

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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PUBLIC HEARING

IN RE: WASHINGTON TROTTING ASSOCIATION (WTA) JOINT
APPLICATION WITH CROWN LIMITED FOR APPROVAL OF THE
CHANGE OF CONTROL OF WTA AND OTHER RELIEF

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, Representing
C. Daniel Hassell, Secretary of Revenue,
Ex-Officio Member; Jorge M. Augusto,
Representing Russell Redding, Secretary of
Agriculture, Ex-Officio Member

HEARING: January 6, 2011
10:05 a.m.

LOCATION: The State Museum Auditorium
300 North Street
Harrisburg, PA 17120

Reporter: Cynthia Piro-Simpson

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CHAIRMAN:

Good morning, everybody. If I could ask you to please take your seat, we'll get today's meeting started. I'm Greg Fajt, Chairman of the Gaming Control Board. And as a matter of housekeeping, I'd like to ask everybody to turn off their cell phones and PDAs, as they can interfere with our communication system. Joining us today is David Barasch, ex officio designee, representing the Secretary of Agriculture, Dan Hassell. Also, Jorge Augusto is here, representing the Secretary --- I'm sorry, the Secretary of Revenue, Dan Hassell; Secretary of Agriculture, Russell Redding. And I do believe that Aviv Bliwas is here. Is Aviv here? Okay. She is not. Okay.

All members being present, I'll call today's meeting to order. As the first order of business, please join me in the Pledge of Allegiance.

PLEDGE OF ALLEGIANCE RECITED

CHAIRMAN:

We have one item before the Board today by way of a public hearing, which will take place prior to our public meeting. The public hearing

1 pertains to Washington Trotting Association and Crown
2 Limited's joint application for approval of a change
3 of control. After reviewing the pleadings, it appears
4 to me that what is at issue in these proceedings is
5 whether the Board should approve a 24.5 percent
6 transfer of ownership in WTA to Crown and if approved,
7 what change of control fee should be assessed. With
8 that, by way of background, I'd like to call up
9 representatives of Washington Trotting Association and
10 Crown regarding their joint application. Prior to
11 your presentation, could all witnesses presenting
12 evidence for Washington Trotting, Crown Limited or the
13 Office of Enforcement Counsel who are not attorneys
14 please stand to be sworn in and I'd also ask that all
15 people speaking, including counsel, please state and
16 spell your name for the stenographer before you begin.
17 Thank you. And with that, WTA and Crown, you may
18 begin.

19 ATTORNEY JONES:

20 Good morning, Chairman and Board Members.
21 Marie Jones from Fox Rothschild here on behalf of
22 Washington Trotting Association. I'm now going to
23 hand it over to Crown's Counsel.

24 ATTORNEY KAUFMAN:

25 Lynne Kaufman.

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CHAIRMAN:

One second, please. Cyrus.

ATTORNEY PITRE:

I believe you wanted the witnesses sworn in.

CHAIRMAN:

Yes, I do. Thank you. Thanks. Anybody who is going to testify on behalf of either Enforcement Counsel or WTA and Crown who are not lawyers, please stand to be sworn in. Two gentlemen over here.

WITNESSES SWORN EN MASSE

CHAIRMAN:

Thank you. Go ahead counselor, Lynne.

ATTORNEY KAUFMAN:

Lynne Kaufman, K-A-U-F-M-A-N, from Cooper Levenson, L-E-V-E-N-S-O-N, on behalf of Crown Limited. And I would like to make a motion for pro hoc vice admission for the continuing representation of Crown Limited by Lloyd Levenson who has been representing Crown for the past four and a half years pursuant to his admission to the New York Bar.

CHAIRMAN:

1 Cyrus?

2 ATTORNEY PITRE:

3 I don't have an objection to the pro hoc
4 vice motion, as long as Mr. Levenson understands it's
5 not being granted through any reciprocity, it's
6 clearly within the Board's discretion to allow an
7 attorney to represent pro hoc vice, so I leave it to
8 the Board's discretion.

