

## COMMONWEALTH OF PENNSYLVANIA

## GAMING CONTROL BOARD

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IN RE: ARISTOCRAT TECHNOLOGIES, INC., MODIFIED TABLE  
GAMES' MANUFACTURER LICENSE FEE

KONAMI GAMING INC., MODIFY TABLE GAMES' MANUFACTURER  
LICENSE FEE

## PUBLIC INPUT HEARING

BEFORE: Gregory C. Fajt, Chairman  
Raymond S. Angeli,  
Jeffrey W. Coy, James B. Ginty,  
Kenneth T. McCabe, Gary A. Sojka,  
Kenneth Trujillo  
Jorge Augusto, representing Russell  
Redding, Secretary of Agriculture  
Aviv Bliwas, representing State Treasurer's  
Office

HEARING: Wednesday, October 27, 2010  
1:45 p.m.

LOCATION: PUC Keystone Building  
Hearing Room 1  
400 North Street, Plaza Level  
Harrisburg, PA 17120

Reporter: Cynthia Piro Simpson  
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OFFICE OF ENFORCEMENT COUNSEL

MICHAEL ROLAND, ESQUIRE

PA Gaming Control Board

P.O. Box 69060

Harrisburg, PA 17106-9060

COUNSEL FOR PA GAMING CONTROL BOARD

MARIE JONES, ESQUIRE

Fox Rothschild

1301 Atlantic Boulevard

Suite 400

Atlantic City, NJ 08401-7212

COUNSEL FOR ARISTOCRAT TECHNOLOGIES

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CHAIRMAN:

Moving on to our next hearing, I see that we have the representative, Ms. Jones, here for Aristocrat Technologies. In this matter Aristocrat is petitioning the Board for relief, specifically a reduction in table games' manufacturing licensing fee. OEC has objected to the request to relieve, so we will have a hearing on this matter.

Prior to your presentation, could all witnesses presenting evidence for Aristocrat or OEC stand to be sworn. And also I'd like to ask that all people speaking please state and spell your name for the stenographer. I see that Aristocrat doesn't have any witnesses; am I correct?

ATTORNEY JONES:

Correct, Chairman.

CHAIRMAN:

Thank you. And we have one witness.  
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SEAN HANNON, HAVING BEEN PREVIOUSLY SWORN, TESTIFIED AS FOLLOWS:  
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CHAIRMAN:

1 Thank you. And Counsel for Aristocrat,  
2 Ms. Jones, you may begin.

3 ATTORNEY JONES:

4 Good afternoon, Chairman, Board members.  
5 I'm Marie Jones from Fox Rothschild here on behalf of  
6 Aristocrat Technologies. As this matter is very  
7 similar to the next matter on the agenda, the petition  
8 of Konami, if the Board would indulge me, I'd like to  
9 do both in the interest of time.

10 CHAIRMAN:

11 We would appreciate that. Thank you.

12 ATTORNEY JONES:

13 So I'm going to start with Aristocrat.  
14 The facts are a little different, but the basic legal  
15 arguments are the same. With respect to Aristocrat  
16 Technologies, they hold a slot machine manufacturer  
17 license at this time. They also have applied for a  
18 table games manufacturer license. With respect to the  
19 slot machine license, they provided Presque Isle with  
20 a slot data system called the Oasis system in 2007,  
21 prior to table games, obviously. That system had an  
22 add-on modular pit boss. That modular is generally  
23 used for table games processing. In 2007 that was  
24 given to Presque Isle because they used it for check  
25 cashing with respect to the slot data system. It was

1 not in any way at that point anticipated that it would  
2 be used for a table games --- as a table games  
3 product. When table games was instituted at Presque  
4 Isle they decided to turn on the additional pit boss  
5 features. The Board staff indicated to API at that  
6 time that they would then need a table games  
7 manufacturer license at a cost of \$50,000, with a  
8 renewal of \$30,000 per year. This obviously was not  
9 anticipated by Aristocrat. They have made no money  
10 off of this add-on modular. They do not --- the  
11 maintenance for this will be very small and will not  
12 come near the renewal fees. They have basically given  
13 this to the property in 2007 before table games.

