HSP is not bound by  
11 the statutory limitation, I guess, of sub seven, which  
12 is what you would normally --- that every other  
13 petitioner would have to establish that the number of  
14 slot machines in operation at their facility not be  
15 permanently reduced because you did not on October 1,  
16 2009 have any slot machines in operation?

17                   ATTORNEY DONNELLY:

18                   Yes. It's 1314A7 and it reads, the  
19 Petitioner agrees that the number of slot machines in  
20 operation at its licensed facility on October 1, 2009  
21 will not be permanently reduced in order to install  
22 table games. I don't think it applies --- we weren't  
23 in operation and as I said before, I think the statute  
24 has a built-in marketing test. And that was you start  
25 with 1,500 and if people say, well, we think we have

1 demand for more --- as many casinos do. They open up  
2 more slots. Many have found they have too many slots,  
3 but the market was at least somewhat stabilized in  
4 October of last year and I think that's the target  
5 that the Legislator looked at. Okay. Most casinos  
6 have been open long enough to have a relatively  
7 stabilized year, or time and that's a number, and we  
8 think that we don't want you reducing slot machines to  
9 add table games.

10           The statute, I'm 100 percent convinced  
11 does not apply to us. As I said before, I recognize  
12 --- at the same time I recognize the philosophy and  
13 the philosophy is I think --- because we haven't had  
14 that market test opportunity first, and number two, it  
15 talks about permanent reductions. And we're in this  
16 unique situation that we were lucky enough to get what  
17 we've got financed, and we still had Phase I, a garage  
18 and all these things on the ground. So, our whole  
19 plan here is to --- back to what Cyrus said, we got to  
20 generate out to fill up this bucket that Greg talked  
21 about. So, we build our garage and then when we build  
22 the garage then we look at Phase I. So, I don't think  
23 the statute has anything to do with us. The  
24 philosophy, yes, but I don't think the philosophy  
25 really hits us either because we haven't had that

1 opportunity.

2 MR. TRUJILLO:

3 Okay. And again, I'm just trying to  
4 understand. So, if the statute does not apply to you  
5 then what you're asking really is for a change in your  
6 conditions as opposed to --- for the Board to make an  
7 exception to the statutory requirement?

8 ATTORNEY DONNELLY:

9 Yes, sir. It's completely a Statement of  
10 Condition. It has nothing to do with the statute.  
11 And Dale Miller's correct. Neil Bluhm did say we ---  
12 voluntarily. No one put a gun to our head. We said  
13 we've looked at it. We're going to try to go to 1,500  
14 to 1,700 with our plan and then time changes. The  
15 world's turning and the market for table games --- our  
16 big concern is --- this chart's a very good chart  
17 that's up there. Chester's going to have 15 percent,  
18 Parx is going to have 12 percent. Our real  
19 competition in Atlantic City are way out on table game  
20 mix. We'll get clobbered if we have some little tiny  
21 joke of a table game presentation and that's not going  
22 to help anybody.

23 MR. TRUJILLO:

24 Now, as to the projections --- and I  
25 guess --- I don't know, Mr. Patent, if it's to you or

1 to Mr. Carlin. And I guess we --- if you could, go  
2 back to the one that has the side by side. Yeah, the  
3 \$253. What I wanted to understand is much like Mr.  
4 Pitre asked was really --- I'm interested in three  
5 lines. And I'm assuming that even if it's under the  
6 old the \$16.5 table licensing fee is out because I  
7 assume you're going to want table games one way or the  
8 other. So, I think the \$16.5 applies across the  
9 board, but what I'd be interested is the far left hand  
10 side, the old 1,700, \$253 million number, the gross  
11 terminal revenue number, is that number a current  
12 number or was that the number from last year?

13 MR. GIRVAN:

14 That's an Innovation Group number, which  
15 as we said at the start of the presentation, was  
16 submitted five percent more aggressive than what the  
17 company itself was using for the original projection.

18 MR. CARLIN:

19 It was their project last year. We came  
20 up with \$240 because we wanted to be conservative. We  
21 didn't throw lending --- our lender wanted more  
22 conservative numbers.

23 MR. TRUJILLO:

24 Let me just say, I think it's really  
25 hard, back to Mr. Pitre's point, for us to make any

1 kind of quantitative analysis without having a current  
2 number which is your 1,700 slots only number current,  
3 1,602 plus 40 current and 1,700 plus 20 slots current,  
4 because right now I don't have those numbers lined up  
5 and we can't tell.

6 MR. GIRVAN:

7 Really it was a percent application. It  
8 would probably be the same percentage application of  
9 the \$240. You know, I actually went through and did  
10 an analysis of the 1,700 slots and 20 tables vis-a-vis  
11 the 1,600 and 42 and I can give you the differences  
12 based on our numbers, but we haven't yet run them  
13 through based on the \$240.