9 CHAIRMAN:

10 Commissioner?

11 MR. GINTY:

12 I do have a couple of questions. You
13 said Mr. Levenson's continuing representation of
14 Crown?

15 ATTORNEY KAUFMAN:

16 Yes.

17 MR. GINTY:

18 Not in Pennsylvania.

19 ATTORNEY KAUFMAN:

20 He has entered notices of appearances for
21 Crown in Pennsylvania.

22 MR. GINTY:

23 Have you appeared before us before, Mr.
24 Levenson?

25 ATTORNEY LEVENSON:

1 I have not appeared before you ---.

2 CHAIRMAN:

3 Please, sir, please stay seated, both of
4 you, and speak into the microphone so that everybody
5 can hear. Thank you.

6 ATTORNEY LEVENSON:

7 I submitted a Notice of Appearance when
8 Crown first decided that it was going to try to become
9 involved in Pennsylvania. That Notice of Appearance
10 had my signature on it, my New York Bar admission
11 number and as a result of that, there were some
12 discussions, approximately two years --- that was
13 about three years ago --- approximately two years ago,
14 there were some discussions with then Chief Counsel,
15 Frank Donahue resulting in a e-mail that I sent to him
16 where I --- the quote was I re-reviewed the Board rule
17 regarding admission, as I initially believed as a
18 member of the New York Bar, I'm permitted to appear
19 before the PGCB. That's a quote from my e-mail. And
20 that, for all intents and purposes, ended that
21 discussion with regard to my ability to practice in
22 Pennsylvania before the Pennsylvania Gaming Control
23 Board.

24 In addition, I had submitted, as far long
25 ago as four and a half years ago, Notices of

1 Appearance where, I obviously did not sign my name as
2 a member of the Pennsylvania Bar, because I'm not a
3 member of the Pennsylvania Bar, I signed my name with
4 the legend under it with regard to my bar number in
5 New York. And I have the Notice of Appearances with
6 the date stamp that it was accepted by Pennsylvania
7 and I have appeared for the past four and a half years
8 in communications and investigations and all the
9 normal things an attorney does in representing his or
10 her client in Pennsylvania.

11 MR. GINTY:

12 Have you been more recently advised that
13 the Board has taken, perhaps, a stricter view on
14 attorneys that are not members of the Pennsylvania Bar
15 appearing before us?

16 ATTORNEY LEVENSON:

17 I have been notified of that, yes.

18 MR. GINTY:

19 Do you know whether if a Pennsylvania
20 attorney wanted to appear before the New York Gaming
21 Control Board or whatever, whether the Pennsylvania
22 attorney would be able to do that?

23 ATTORNEY LEVENSON:

24 I don't think there would be any problem
25 if a Pennsylvania attorney was appearing before the

1 New York Racing and Wagering Board. I don't think
2 that they --- I think similarly to what the
3 Pennsylvania Harness Racing Commission rules are that
4 as long as you are a member of the highest court in
5 the state that you are admitted in, they permit you to
6 participate.

7 MR. GINTY:

8 The other thing is that, you know, my
9 understanding is New York and Pennsylvania have
10 reciprocity.

11 ATTORNEY PITRE:

12 That's correct.

13 MR. GINTY:

14 So it would be a fairly easy process for
15 you to get admitted in Pennsylvania and it's a matter
16 of filling out --- I was admitted in Pennsylvania
17 through reciprocity and let me assure you, it's a very
18 painless process.

19 ATTORNEY LEVENSON:

20 Okay. And I have no problem in going
21 through the process, whatever is necessary, but in
22 reading your rule, I didn't conclude that I needed to
23 do that because of the fact that I didn't conclude
24 that I had to be actually a member of the Pennsylvania
25 Bar in order to, by reciprocity, appear in

1 Pennsylvania. I thought that just by virtue of the
2 fact that I was a member of the New York Bar that I
3 could appear before this agency. Now, if that's wrong
4 then ---.

5 MR. GINTY:

6 I guess me real argument is with New
7 Jersey where Pennsylvania attorneys are not permitted
8 to appear.

9 ATTORNEY LEVENSON:

10 I'm a New York lawyer.

11 MR. GINTY:

12 With offices in Atlantic City, I
13 understand, right. I'm willing to give you a pass
14 this time, but quite frankly, if New Jersey would be
15 good enough to open up their tribunals to Pennsylvania
16 lawyers, I wouldn't have any problem, but prior ---.

17 ATTORNEY LEVENSON:

18 Can I get a copy of the transcript, maybe
19 we can change that in New Jersey because I don't think
20 it's right. I think anybody should be able to have
21 the attorney of their choice.

22 MR. GINTY:

23 Prior to incarnation, I have to pay
24 outside counsel unreasonable fees because, you know,
25 my lawyers could not appear in New Jersey. So in any

1 event, you know, one time only, I'm certainly willing
2 to entertain the pro hoc vice.