14           The statute provides that the Board may  
15 modify the fees when determining that the fees will  
16 unreasonably limit the availability of table games  
17 devices or associated equipment in connection  
18 therewith. When determining if it would be reasonable  
19 unreasonably limiting the availability of a table game  
20 device for the properties, the Board should look at  
21 two items, how many vendors can they provide this in  
22 the Commonwealth and the effect that it would have on  
23 the Licensee. In this case, by not proceeding with  
24 the license, which is what Aristocrat has told us  
25 their intent would be as it would be cost prohibitive

1 and too much of a negative expense to them, it would  
2 be limiting how many table game manufacturers would be  
3 supplying the table game systems in the Commonwealth.  
4 And in fact, the next Petitioner, Konami, has also  
5 indicated that it is their intent not to move forward  
6 if, in fact, there is not some reduction in the fee,  
7 mainly because when looking at it from a pure business  
8 perspective, they cannot justify paying a fee when  
9 they're not making sufficient funds to cover even the  
10 fee amount. This is also similar to the United States  
11 Playing Card matter in that you have a cost for two  
12 licenses from the sale of one product. This was a  
13 sale of, in both cases, just the slot data system,  
14 with an add-on for table games. It wasn't anticipated  
15 or utilized as two different types of product coming  
16 in. It's one product, an add-on, and it should all be  
17 under the same license. With respect to Konami, there  
18 is one slight difference. They have --- they provided  
19 The Rivers with the slot data system initially. And  
20 right after table games, they have also provided  
21 SugarHouse with the slot data system with the add-on.  
22 I just wanted to clarify that. And I'd be happy to  
23 address any questions you may have.

24 CHAIRMAN:

25 Thank you. Enforcement Counsel, do you

1 have any questions of Aristocrat?

2 ATTORNEY ROLAND:

3 No, Mr. Chairman, we have no questions.

4 CHAIRMAN:

5 Does the board have any questions of  
6 Aristocrat? Okay. OEC, do you have a presentation?

7 ATTORNEY ROLAND:

8 Yes, we do, Mr. Chairman. Thank you.  
9 Good afternoon. Mike Roland, R-O-L-A-N-D, with the  
10 Office of Enforcement Counsel. We'd like to present  
11 our objection through the testimony of Mr. Sean  
12 Hannon, who's seated here to my left. So if I can,  
13 I'd like to start off just by calling him and go right  
14 into it, if that's okay.

15 CHAIRMAN:

16 Please proceed.

17 ATTORNEY ROLAND:

18 Thank you.

19 -----

20 SEAN HANNON, HAVING BEEN PREVIOUSLY SWORN, TESTIFIED  
21 AS FOLLOWS:

22 -----

23 EXAMINATION

24 BY ATTORNEY ROLAND:

25 Q. Mr. Hannon, for the record, could you please state



1 your name and spell it?

2 A. Sean Hannon. Sean, S-E-A-N. Hannon, H-A-N-N-O-N.

3 Q. And Mr. Hannon, where are you employed and how  
4 long have you been there?

5 A. I am the enterprise licensing unit manager. I've  
6 been there ---.

7 CHAIRMAN:

8 Hold on one second. Can you speak up a  
9 little louder and a little slower, Sean? There's  
10 background noise here that we're trying to eliminate.

11 A. Sean Hannon, enterprise licensing unit manager.  
12 I've been there almost five years. The unit ---  
13 enterprise licensing unit manager is responsible for  
14 the oversight of licensing for entities interested in  
15 getting a slot operator's license, a manufacturer's  
16 license, a supplier's license, manufacturer designee  
17 or a labor organization. In addition to that, the  
18 enterprise unit looks at the applications of all the  
19 principals, entities, owners, officers, directors of  
20 the applicants for those types of licenses.