14 MR. TRUJILLO:

15 Well, no, the number that I'm interested  
16 --- I'm not interested in the numbers. I'm interested  
17 in the world today. I'm not interested in the world a  
18 year ago, I'm interested in today. And as I  
19 understand your testimony, there will be additional  
20 play as a result of table games?

21 MR. GIRVAN:

22 Right.

23 MR. TRUJILLO:

24 There will be more additional play as a  
25 result of 40 tables as opposed to 20?

1                   MR. GIRVAN:

2                   Correct.

3                   MR. TRUJILLO:

4                   So, therefore we need to know what that  
5 additional play is.

6                   ATTORNEY DONNELLY:

7                   We presented that. One of the things I  
8 asked the Gaming --- or BIE to do is to put in front  
9 of you, and I intend to move it in, our April 16, 2010  
10 income statement, which we presented with our Table  
11 Games' Application. That is what we presented about  
12 two months ago in conjunction with our --- well, we  
13 presented it ---.

14                   MR. CARLIN:

15                   That's our numbers. I think the question  
16 was ---

17                   MR. GIRVAN:

18                   These are our numbers.

19                   MR. CARLIN:

20                   --- relating to the Innovation Group  
21 numbers, so why don't you share with him the numbers  
22 that ---.

23                   MR. GIRVAN:

24                   I think I understand what Ken is saying  
25 here. He wants me to apply my analysis to the \$240



1 number.

2 MR. TRUJILLO:

3 Right. Because right now we've got mixed  
4 numbers. We've got the operator's original  
5 projections and then combined now with your numbers  
6 and that doesn't ---.

7 MR. GIRVAN:

8 I think the theory holds true. You know,  
9 the numbers may be slightly different, but ultimately  
10 the theoretical basis of the analysis will hold true.  
11 It will be an upside, but I understand what you're  
12 saying.

13 MR. TRUJILLO:

14 Well, we can't make a decision based on a  
15 theoretical assumption.

16 MR. GIRVAN:

17 I understand.

18 MR. TRUJILLO:

19 Okay. That's all I have, Mr. Chairman.

20 CHAIRMAN:

21 Thank you. Commissioner Sojka?

22 MR. SOJKA:

23 Yes. I have a few as well and they're in  
24 the same --- pretty much in the same vein, but I'd  
25 like to simplify it a little. Commissioner Trujillo

1 mentioned that he's coming at this in an eagle way.  
2 My colleague to my right, Commissioner McCabe, often  
3 reminds us that he's from a law enforcement  
4 background. My problem, and I mean problem, is that I  
5 come from a science and mathematics background and you  
6 have put before us a multi-variant analysis problem  
7 that most people would run out of the room as if their  
8 hair were on fire because you've given us different  
9 times in the day when there would be play. You've put  
10 in the issue of companion play. You've put in just an  
11 incredible number of variables and I have to say, I  
12 can't solve that and I have very little confidence,  
13 frankly, that anyone can. So, I'd like to push it  
14 back to something a little simpler and that is I'm in  
15 full agreement that the mix of tables and slot  
16 machines can produce some kind of optimum.

17                   And in the good, old, simple days when we  
18 had one tax rate per slot machine everybody was on the  
19 same page. You got more revenue, we got more tax. We  
20 now have this problem where I know that you need  
21 EBIDTA and you know you need to generate taxes, but  
22 our position, if I can put it in very simple terms, is  
23 to collect the largest possible number of golden eggs  
24 without killing or seriously wounding the goose. And  
25 you as the goose, okay, are worried about competition

1 down the road, and you put before us figures about  
2 what people in permanent facilities already with some  
3 history are doing. And that's your competition, and I  
4 would simply remind us that not only are these all  
5 projections and multi-variant projections, it's for an  
6 interim facility.

7                   And so please understand that our problem  
8 is slightly different from yours. And when we go into  
9 closed session I think we're going to be worrying  
10 about, yes, the competitive thing, yes your future,  
11 but we're also interested in doing what we can for the  
12 citizens of the Commonwealth short of damaging too  
13 much. Is that fair?

14                   MR. GIRVAN:

15                   Yeah.

16                   MR. SOJKA:

17                   Okay.

18                   ATTORNEY DONNELLY:

19                   That's why I do, again, say I do want ---  
20 in that closed session I do want you to focus on our  
21 April 16, 2010 presentation on the table games because  
22 that's where --- that's our budget. Those aren't  
23 numbers made up for this hearing and that's what we  
24 sold to Craig Sweiss. And those numbers show the same  
25 amount of slot revenue, \$240 plus an additional 32

1 table games. So, to your point, I understand the  
2 goose and so on, but that's the same number. It's not  
3 going to short change anyone from the number we told  
4 you last year and that will allow the goose to do what  
5 we need to do, build a garage, keep viable. And by  
6 the way, there's table games surrounding your  
7 successful casinos, and you know, there's lot of talk  
8 in the statue and no one wants a casino that's limping  
9 along. It's not good for anyone.

10 ATTORNEY MILLER:

11 Mr. Donnelly, I just would want to  
12 clarify. The document you're referring to is Appendix  
13 V I believe. It's a Table Game Petition; correct?