3 ATTORNEY LEVENSON:

4 Just one more thing and I'm certainly not
5 trying to take victory from the jaws of defeat,
6 whatever that saying is. I just wanted to tell you
7 that in New Jersey, they have significantly opened up,
8 by rule, the opportunity for outside New Jersey
9 attorneys to practice. You don't need an office
10 anymore, a bona fide office and things of that sort.

11 MR. GINTY:

12 Would you be kind enough, then, to follow
13 up with a letter letting us know --- we have some very
14 good Pennsylvania attorneys, I notice a couple of them
15 out there that are developing some expertise in gaming
16 law and I'm sure they would love to be able to
17 represent clients over in New Jersey, so ---.

18 ATTORNEY LEVENSON:

19 We welcome it.

20 MR. GINTY:

21 So if you would be kind enough to write a
22 letter to the --- whoever the appropriate people are
23 and send us a copy of that.

24 ATTORNEY LEVENSON:

25 I would do that.

1 MR. GINTY:

2 Thank you.

3 CHAIRMAN:

4 Any other questions? You have questions,
5 Commissioner?

6 MR. TRUJILLO:

7 I have no questions. I would move that
8 we grant the motion pro hoc vice of Mr. Levenson.

9 MR. MCCABE:

10 Second.

11 CHAIRMAN:

12 And if I could amend the motion, I want
13 to make it very clear that it's this one time only and
14 it will not be granted again, just to be very clear.
15 If you want to practice in front of this Board, we ask
16 that you fill out the necessary forms to become a
17 member of the Pennsylvania Bar. As Commissioner Ginty
18 said, it's fairly painless and again, this will be the
19 last time for this pro hoc vice motion, but the motion
20 is on the floor. It's been seconded, all in favor.

21 ALL SAY AYE

22 CHAIRMAN:

23 Opposed? Motion passes. And let's begin
24 the hearing.

25 ATTORNEY LEVENSON:

1 Thank you. I'm a litigator, so I'm used
2 to standing. Sorry. As has been mentioned, we're
3 here today because Crown is interested in exercising
4 its option to move from a Series B holder, which meant
5 that they owned just under five percent of the stock
6 of your licensee, to a Series A2 holder, which would
7 enable them to, if approved by this Board, enable them
8 to own 24.5 percent. So we are prepared today to move
9 forward on that. As far as the Change of Control
10 Petition, that was responded to by the Office of
11 Enforcement Counsel and there were no issues raised
12 with regard to the contents of the Petition for a
13 Change of Control. We understand, obviously, for you
14 to grant the change of control, you have to be
15 comfortable with Crown's suitability and the various
16 individuals who have also applied for a license. So
17 in that regard, we're prepared to move forward and ask
18 that Michael Neilson, who's the Vice President,
19 general counsel of Crown, come as a witness and speak
20 before you today.

21 CHAIRMAN:

22 Mr. Neilson. If you could, again, just
23 please spell your name for the stenographer.

24 ATTORNEY NEILSON:

25 Michael Neilson, N-E-I-L-S-O-N.

1 ATTORNEY LEVENSON:

2 Mr. Neilson, welcome.

3 ATTORNEY NEILSON:

4 Thank you. It's a pleasure to be here
5 before this Board.

6 ATTORNEY LEVENSON:

7 Mr. Neilson, would you give the Board the
8 benefit of your own personal background?

9 ATTORNEY NEILSON:

10 Sure. I'm what we call in Australia a
11 solicitor, an attorney of some almost 25 years
12 experience, 10 years in private practice. I've worked
13 in corporations for the past 14 years. I've been at
14 Crown for almost seven years, the last three of those
15 in my current position.

16 ATTORNEY LEVENSON:

17 And your current position is what?

18 ATTORNEY NEILSON:

19 General counsel and company secretary.

20 ATTORNEY LEVENSON:

21 And what does that mean, in Australia, to
22 be the company secretary and also, what are your
23 duties as a general counsel and company secretary?

24 ATTORNEY NEILSON:

25 Well, as general counsel, I'm the chief

1 legal officer for the group. I'm responsible for
2 managing any legal issues that arise for compliance
3 matters. I am responsible for managing outside
4 counsel and providing legal advice to the senior
5 executive to the board. As company secretary, that's
6 a statutory role under Australia Corporation Law. I
7 am responsible for insuring the company and the board
8 complies with Australia Corporation's Law,
9 particularly disclosure requirements and to insure
10 that the processes that the board undertake, its
11 meeting processes, its record keeping processes,
12 comply with the law.