21 BY ATTORNEY HANNON:

22 Q. Mr. Hannon, specific to manufacturers, what type  
23 of licensing fees are applied to them?

24 A. There's an initial licensing fee of \$50,000 for a  
25 table game manufacturer license. If you're also a

1 slot machine manufacturer, there's a separate \$50,000  
2 license fee at the initial licensure. Renewal fees  
3 for each of them are --- it's a \$90,000 license fee  
4 for three years, so it breaks down to \$30,000 per  
5 year.

6 Q. And are you familiar with the two petitions  
7 presented by Ms. Jones by both Konami and Aristocrat  
8 asking for modification in the table game  
9 manufacturing license fees?

10 A. I am.

11 Q. Okay. Can you summarize --- let's first start  
12 with Aristocrat. Can you summarize your understanding  
13 of that petition?

14 A. Aristocrat's petition is asking for a reduction in  
15 fee due to the fact that the profit from the product  
16 would be minimal or at a loss. In addition, they said  
17 that there would be a --- if they were to drop out,  
18 there would be a --- possibly an insufficient amount  
19 of product available for the industry.

20 Q. And how about the Konami petition, what's your  
21 understanding?

22 A. Konami is exactly similar with the fact that  
23 Konami did make a profit off the initial licensure of  
24 this product. Otherwise, it's the same exact  
25 petition. They're looking for a reduction in fee

1 because the profitability of it is minimal and the  
2 renewal fees would be --- would outweigh the ongoing  
3 cost to maintain the product.

4 Q. In either the statute or the Board's regulations,  
5 is there a section that would provide relief that  
6 they're seeking?

7 A. Section 1208(1)(ii)(d) states that the Act grants  
8 authority to the Board to modify the fees based upon  
9 the Board's determination that the fees will  
10 unreasonably limit the availability of table game  
11 devices or associated equipment used in connection  
12 with table game or table game devices.

13 Q. Okay. And up to this point, to your knowledge,  
14 have there been any petitions brought before the Board  
15 under this section seeking the same types of relief?

16 A. There's been one petition brought before the Board  
17 that is exact to it as far as requiring a reduction in  
18 fee. And there's been one that was involved with the  
19 reduction of a fee.

20 Q. Okay. Let's start with the first one you  
21 referenced. Who is that?

22 A. The first one was South Jersey Precision. They  
23 manufacture Pai Gow tiles. At the time the Board  
24 didn't have anybody that manufactured Pai Gow tiles,  
25 and there were at least three casinos that were

1 interested in the product. In order to get the  
2 product, the company sought relief for it because the  
3 amount of money that they would make from the product  
4 was significantly less than what the initial license  
5 fee would cost.

6 Q. And do you know what the ultimate decision made by  
7 the Board was in that matter?

8 A. In that matter the Board granted relief to the  
9 petitioner, making the license fees zero, but the  
10 Applicant still had to pay for their application fees  
11 and investigative fees.

12 Q. Okay. Now I'm going to ask you kind of a tricky  
13 question, to compare the two petitions today before  
14 the Board, both Konami and Aristocrat, to the South  
15 Jersey Precision scenario, if you could.

16 A. With South Jersey there was absolutely no product  
17 available. There was no Pai Gow tiles available for  
18 any casino in Pennsylvania. With this product there  
19 are presently three licensees now that have this  
20 product, which is a table game tracking device that is  
21 licensed by the Board.

22 Q. Okay. And you had mentioned that there was also a  
23 second petition previously that had come before the  
24 Board seeking the same types of relief. Who was that?

25 A. As Marie pointed out before, United States Playing

1 Card Company had requested relief. In that petition  
2 they requested that since their parent company was  
3 licensed, that their subsidiary, which is a  
4 manufacturing plant in Mexico that makes just dice,  
5 would not have to be also licensed on the table games  
6 side, since their parent was already licensed on the  
7 table game side.