14 ATTORNEY DONNELLY:

15 Yes. It was the one that was filed I  
16 believe April 23rd of 2010.

17 ATTORNEY MILLER:

18 There was a supplement to Appendix V?

19 ATTORNEY DONNELLY:

20 Yes.

21 ATTORNEY MILLER:

22 I just want to clarify for the record,  
23 those figures are based on 1,600 slot machines;  
24 correct?

25 ATTORNEY DONNELLY:

1 1,600 slot machines and 40 table games.

2 ATTORNEY MILLER:

3 Thank you.

4 CHAIRMAN:

5 Commissioner McCabe?

6 MR. TRUJILLO:

7 Are these are not the Innovation

8 Group's ---?

9 ATTORNEY DONNELLY:

10 No, these are the numbers that we're  
11 looking at. These are our numbers, our budget  
12 numbers, our credit numbers, our investor numbers.  
13 These are our numbers. The only reason Paul's here  
14 --- I love him, but the reason he's here is because we  
15 wanted to test our numbers and say --- you know, we  
16 know what the issues are. We need an expert to come  
17 and look at our numbers, see if he agreed with our  
18 numbers and Paul happens to be higher than we are.  
19 We're sticking to our numbers. That's what we've told  
20 everybody in the world we believe to be the numbers  
21 and that's what we're putting our own money on.

22 MR. PATENT:

23 I'm sorry. I do think though to the  
24 comment, Commissioner Sojka, you made and also,  
25 Commissioner Trujillo, to the question that you had

1 about --- it would certainly be nice on this slide to  
2 have a column for what the tax revenue to the state  
3 would be for 1,700 slots and 20 tables. I believe Mr.  
4 Girvan did put that in to testimony that it was  
5 approximately a \$2 to \$3 million difference in taxes  
6 to the detriment of the state with 20 table games and  
7 1,700 slots. If he wants to clarify that ---.

8 MR. GIRVAN:

9 I do want to clarify that. In terms of  
10 tax revenue we would estimate based on these --- this  
11 basis that slot tax game due to companion play would  
12 be about \$2.5 million. We're subtracting from that  
13 about a half a million dollars and potential loss due  
14 to capacity and then we have the additional --- the  
15 table game tax from the additional 22 tables of \$1.38  
16 million for a total tax benefit to the Commonwealth  
17 based on our basis of \$3.38 million.

18 CHAIRMAN:

19 Thank you. Commissioner McCabe?

20 COMMISSIONER GINTY:

21 Can I interrupt? I just need you to  
22 clarify that last statement. You know, what is the  
23 number you're working with that would compare to the  
24 \$139 to \$167? If you had 1,700 slot machines and 20  
25 table games what would that bottom line number be?

1                   MR. GIRVAN:

2                   The bottom line \$167 number would be  
3 \$3.38 million less for 1,700 slots.

4                   MR. TRUJILLO:

5                   \$164 or \$163 something?

6                   MR. GIRVAN:

7                   Yeah, but that's for 1,700 slots and 20  
8 tables. Yeah.

9                   CHAIRMAN:

10                  Thank you. Commissioner McCabe?

11                  COMMISSIONER MCCABE:

12                  Thank you. A few questions,  
13 clarifications. First, I'd like to hear from our OEC  
14 of what they think of Mr. Donnelly's comments that the  
15 statute doesn't pertain to them because they weren't  
16 in operation at the time.

17                  ATTORNEY PITRE:

18                  I would tend to agree with those  
19 comments.

20                  COMMISSIONER MCCABE:

21                  You agree with those comments?

22                  ATTORNEY PITRE:

23                  Yes.

24                  COMMISSIONER MCCABE:

25                  Okay. So that helps me. And one other

1 thing is since we're comparing permanent, fully  
2 operational casinos to temporary interim that has no  
3 history. Do you plan on once you get open and you go  
4 into the next phase adding more space or more room for  
5 slots, for more table games?

6 MR. CARLIN:

7 Absolutely.

8 COMMISSIONER MCCABE:

9 So then if we start comparing it to ---  
10 it'll be more equal of a playing ground; right?

11 MR. CARLIN:

12 Correct. And our hope is to start on the  
13 garage as quickly as possible and expand our facility  
14 as quickly as possible. And we do believe that the  
15 mix that we're proposing will allow us to get the  
16 place up more quickly.

17 COMMISSIONER MCCABE:

18 And then the bottom line if --- to  
19 maximize the revenue for the state you're saying that  
20 it's 1,602 slots and 40 tables games, that 1,700 table  
21 games and 20 slots will bring in less revenue than  
22 1,602 and 40?

23 MR. GIRVAN:

24 Correct. When we did the statewide  
25 analysis and looked at the numbers and the dollars



1 that would be recaptured from Atlantic City and so  
2 forth and so on, we had assumed --- you know, we had  
3 assumed in our numbers back then a table game mix,  
4 which would have been equal to about 15, 16 percent of  
5 the total gaming positions in the state. Right now  
6 these numbers, you know, a couple percentage points  
7 --- but if you go to 1,700 slots and 20 tables the  
8 percentage would be 7 percent.