13 ATTORNEY LEVENSON:

14 That's your background. Now, give us a
15 little bit of the background of Crown?

16 ATTORNEY NEILSON:

17 Sure. It's probably best to start with
18 the Crown Casino is Melbourne in the State of Victoria
19 in Australia, which was first licensed back in 1992
20 when casino gaming was legalized in that state. In
21 Australia, gaming is regulated state by state, much
22 like the United States, and the Crown Casino was ---
23 the development commenced in 1992 and has been
24 operating since then. Crown, at that time, was a
25 listed public company, single asset, just the Crown

1 Casino in Melbourne.

2 In 1999, Crown was acquired by a company
3 called Publishing and Broadcasting Limited on a market
4 takeover bid. Publishing and Broadcasting Limited, or
5 PBL, is a company where the major shareholder is the
6 Packer family from Australia and that was Publishing
7 and Broadcasting's first gaming investment. They
8 owned, as their name suggests, both publishing and
9 broadcasting interests. They owned a television
10 station and a portfolio of magazines.

11 In 2004, PBL acquired a second gaming
12 asset being Burswood Casino in Perth in Western
13 Australia. That was also acquired by an on market
14 takeover bid. Between 2004 and 2007, a number of
15 other international investments in the gaming space
16 were made by PBL and later, in 2007, the PBL board
17 decided to separate PBL into two separate listed
18 companies, to demerge the company, if you will. That
19 was to put the gaming assets into one listed company
20 and the publishing and broadcasting assets into a
21 separate listed company and that demerger was approved
22 by shareholders and by the Supreme Court in December
23 of 2007 and Crown Limited, as it exists today, was
24 formed at that demerger as a separate listed company.

25 ATTORNEY LEVENSON:

1 Where --- I'm sorry, are you finished?

2 ATTORNEY NEILSON:

3 Yes, sir.

4 ATTORNEY LEVENSON:

5 Where is Crown presently licensed?

6 ATTORNEY NEILSON:

7 Crown holds licenses in the State of
8 Victoria in Australia, the State of Western Australia,
9 the State of Tasmania. Maybe to go into a bit more
10 detail, I should talk about the assets that Crown
11 actually owns. That will give you some context as to
12 where we're licensed. So as I said, we have the Crown
13 Casino in Melbourne in Australia, which is Australia's
14 largest casino and one of the largest casinos in the
15 world. It has up to 500 gaming tables, 2,500 slot
16 machines, three hotels, which have approximately 1,600
17 hotel rooms, retail component, large number of
18 function centers, a theater, cinema. I talked about
19 Burswood earlier, Burswood's a little smaller. It has
20 approximately 200 gaming tables and 1,800 slot
21 machines, two hotels with about 900 rooms, a small
22 retail component, a theater, convention center. We
23 also own approximately one third interest in a NASDAQ
24 listed company, Melco Crown Entertainment, which owns
25 casinos in Macau. We own 50 percent of a company

1 called Aspinalls in the United Kingdom, which owns and
2 operates four small casinos in the United Kingdom.
3 And we own 50 percent of a company called Betfair
4 Australasia, which operates a bidding exchange in
5 Australia and New Zealand.

6 Following from that, we're licensed in
7 the States of Victoria for Crown, and Melbourne,
8 Western Australia for Burswood, the State of Tasmania
9 in Australia, which is where the Betfair license is.
10 We're licensed in Macau as part of our Melco Crown
11 Entertainment investment. We're licensed in the
12 United Kingdom as part of our Aspinalls investment and
13 we're licensed in the State of Nevada here in the
14 United States as part of our investment in the Canary
15 Group. We also have been licensed in the Provinces of
16 British Columbia and Alberta as part of a previous
17 investment we had in Canada.

18 ATTORNEY LEVENSON:

19 In the BIE report, and I quote from it,
20 from page ten, it says that the BIE investigation has
21 not identified any issues that would preclude the
22 licensure of Crown or any of the entities or
23 individuals who filed applications in connection with
24 the Crown application. However, there was a
25 discussion in the report with regard to something you

1 mentioned earlier, which is the joint venture between
2 Melco and Crown in Macau. Could you give us some
3 background on how that joint venture obtained the
4 right to conduct gaming operations in Macau?

5 ATTORNEY NEILSON:

6 Sure. Macau had issued three
7 concessions. One to SJM, Dr. Ho's company. One to
8 the ---.

9 ATTORNEY LEVENSON:

10 Is that Stanley Ho's company?

11 ATTORNEY NEILSON:

12 Yes. One to the Venetian and Galaxy
13 joint venture and one to Steve Wynn's company.
14 Shortly afterwards, the government advised that each
15 concession holder was permitted to grant a
16 subconcession under their concession, one only for
17 each concession, and that subconcession operated, for
18 all intents and purposes, like the main concession.
19 It was like another concession. An agreement was
20 reached between, quite literally, Steven Wynn and
21 James Packer, that the Wynn concession would grant a
22 subconcession to Crown and Crown, in turn, contributed
23 that subconcession into its joint venture.