8 Q. And do you recall the final decision made by the  
9 Board in that case?

10 A. In that case the Board found that the Mexican  
11 company did need separate licensure, but they granted  
12 relief to the subsidiary of the license fee being  
13 reduced to zero but still having to pay application  
14 fees.

15 Q. Okay. And again, although this may be somewhat  
16 obvious, I'm going to ask you to draw the comparison  
17 between the Playing Card Petition and the two  
18 petitions that are before the Board today.

19 A. With the Playing Card Company and this --- these  
20 two applicants, this applicant has --- there's three  
21 companies that make this product. With the Playing  
22 Card Company, they were the --- the subsidiary was the  
23 dice manufacturer, but it was the second product. We  
24 only had one other manufacturer that made that product  
25 at the time. That company also that had --- the other

1 company was --- just had a conditional license at that  
2 time. So here we have three fully-licensed companies  
3 as compared to two with the other --- with the dice,  
4 one being conditionally licensed and one seeking  
5 relief of licensure.

6 Q. So neither --- if I understand what you're saying,  
7 neither the Konami nor the Aristocrat petition are  
8 exactly like either the Playing Card petition or the  
9 South Jersey Precision petition?

10 A. Where there's similarities, there's still  
11 differences between them all.

12 Q. Okay. For both Konami and Aristocrat, is there  
13 anybody within their chain of command or any  
14 subcompany they're associated with that has a table  
15 games manufacturing license?

16 A. Just the company that applied for us was the sole  
17 table games manufacturer license that they sought.  
18 There was no parent company or subsidiary that applied  
19 for a table game license.

20 Q. And the million-dollar question. If you had to  
21 boil down the reason for the objection, how could you  
22 summarize it for both of them?

23 A. On the table games side there are minimal  
24 manufacturers available for each of these products.  
25 Matter of fact, the product that has the most

1 manufacturers that make that single product is three,  
2 okay. So you have a single manufacturer on the table  
3 games side that make numerous products. You have some  
4 that two products, two manufacturers that make a  
5 product. With this you have three manufacturers that  
6 make a product. So no product is in high  
7 availability, I would say.

8 Q. So what you're saying --- and you're taking into  
9 account all of the table games associated equipment  
10 when you say that, when you're going product by  
11 product, whether it's cards, whether it's dice,  
12 whether it's a roulette wheel, you're looking at  
13 everything?

14 A. Product by product on the table games side,  
15 correct.

16 Q. Do you know how many manufacturers there actually  
17 are for all of the table games associated equipment?

18 A. As of today, there are 13 table game  
19 manufacturers.

20 Q. And your testimony is that for no one product is  
21 there more than three, if I understood?

22 A. For no one product there's more than three  
23 manufacturers of that product.

24 Q. And in this scenario, how many manufacturers would  
25 be available?

1 A. There are three companies that make the product  
2 that two of the petitioners are seeking here. They're  
3 two of the three.

4 ATTORNEY ROLAND:

5 I don't believe we have anything further.

6 CHAIRMAN:

7 Thank you. Does the Board have any  
8 questions? I'm sorry, Ms. Jones, do you have any  
9 rebuttal questions?

10 ATTORNEY JONES:

11 No, Chairman.

12 CHAIRMAN:

13 Thank you. Does the Board have any  
14 questions? Commissioner Ginty?

15 MR. GINTY:

16 You know, we're kind of bound by the  
17 statute here. Do you have any suggestions as to how  
18 we might get around it? I mean, the statute only  
19 talks in terms of the availability of products, not  
20 whether a company is making less money than the  
21 licensing fee.

22 ATTORNEY JONES:

23 Correct. And in this instance, with the  
24 availability of products, you would take it down to  
25 one if --- you would eliminate two of the



1 manufacturers providing it and leaving one, and the  
2 casino licensees would have to add a cost of  
3 converting their systems to that one manufacturer.