9 COMMISSIONER MCCABE:

10 Okay. And then what's your thoughts if  
11 we tell you 1,700 slots, 20 tables that's going to  
12 bring in \$3.2 million less?

13 MR. GIRVAN:

14 \$3.4 million less.

15 COMMISSIONER MCCABE:

16 From the floor, but then it also will  
17 eliminate how many jobs?

18 MR. PATENT:

19 Oh, approximately 200 jobs.

20 COMMISSIONER MCCABE:

21 Okay. And the taxes and revenue and  
22 benefits that that brings, so we're going to eliminate  
23 200 jobs by having you stay at 1,700 and lowering your  
24 table games to 20?

25 MR. PATENT:

1           That's correct. That's approximately  
2 200, but it's a fairly linear --- the dealers are your  
3 primary --- that's where most of the jobs come from  
4 and half of the tables are going to equal  
5 approximately half of the dealers.

6           COMMISSIONER MCCABE:

7           If we do that we're going to still ---  
8 we're going to be hurting the total revenue that the  
9 state would be able to gather because we're going to  
10 lose those taxes that --- those 200 jobs that we're  
11 not going to have, we're going to lose that, too, and  
12 then expanding the building; correct?

13          MR. PATENT:

14          That's correct.

15          COMMISSIONER MCCABE:

16          Okay. Thanks.

17          CHAIRMAN:

18          Commissioner Ginty?

19          COMMISSIONER GINTY:

20          Cyrus, I just have a question for you.  
21 Do we have any reason to give more credence to the  
22 theoretical, multi-variant --- of a year ago than we  
23 do with these latest figures?

24          ATTORNEY PITRE:

25          I would tend to err on the side of

1 caution based upon the economy. I would err on the  
2 side of what the Licensee has presented as to their  
3 estimates because those are the estimates that were  
4 --- that they presented to the lenders. Those are the  
5 estimates that we look at, those are the estimates  
6 that we're concerned about them hitting in order for  
7 them to get to the point where they can build a  
8 parking garage. So, while, I mean, this is all very  
9 nice I'm more concerned about what the projection ---  
10 what Greg says the projections are with regard to the  
11 table games and the slot machines.

12 COMMISSIONER GINTY:

13 And what numbers have you most recently  
14 presented to the finance people?

15 ATTORNEY DONNELLY:

16 That's our April 16th where we showed  
17 \$240 million revenue from slots and the \$32 million  
18 from ---.

19 MR. CARLIN:

20 We don't want the multi-variant figure,  
21 but we do hire them to run them all for us and as  
22 operators we want to be conservative when we go out to  
23 lenders and we underwrote the deal. So, that's why  
24 there's a discount to their numbers.

25 MR. GIRVAN:

1                   And that's not unusual in my world, you  
2 know. I mean, the operators tend to be a little bit  
3 more conservative at times.

4                   ATTORNEY MILLER:

5                   Mr. Ginty, I might add that the  
6 Innovation numbers were presented to us yesterday.  
7 So, all of our financial analysis and all of our  
8 responses to all these petitions were based on the  
9 original numbers as presented by Mr. Donnelly in the  
10 appendix that you have in front of you.

11                   COMMISSIONER GINTY:

12                   I want to make sure I understand this.  
13 The most recent numbers that have been presented to  
14 the bankers are the numbers that are reflected here  
15 that are based on a combination of 1,600 slot machines  
16 and 40 table games. And they show that that's  
17 basically the second problem here, if I'm correct, the  
18 \$154.

19                   ATTORNEY DONNELLY:

20                   That's correct.

21                   COMMISSIONER GINTY:

22                   And if we go back to a year ago we would  
23 be minimizing or reducing revenue to the state and  
24 losing about 200 jobs; is that ---?

25                   ATTORNEY PITRE:

1 I think the jobs are the big thing.

2 COMMISSIONER GINTY:

3 And we're not even talking about  
4 Innovation here.

5 ATTORNEY PITRE:

6 Right. Commissioner McCabe made a very  
7 good point. I mean, the jobs are the big thing with  
8 the table games. So, in that respect I don't think it  
9 would be --- I wouldn't be terribly hurt if the Board  
10 agreed to reduce the number of slot machines to allow  
11 them to have 40 tables. My big concern, and what I'd  
12 like to see from Mr. Carlin, are the projections on  
13 1,700 slots and 20 tables just to ensure that those  
14 projections are lower. We know the jobs are going to  
15 decrease, but I'm really concerned because when we  
16 approve the financing, built into that financing were  
17 those EBIDTA requirements with regard to the parking  
18 garage.