24 ATTORNEY LEVENSON:

25 Can you describe the gaming operations as

1 they presently exist in Macau that the joint venture
2 operates?

3 ATTORNEY NEILSON:

4 Yeah, the company operates two casinos.
5 The flagship casino is called City of Dreams. It's a
6 major integrative resort in Macau. It has three
7 hotels operating under the Crown Towers, Hard Rock and
8 Grand Hyatt brands. It has a large casino with about
9 400 gaming tables and 1,300 slot machines. It has a
10 theater, which recently opened what we call a wet
11 theater, a Franco Dragone show is being conducted
12 there at the minute. It has another smaller theater,
13 it has an extensive number of restaurants and bars and
14 retail.

15 The company also operates a smaller
16 casino called Altira, it was actually the first casino
17 that was opened by the company. It was originally
18 called Crown Macau, but subsequently changed its name
19 it Altira. It's much smaller. It's on a very small
20 parcel of land. It has a small hotel with just over
21 200 rooms and operates a casino on the lower levels of
22 the hotel with about 220 gaming tables. It also
23 operates a business, the company that is --- Mocha
24 Slots, which is a series of slot piles which operates
25 about 1,600 slot machines across eight or nine venues

1 in Macau.

2 ATTORNEY LEVENSON:

3 The report I quoted earlier, the portion
4 of the report indicated that there is no issue that
5 should preclude licensure and despite the fact that
6 there's no issue that should preclude the suitability
7 of the individuals for Crown, according to the
8 recommendation, would you comment, for the benefit of
9 the Board, on the relationship, if any, between
10 Stanley Ho and Crown?

11 ATTORNEY NEILSON:

12 Sure. Crown doesn't have a relationship
13 with Stanley Ho. Its relationship is with Lawrence
14 Ho. It always has been with Lawrence Ho from the
15 beginning. And the report, the BIE report has found
16 no adverse findings against Lawrence Ho.

17 ATTORNEY LEVENSON:

18 In connection with the suitability
19 recommendation, there is a recommendation that certain
20 conditions be imposed if the Board were to grant a
21 license to Crown and to the individuals. Have you
22 reviewed those conditions?

23 ATTORNEY NEILSON:

24 Yes, I have.

25 ATTORNEY LEVENSON:

1 Have you spoken about those conditions
2 with other senior executives of Crown?

3 ATTORNEY NEILSON:

4 Yes.

5 ATTORNEY LEVENSON:

6 Are you authorized to speak on behalf of
7 the company?

8 ATTORNEY NEILSON:

9 Yes.

10 ATTORNEY LEVENSON:

11 And what is the company's position with
12 regard to those recommended conditions?

13 ATTORNEY NEILSON:

14 Well, the company accepts those
15 conditions and the company will put processes in place
16 to insure that they comply, should the license be
17 granted.

18 ATTORNEY LEVENSON:

19 Now, initially, there was an agreement
20 for Crown to purchase 100 percent of the licensee and
21 then there was another agreement that followed that.
22 That is the reason that we're here today, in that
23 there was the purchase of the B shares and now the
24 desire to move over to the A2 shares, which would give
25 Crown 24.5 percent ownership; is that correct?

1 ATTORNEY NEILSON:

2 That's correct.

3 ATTORNEY LEVENSON:

4 Now, does that ownership give you any
5 other rights other than to own the 24.5 percent of the
6 company?

7 ATTORNEY NEILSON:

8 No, we have rights to participate in the
9 profits, as you would expect, an owner of that sort of
10 equity. They're non voting, that's why they're
11 designated A2. So we're very much an investor rather
12 than an operator in the company and a minority
13 investor at that.

14 ATTORNEY LEVENSON:

15 Now, there also, even in this new
16 agreement, or the subsequent agreement to the purchase
17 of the 100 percent, there was and is an option for
18 Crown to purchase 100 percent or the remaining 75.5
19 percent of the existing licensee. Could you comment
20 on whether there is any chance of that happening?

21 ATTORNEY NEILSON:

22 No, there's no chance of that happening.

23 ATTORNEY LEVENSON:

24 So an approval here by this Board would
25 enable you to --- you, meaning Crown --- to own 24.5

1 percent and we won't be here next month or whatever
2 trying to buy the remainder part of the company?