4 MR. GINTY:

5 Can we take into consideration that  
6 latter fact, that the casinos would have to make some  
7 modifications?

8 ATTORNEY JONES:

9 I believe you can. I mean, you can  
10 consider all the facts in the matter.

11 MR. GINTY:

12 Thank you.

13 CHAIRMAN:

14 Commissioner McCabe?

15 MR. MCCABE:

16 I need to understand. You say there's  
17 three companies that provide this type of service.  
18 Are two of them before us today?

19 ATTORNEY ROLAND:

20 That's correct.

21 ATTORNEY JONES:

22 That's correct.

23 MR. MCCABE:

24 So that, to me, leaves one.

25 ATTORNEY ROLAND:

1           There's one other company.

2           MR. MCCABE:

3           Has that one paid the licensing fee?

4   A.    Correct. All of it. Uh-huh (yes).

5           MR. MCCABE:

6           So that would --- if these two pull out,  
7 that's only one left then?

8           ATTORNEY ROLAND:

9           There's only one, but we'd essentially be  
10 left with the exact same situation that New Jersey  
11 Tile & Mold was, where you have one manufacturer.  
12 There's only one left. And if I'm not mistaken, Mr.  
13 Hannon can correct me, I believe there are other  
14 products, table game associated equipment products,  
15 that only have one manufacturer today. So we'd be in  
16 a similar situation.

17           CHAIRMAN:

18           Commissioner Sojka.

19           MR. SOJKA:

20           That was basically my question.

21           CHAIRMAN:

22           Any other questions? Here's what we're  
23 going to do. We had discussed this issue last night  
24 in an executive session and kind of had an  
25 understanding. And I don't know that we gleaned a

1 whole lot of information today that we didn't have  
2 last night as to the three manufacturers and if these  
3 two are eliminated, it took it down to one and the  
4 reasons for Konami and Aristocrat objecting to the  
5 second licensing fee. What we're going to do is that  
6 we're going to take both of these petitions under  
7 advisement. We do feel that there could be some  
8 unintended consequences of the statute that affects  
9 particularly small businesses. And we certainly  
10 understand the position of the manufacturers as well  
11 as the Bureau of Licensing and Office of Enforcement  
12 Counsel, but we also believe that these sorts of  
13 petitions are going to be a continuing occurrence, and  
14 we'd like to explore some sort of a global resolution,  
15 if you will, as to these types of petitions so that we  
16 get, you know, to a point where it's a fair and  
17 equitable way not only to Konami and Aristocrat but to  
18 others that are similarly situated. So what we're  
19 going to do with these table game petitions is to  
20 relist them for action after our Board and staff have  
21 given some thought as to how to handle these sorts of  
22 requests. And again, just to restate it, we know  
23 these issues are going to rise again, and we'd like to  
24 get some kind of input from our staff and OEC and the  
25 Bureau of Licensing so that we can come to some kind

1 of a global agreement as to when and if people in the  
2 situation of Konami and Aristocrat should have reduced  
3 fees or fees eliminated or pay the fees that are  
4 stated right now. So we're going to table the motion,  
5 take it under advisement and we'll schedule it for  
6 another hearing once we have the information from our  
7 staff.

8 ATTORNEY JONES:

9 Thank you.

10 ATTORNEY ROLAND:

11 Thank you, Mr. Chairman.

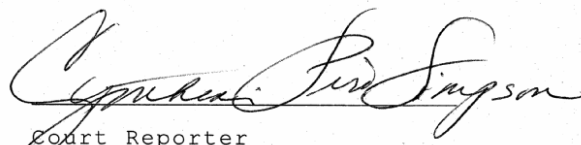
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13 HEARING CONCLUDED

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15  
16 CERTIFICATE

17 I hereby certify that the foregoing  
18 proceedings, hearing held before Chairman Fajt, was  
19 reported by me on 10/27/2010 and that I Cynthia Piro  
20 Simpson read this transcript and that I attest that  
21 this transcript is a true and accurate record of the  
22 proceeding.

23   
24 Court Reporter  
25