19 COMMISSIONER GINTY:

20 And when you say that you want the  
21 numbers from Mr. Carlin, not the numbers from  
22 Innovation?

23 ATTORNEY PITRE:

24 Correct. Yes. And they've provided  
25 those numbers, but I would like to see a projection

1 based on the 1,700 slots and 20 tables. I understand  
2 it's going to be a reduction in jobs, but I just want  
3 to make sure that the revenue that's going to be going  
4 from that is less than the 1,602 and 40 table mix.

5 MR. CARLIN:

6 I think that Mr. Girvan is actually in a  
7 better position to run his --- we're talking about  
8 small differences.

9 ATTORNEY PITRE:

10 He's already indicated that it would be  
11 less revenue.

12 MR. GIRVAN:

13 Yeah, it would be --- it's a relatively  
14 minor application. You know, all I'm doing is  
15 changing the basis of the analysis, so that's a  
16 relatively simple thing to do.

17 MR. CARLIN:

18 The Innovation numbers are much more  
19 precise as far as the model they have. I mean, our  
20 numbers are based off their numbers, so I would defer  
21 to Mr. Girvan.

22 MR. GIRVAN:

23 That's an easy analysis to do.

24 CHAIRMAN:

25 Is that something you can do between an

1 hour and an hour from now?

2 MR. GIRVAN:

3 No.

4 CHAIRMAN:

5 Okay. Mr. Angeli, thanks for your  
6 patience.

7 COMMISSIONER COY:

8 I think I'd try if I were you.

9 COMMISSIONER ANGELI:

10 Just a quick question. I, in listening  
11 to all this, you build the facility, you're building -  
12 -- you're going to build a facility that --- 40 table  
13 games and 1,700 slots don't fit. Is that the issue?

14 MR. CARLIN:

15 That's correct. We've expanded the  
16 facility from our original footprint. As I mentioned,  
17 we add 3,000 additional gaming square feet. We also  
18 moved some food, beverage things to pick up another  
19 1,000, so we did add 4,000 square feet of gaming to  
20 our original plan.

21 COMMISSIONER ANGELI:

22 And your financing for construction was  
23 based on the square footage that doesn't allow you to  
24 expand it?

25 MR. CARLIN:

1 I'm sorry. What was the question?

2 COMMISSIONER ANGELI:

3 The financing you have in place ---  
4 because you haven't built the facility yet?

5 MR. CARLIN:

6 No, it's under construction.

7 COMMISSIONER ANGELI:

8 It's under construction, but I mean, it's  
9 not --- okay. But your financing is based on the cost  
10 of building what you designed right now?

11 MR. CARLIN:

12 Correct.

13 COMMISSIONER ANGELI:

14 So, you really can't expand that?

15 MR. CARLIN:

16 Well, it'd be real difficult to change  
17 --- I mean, we've got construction. We're under  
18 construction. We're opening in September. As I  
19 mentioned, we did add 3,000 square feet of additional  
20 floor space that wasn't in the original plan, that was  
21 originally a terrace that was --- that we were able to  
22 fill in and add some gaming space and that cost us  
23 over a million dollars. So, we did actually increase  
24 the floor size from the original plan.

25 COMMISSIONER ANGELI:



1                   Okay. Thank you.

2                   CHAIRMAN:

3                   Commissioner Coy?

4                   COMMISSIONER COY:

5                   Well, because I find myself in the  
6 position of being last I have the same problem that  
7 Commissioner McCabe did before and that is ---.

8                   CHAIRMAN:

9                   We saved the best for last, Commissioner.

10                  COMMISSIONER COY:

11                  All of the good questions including the  
12 goose analogy have been taken, so I will defer. Thank  
13 you.

14                  CHAIRMAN:

15                  Well, you're actually not last. I always  
16 save that for myself.

17                  MR. TRUJILLO:

18                  Mr. Chairman, before you do, I do have  
19 two more.

20                  CHAIRMAN:

21                  Please follow up.

22                  MR. TRUJILLO:

23                  I'm sorry. And I think, Mr. Patent, you  
24 testified that in the event that there was maximum  
25 capacity that the minimums that the reasonable

1 operator would do is you would increase your minimum  
2 play; right?

3 MR. PATENT:

4 Yes. There are things you can do to  
5 yield the floor more effectively when your capacity  
6 restrained.

7 MR. TRUJILLO:

8 Right. So what you would do as I  
9 understand it, is that if you're full on Saturday  
10 nights and you've got maximum play your minimums would  
11 go up?

12 MR. PATENT:

13 Well, you can do that dynamically with  
14 table games. You just change the sign and ---

15 MR. TRUJILLO:

16 Right.

17 MR. PATENT:

18 --- it's consistent with what the  
19 regulations are. With slot machines it's a little bit  
20 trickier because you don't --- you can't turn on and  
21 off the minimums, you know, on the fly. But what you  
22 would do with your games in general you would have a  
23 \$.75 minimum bet as opposed to a \$.50 minimum bet on  
24 certain games or \$.50 versus \$.25. But those bets  
25 would be --- if not 24/7, that'd be, you know, what

1 the games would be pretty much all the time.