3 ATTORNEY NEILSON:

4 No, that's correct. We will be a 24.5
5 percent non voting investor.

6 ATTORNEY LEVENSON:

7 I have no further questions at this point
8 of Mr. Neilson.

9 CHAIRMAN:

10 Thank you, Counselor. Office of
11 Enforcement Counsel, do you have questions?

12 ATTORNEY CREANY:

13 Yes, Chairman. Barry Creany on behalf of
14 the Office of Enforcement Counsel. With respect to
15 the ownership interests that Crown will have after a
16 conversion of the B2 units to A2 units, Mr. Neilson,
17 will you speak to the rights that those A2 shares give
18 Crown with respect to the management committee?

19 ATTORNEY NEILSON:

20 Yes. As I understand it, the rights
21 attaching to the A2 units give us a right to one
22 member of the management committee, but that member
23 has no rights to vote. So a right to attend and
24 receive information, but that's all.

25 ATTORNEY CREANY:

1 So with respect to a conversion of these
2 interests, there would be no real impact upon Crown,
3 except for its right to share in revenue that's
4 flowing from CCR at this time?

5 ATTORNEY NEILSON:

6 That's correct and to receive information
7 regarding to the management committee.

8 ATTORNEY CREANY:

9 Have there been any discussions yet with
10 respect to if the Board grants the conversion who
11 might be appointed as a member of the management
12 committee?

13 ATTORNEY NEILSON:

14 No, not yet.

15 ATTORNEY CREANY:

16 And with respect to the conversion, you
17 testified that there's a non conversion with respect
18 to complete buyout of CCR. You've indicated today
19 that there's no intent of Crown to go forward on that
20 option, which expires in April of 2011. I'm curious
21 if you could explain to the Board what precipitated or
22 what is the basis for that decision?

23 ATTORNEY NEILSON:

24 The decision?

25 ATTORNEY CREANY:

1 The decision not to go forward beyond
2 24.5 to exercise its right to come in and buyout the
3 entire company?

4 ATTORNEY NEILSON:

5 I guess a commercial decision and the
6 decision was made when the agreement was restruck to
7 take the minority stake. The option to acquire the
8 full amount, the extra 75 percent was really a bit of,
9 you know, icing on the cake, if you like, something
10 that was quite literally an option for us to consider
11 at some time in the future should we want to do it.
12 Given the pricing of that and given the company's
13 current situation, current strategy, which is to focus
14 primarily on its wholly owned assets in Australia, we
15 decided not to proceed with that, but to formalize our
16 minority investment.

17 ATTORNEY CREANY:

18 And Mr. Neilson, just to clarify for the
19 record, isn't it correct that in March of 2009 when
20 you terminated the initial agreement --- Crown
21 terminated its initial agreement to buy CCR entirely,
22 there was a deal struck at that time to fix the price
23 if you would have gone forward for the full purchase
24 after this 24.5 percent?

25 ATTORNEY NEILSON:

1 That's correct. Effectively, it would
2 have been the same pricing as we had agreed on the
3 earlier deal.

4 ATTORNEY CREANY:

5 Is it your testimony that commercially,
6 right now, your decision is not to go forward on that?

7 ATTORNEY NEILSON:

8 That's correct.

9 ATTORNEY CREANY:

10 Chairman and members of the Board, I have
11 nothing further, but I wanted to clarify with respect
12 to the initial comment from the background
13 investigation report with respect to no issues to
14 preclude suitability. There was, one of the
15 principals who's listed in the background
16 investigation report, one of the principals, Mr.
17 Kenneth McCray Barton, who is the chief financial
18 officer, recently took that position with Crown and as
19 a result, BIE did not completely do his background,
20 but I understand there's been communications between
21 the BIE and BOL relative to the possibility of a
22 temporary credentialing of Mr. Barton, otherwise, all
23 other nine individuals have been recommended as
24 suitable in our background investigation reports. All
25 18 of the Crown entities, likewise, have the

1 recommendation of suitability and Crown, itself, is
2 recommended as suitable, subject to the conditions
3 that have been agreed upon by Crown and counsel.

4 CHAIRMAN:

5 Thank you, Mr. Creany. Cyrus?

6 ATTORNEY PITRE:

7 I'd just like to add that we've been
8 working on this for the last three or four years. The
9 investigators have traveled around the world, Hong
10 Kong, Macau, Singapore, Australia. We've been delving
11 into these issues. We're quite familiar with what New
12 Jersey did. We've spoken to New Jersey with regard to
13 Ms. Pansy Ho and the connection to MGM. Here, we feel
14 fairly confident that based upon the fact that their
15 non voting rights exist, that Crown can't control
16 Canary. That we, based upon the documents that we
17 reviewed, this is purely an investment with 24.5
18 percent ownership. The other thing is that Canary is
19 separate and apart from any businesses jointly owned
20 by Crown and any business association with Mr.
21 Lawrence Ho. Mr. Ho will have no participation and no
22 control over anything that Crown has with Canary, nor
23 will he receive any distributions from that, but it's
24 strictly Crown.

25 Additionally, our investigation has

1 revealed that Mr. Lawrence Ho is not in the same
2 position as Ms. Pansy Ho. Mr. Lawrence Ho, for all
3 intents and purposes, is completely independent, an
4 independent businessman of his father. There is
5 nothing to indicate that he has done anything that
6 would preclude him being found suitable. We did not
7 do a background investigation on Mr. Ho, but we've
8 talked to enough government agencies and we've
9 interviewed a number of individuals that makes us feel
10 fairly comfortable with this deal. However, we will
11 be watching to see if those things change and if
12 anything does change, I can assure the Board that we
13 will take necessary actions.

14 CHAIRMAN:

15 Thank you. Does the Office of
16 Enforcement Counsel have a presentation?

17 ATTORNEY CREANY:

18 We had nothing further from our
19 pleadings. We have no objection to the change of
20 control subject to suitability and our recommendation
21 of conditions with the finding of suitability. But
22 with respect to the second issue on the petition, the
23 change of control fee, it was the position of the
24 Chief Enforcement Counsel --- the Office of Chief
25 Enforcement Counsel, based upon consultations with BOL

1 and other Bureaus within the Gaming Control Board,
2 that the policy that the Board established December
3 18th of 2008 to set the fee at \$2.5 million was a
4 reasonable exercise of discretion and at this time,
5 that's the recommendation relative to this petition,
6 as well.

7 CHAIRMAN:

8 Thank you. Questions from the Board.
9 Commissioner McCabe?

10 MR. MCCABE:

11 Yes, Mr. Chair. I have a couple
12 questions. First, for Mr. Levenson and that. Does
13 the option to still acquire 100 percent of Canary
14 exist in the agreement?

15 ATTORNEY LEVENSON:

16 Yes.

17 MR. MCCABE:

18 So in the future, they could come back?

19 ATTORNEY LEVENSON:

20 No, no, no. It's over, actually, in
21 March. This March.

22 MR. MCCABE:

23 Okay. So that old agreement expires in
24 March?

25 ATTORNEY LEVENSON:

1 Well, there was an old agreement to buy
2 it, 100 percent, and then there was another agreement
3 where you took the B shares and the right to the A
4 shares and right to 100 percent. That agreement, for
5 the purchase of the 24.5 percent will be over in April
6 of this --- of '11. And for some reason, the purchase
7 of 100 percent was going to be over in March of '11,
8 that's how Mr. Neilson can be relatively confident
9 that between now and March of '11 that somehow a
10 billion plus dollars is not going to be raised in the
11 financial markets and that he's going to go ahead and
12 buy the rest of the company.

13 MR. MCCABE:

14 Okay. So as of right now, then --- after
15 March, there won't be any agreements or options for
16 them to buy, that would have to be renegotiated down
17 the line. That helps me out. And now, a little bit
18 more towards BIE and I don't know if you're going to
19 need the investigators. I want to explore a little
20 bit more the relationship with Lawrence Ho, Stanley
21 Ho. And for Counsel's edification, I don't know if
22 you know my background, but I'm very familiar with
23 Stanley Ho. I was in the FBI for 21 years. I was in
24 the FBI organized crime section. I was in charge of
25 the Russian organized crime for the FBI for a few

1 years, so I know of Stanley Ho. Has BIE uncovered any
2 evidence that Lawrence Ho is involved in any illegal
3 activities with his father?

4 ATTORNEY CREANY:

5 The background investigation conducted by
6 BIE did not show that Mr. Lawrence Ho has any type of
7 roles within his father's companies or was under the
8 influence of his father. I mean, that's the bottom
9 line of our investigation.

10 MR. MCCABE:

11 Did the investigation ever uncover any
12 evidence that Lawrence Ho has been convicted or
13 indicted of any offense?

14 ATTORNEY CREANY:

15 He hadn't submitted a background or an
16 application, therefore, a complete background was not
17 conducted of Mr. Ho. I can't speak to the issue of
18 whether he has had any past convictions.