2 MR. TRUJILLO:

3 And would not that then increase your  
4 revenue?

5 MR. PATENT:

6 And that's what we're saying we're doing  
7 with --- to the extent that we're going to be capacity  
8 constrained with 1,602 slots during those few hours,  
9 what we can do is look at some games that we think  
10 will be highly popular. That's likely, more likely  
11 than not, the low denomination games and we'll  
12 probably require a higher minimum bet on those games  
13 to make sure we yield those games up. And that helps  
14 negate the capacity restraint impact that Mr. Girvan  
15 was showing you earlier.

16 MR. TRUJILLO:

17 All right. Thank you.

18 CHAIRMAN:

19 Commission Sojka?

20 MR. SOJKA:

21 Could I do just one quick housekeeping  
22 thing? And that is that if we're talking about a  
23 hypothetical calculation based on 1,700 slots and 40  
24 tables, by definition that deviates from what you  
25 would consider to be your optimum mix. Would it not

1 be better if you're going to do the hypothetical go to  
2 1,700 and then expand the number of tables to get into  
3 the optimum mix for 1,700? That would be more than 40  
4 tables.

5 COMMISSIONER MCCABE:

6 Correct.

7 MR. SOJKA:

8 Wouldn't that be a more useful  
9 calculation?

10 CHAIRMAN:

11 They can't physically put ---.

12 MR. SOJKA:

13 Of course not, but I mean, we're banging  
14 our heads against the wall, pushing them off their  
15 optimum to get the numbers that are sort of  
16 hypothetical anyway. I'd rather see a more meaningful  
17 calculation since it is a hypothetical calculation and  
18 then we'll worry about square feet. I think this all  
19 goes to show that this is all very much a house of  
20 cards, if I can use that phrase here. It's  
21 hypotheticals based on hypotheticals based on  
22 projections without data.

23 MR. GIRVAN:

24 It's not an exact science, but there is  
25 support to some of these.

1                   MR. SOJKA:

2                   Yeah, but it's not data on sight. You  
3 don't have data ---.

4                   MR. CARLIN:

5                   That's correct, but with all due respect,  
6 Commissioner, we do have \$140 million of equity --- of  
7 our own equity.

8                   MR. SOJKA:

9                   That's real, that's real. And we're  
10 unsympathetic about that, but I mean, we're being  
11 asked to make a decision based on an awful lot of  
12 projections. And I think we're just kind of kidding  
13 ourselves if we think we can get it exactly right.

14                   COMMISSIONER GINTY:

15                   I agree with that and that's why I don't  
16 think the statute does apply to us in that, but I want  
17 to just focus on the 1,700 slot machines. That was  
18 the same mechanism last year when Neil Bluhm --- we  
19 looked at it. We thought the maximum there was 1,700  
20 slot machines and we're trying to do the same thing  
21 you're trying to do. Now, is that the right number?  
22 Who knows? But now suddenly we have this --- 1,700 is  
23 this number. It's just a number that came out last  
24 May. It had the same methodology that we used when we  
25 did our projection. The same exact methodology, same

1 people and I think those are the numbers that we all  
2 have to rely on in this room because that's what we  
3 rely on. That's what our bankers rely on. Those are  
4 the best numbers that we have. Paul's numbers, you  
5 know, he's an intellectual and I don't mean that  
6 negatively, but he has a lot of models that we don't  
7 have. When the rubber hits the road using your  
8 analogies ---.

9 CHAIRMAN:

10 This is a good segway into my questions,  
11 because I want to try to put some specificity on the  
12 numbers that we've heard today. And I think I heard,  
13 Dale, you mention that the GTR on the 1,700 machines  
14 was \$400 per machine. Did I hear that correctly?

15 ATTORNEY MILLER:

16 That's the approximate dollar per day,  
17 per machine, yes, sir.

18 CHAIRMAN:

19 Thank you. What is the dollar per day,  
20 per machine at 1,600 machines, Mr. Girvan?

21 MR. GIRVAN:

22 I'm just doing this in my head. Probably  
23 about \$420, \$430.

24 CHAIRMAN:

25 And Dale or Cyrus, what is the average

1 GTR per machine, per day statewide?

2 ATTORNEY MILLER:

3 Mr. Chairman, we don't have those figures  
4 handy, but I can tell you from the last hearing that  
5 Chester came in here and said we're in the \$350s and  
6 we're happy.

7 CHAIRMAN:

8 Well, I can tell you it's a lot lower  
9 than \$350. I can tell you it's a lot lower than \$300.

10 ATTORNEY MILLER:

11 I believe you're correct.

12 CHAIRMAN:

13 And so my point is --- and again, with  
14 all due respect to Mr. Donnelly and others, we've  
15 heard the number game before. You guys have given us  
16 the number game before on other casinos, and you know,  
17 there are --- obviously when you're here doing what  
18 you're doing --- and I understand that, you know, best  
19 case scenario is not what you're telling us. You're  
20 saying you're being conservative.

21 But again, we've heard, you know, these  
22 kind of presentations before and the truth of the  
23 matter is that the numbers that we normally hear here  
24 are usually above reality. And so when I hear \$400,  
25 that concerns me. When I hear \$425 it concerns me

1 even more because I know the reality statewide is  
2 nowhere near that. The reality statewide is somewhere  
3 I'm going to guess in the maybe high twos, mid twos.  
4 And so my question I guess to Mr. Girvan is why should  
5 I assume that you're going to be at \$425 when  
6 everybody else statewide is at \$250?

7 MR. GIRVAN:

8 Well, it's a function of supply and  
9 demand and if you reduce the supply the demand --- the  
10 demand is still there so your win per position will be  
11 much higher. I can tell you, for instance, I have  
12 seen casinos in Illinois where the win per position is  
13 \$700, \$800, \$900. The biggest one I've ever seen was  
14 just outside Toronto where the win per position there  
15 was in excess of \$1,000 per day per slot machine. So  
16 really it's a function and that's controlled by ---  
17 what they simply do is they increase the denominations  
18 of the machine.

19 I've seen in the early days of the Indian  
20 casino development in California where one tribe had a  
21 series of casinos in a series of double wide trailers.  
22 I've seen people queue up four or five feet just to  
23 get on a slot machine. That's when you literally have  
24 someone on the machine 24 hours a day, and so what  
25 happens is the supply declines when the win per



1 position increase dramatically.

2 MR. PATENT:

3 Mr. Chairman, I'm sorry, I think I can  
4 answer your question a little bit too, because I have  
5 experience in the Illinois market. And because we  
6 have approximately half the slot machines that Chester  
7 has and Parx has we're going to drive a higher win per  
8 unit. Now, we're projecting lower overall revenues  
9 than both of those casinos. I believe Parx is on a  
10 \$400 plus million rate. We're predicting about \$240  
11 million, but if we were in a facility that had 3,000  
12 slots, and God willing hopefully we will some day, we  
13 would drive a much lower win per unit, but higher  
14 overall revenues.

15 In Illinois where the facilities are  
16 restricted to about 1,200 slots, the casinos there run  
17 anywhere from \$500 to \$800 win per unit, per day.  
18 That's because they're, by statute, restricted to  
19 1,200 games. So, we sort of see ourselves as  
20 restricted by the size of the box to 1,600. So, while  
21 nobody really knows ultimately what the numbers will  
22 be --- and obviously we've all had experience with  
23 casinos that haven't made the numbers that have been  
24 projected. That's why you're going to see higher win  
25 per unit is simply because there is a strong demand we

1 think in the Philadelphia market. It's been proven  
2 through Parx's expansion and the success of those two  
3 casinos, but we have to do it with a smaller box.  
4 Whether we make the numbers or not we still believe  
5 the state is better off with us having that full  
6 compliment of table games because of the ability to  
7 compete and offer that wide variety for people and  
8 take advantage of the companion play also.

9 CHAIRMAN:

10 Mr. Girvan, another question for you.  
11 What empirical evidence do you have of the companion  
12 effect? We've heard that not only at this hearing but  
13 at others. I've seen a lot of, you know, comments  
14 from you today about the companion effect. What  
15 evidence, real evidence, is out there to support that?

16 MR. GIRVAN:

17 The upper two lines. One is real life  
18 example and there's not many of them, which fit the  
19 bill. We can go around and look for facilities which  
20 have added slot machines and then subsequently came  
21 back and added table games. We're really limited to  
22 probably two states, first one being West Virginia.  
23 Unfortunately, there's a self analysis because what  
24 happened there was Pennsylvania came on line and added  
25 slot machines at the same time. So, therefore you

1 really couldn't see the impact. The only other state  
2 that really did this was Iowa. When I took a look at  
3 this in the fall when I was testifying on the table  
4 game issue slot revenues increased ten percent on the  
5 introduction of table games. That's significantly  
6 higher than what we projected, you know, both back  
7 then in the fall and what we're projecting now. The  
8 reason for that was there was some I guess you would  
9 call it noise in the statistics and there was some  
10 additions to some of the properties in terms of some  
11 amenities and some slot machines. That sort of really  
12 made me back off that number significantly. Although  
13 I did look at that on a month by month basis and what  
14 I did see was that the operators didn't add slots.  
15 And then there was a revenue increase, per se. They  
16 added the slots as they saw the demand increase.

17           So, I believe that's one area of  
18 evidence. Specifically if you look at --- you know,  
19 that was specifically of the case of Prairie Meadows  
20 where we were able to look at a much more clearer  
21 situation. We saw a two to three percent increase  
22 there --- two to four percent increase there. So,  
23 that's the limited evidence there is in real life  
24 right there. Now, the other line of evidence we do  
25 have is we've conducted actual surveys over the years,

1 and about four years ago we conducted a 2,500 person  
2 survey across the U.S., which targeted gamers and we  
3 asked them questions, you know, do you like to go and  
4 which machines do you like to play? Do you like to  
5 play slots, tables or both? And there's a substantial  
6 portion, probably 20 or 30 percent as I recall, like  
7 to play both. So, you know, I think that's additional  
8 evidence of the companion play.

9 CHAIRMAN:

10 Thank you. OEC, do you buy the companion  
11 play argument?

12 ATTORNEY PITRE:

13 I'd buy a bridge right now if you sell it  
14 to me, Mr. Chairman. Sure. I mean, coming from other  
15 gaming jurisdictions there's always a companion play  
16 that comes into effect with table games.

17 CHAIRMAN:

18 Okay. One last question and this is to  
19 OEC. Mr. Bluhm testified as we heard today on May  
20 6th, 2009. It was my understanding that he did  
21 address the issue of what would happen if table games  
22 came into Pennsylvania between that date and the date  
23 he got up and running. Do we have his actual  
24 testimony on that? And if not, can somebody get it?

25 ATTORNEY MILLER:

1 I reviewed it, Mr. Chairman. I read the  
2 entire testimony and couldn't find it. We did see a  
3 slide that showed plus or minus 1,700 on it, but I'll  
4 ask Mr. Donnelly. You reviewed it, too.

5 ATTORNEY DONNELLY:

6 It's in my notes, but I can't find it  
7 either. And so I'm going to have to say he didn't say  
8 it on the record. I do want to say --- I apologize  
9 because I'm going to say it again, but that number is  
10 --- the 1,700 number is the number that we came up  
11 with that Neil thought at the time was the most  
12 optimal thing so the both of us can get to our goal.  
13 And now we're back here today with the way the world  
14 changes one year. These are the optimal numbers now.  
15 If we don't, we're going to be in this dilemma now  
16 that we find ourselves in, we would have, I'm sure,  
17 said, well, we got 1,500, we may go up to 1,700. I  
18 don't think the Gaming Board would have objected to  
19 that thought process, but our best thinking then was  
20 1,700. Our best thinking now is the 1,600 and 40 is  
21 all I can say.

22 MR. TRUJILLO:

23 Mr. Chairman, will you indulge me one  
24 more? I'm sorry. Because it's clear to me that you  
25 guys are going to make your numbers. I mean, under

1 any configuration you're going to make your numbers,  
2 so the reason you're here --- and maybe I'm getting  
3 this wrong, but I don't think so. Is it because of  
4 your position in the marketplace that you don't want  
5 to be looked on as a slots parlor and that you need to  
6 be viewed much --- to be viewed competitively you need  
7 to have the full array? Because I mean, any way you  
8 look at this you guys are going to make your numbers.  
9 You're going to be capacity constrained whether you're  
10 1,600 or 1,700 given your position in Philadelphia, so  
11 what's the competitive disadvantage? If you're making  
12 your numbers what's the competitive disadvantage to  
13 remaining at the 1,700?

14 MR. PATENT:

15 And we think it's a huge --- I think you  
16 put your finger on it, but that is --- it's a  
17 significant motivator to us. Obviously making the  
18 numbers is one thing, but making the most numbers is  
19 what the state wants and what we definitely want. And  
20 from the ability to compete, I'll paraphrase John, we  
21 think we're going to get clobbered with 20 table games  
22 because it's just not enough to compete. I have never  
23 been in a jurisdiction where there was such a mismatch  
24 between competitors where one was not allowed to have  
25 complimentary table games. It was competitive with

1 others, so that's why we think it's win win for the  
2 state.

3 MR. TRUJILLO:

4 Thank you.

5 CHAIRMAN:

6 Any other questions? I am told that  
7 we're going to get a copy of it, that Mr. Bluhm did  
8 make a statement. And I'll paraphrase again as I've  
9 been told, something to the effect that if table games  
10 come he may want to reduce his 1,700 slot machine  
11 number. And that statement was made, I believe,  
12 September 16th of 2009. It was some kind of a public  
13 hearing and we'll try to track that down. We're going  
14 to break now. This will conclude the hearing part of  
15 the meeting. We'll be back here at 1:45.

16 ATTORNEY DONNELLY:

17 Your Honor, may I just --- I'd like to  
18 move into evidence our PowerPoint and the April 16th  
19 profit statement that we --- our income statement  
20 projected that we submitted. And also I ask that the  
21 BIE financial group's report for the table games be  
22 before you for your consideration as well.

23 CHAIRMAN:

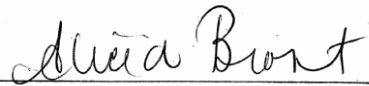
24 So, admitted. Thank you.

25 \* \* \* HEARING CONCLUDED AT 12:55 P.M. \* \* \*

CERTIFICATE

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I hereby certify that the foregoing proceedings, hearing held before the Pennsylvania Gaming Control Board, was reported by me on 05/13/2010 and that I Alicia R. Brant read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

  
\_\_\_\_\_  
Court Reporter