19 ATTORNEY PITRE:

20 The agent's indicating no, there's been
21 no past convictions.

22 ATTORNEY CREANY:

23 And in fact, our reports indicated that
24 Stanley Ho, himself, has not been convicted of any
25 crimes. his father had not been convicted, either,

1 so ---.

2 Mr. MCCABE:

3 I'm well aware of that, too.

4 ATTORNEY CREANY:

5 One thing I wanted to point out,
6 Commissioner, you asked about connections, there is
7 one --- you know, at one point in time, Stanley Ho was
8 involved in Melco, which is the company that was joint
9 venture partner for Crown. In the early days of
10 Macau, he had a lot of power, he had that initial
11 concession with SJM, but also one of his beginning
12 businesses was the Mocha Slot Parlors, and it's my
13 understanding and counsel for Crown can speak to this,
14 but when they purchased their subconcession from Wynn,
15 rather than buying a subconcession from Stanley Ho,
16 it's my understanding that the Mocha Slot Parlor
17 business was transferred over to Melco from SJM; is
18 that correct, Mr. Neilson?

19 ATTORNEY NEILSON:

20 No, Melco always owned Mocha Slot
21 business and let me just say, too, there was never any
22 discussion or prospect of acquiring a subconcession
23 from SJM. That was not on offer and not being asked
24 for.

25 MR. MCCABE:

1 Is BIE counsel aware of any court rulings
2 that had ruled on the relationship, the sins of the
3 father or the grandfather and how it affects or does
4 it carry over to the children?

5 ATTORNEY CREANY:

6 Yes, sir.

7 MR. MCCABE:

8 What are you aware of?

9 ATTORNEY CREANY:

10 Yes. In Pennsylvania, in fact, the
11 Bedford Downs case and counsel for the Horse Racing
12 Commission here, I believe argued that case, they
13 found that Carmen Shick, who was an applicant in the
14 Valley View Downs process who had a grandfather that
15 was associated, in some manner, with organized crime
16 in the past, could not be found unsuitable by virtue
17 of his relationship, his lineage, and I believe that
18 that is, you know, precedent in Pennsylvania. Would
19 you like to hear from counsel for the Horse
20 Racing ---?

21 MR. MCCABE:

22 I trust you.

23 ATTORNEY CREANY:

24 It's the Bedford Downs case.

25 MR. MCCABE:

1 So in essence, no, it doesn't?

2 ATTORNEY CREANY:

3 Not automatically, by virtue of
4 relationship.

5 MR. MCCABE:

6 You've got to independently be able to
7 prove that the son, daughter, whatever, is involved in
8 any type of illegal activities?

9 ATTORNEY CREANY:

10 Correct, sir. And one thing, as Chief
11 Enforcement Counsel Pitre had indicated, there was a
12 lot of discussions relative to that relationship, a
13 family relationship between Stanley Ho and Pansy Ho
14 with respect to MGM's 50 percent interest in the
15 Borgata Casino in New Jersey. They found, on several
16 levels, issues with respect to the dealings between
17 Pansy Ho and Stanley Ho. She was inextricably
18 intertwined in his businesses, a member, either
19 officer or director of many of Stanley Ho's companies.
20 Also, they found that she, herself, had some issues of
21 associations with unsuitable people, but clearly was
22 under the influence of her father and derived much of
23 her investment money in the MGM project to or from
24 Stanley Ho or through his children to her. So I think
25 there was a distinction made there and our

1 investigation did not show that Lawrence Ho had a
2 relationship on any of the companies that are
3 controlled by Stanley Ho.

4 MR. MCCABE:

5 That goes to my next area we'll be
6 looking at. Any type of money laundering? Is there
7 any evidence that Stanley Ho is laundering or
8 providing money, capital, to Lawrence Ho for any of
9 his operations or for this purchase, this change of
10 control?

11 ATTORNEY CREANY:

12 Sir, not in that direction. We did not
13 find evidence that he is laundering money and
14 channeling it to his son. He does have 1.77 percent
15 shares of Melco. He has a very minor percentage in
16 Melco. But with respect to that issue of organized
17 crime and money laundering, our agents developed a
18 great deal of background information from governmental
19 and regulatory agencies relative to Stanley Ho's
20 background and what's going on in Macau today.
21 There's a different scenario of how business is done.
22 One of the key differences is a lot of the casinos
23 operate what are called VIP rooms and there's been
24 organized crime and different types of criminal
25 activity associated with those VIP rooms. So it seems

1 to be one that's --- in all of the casinos that we're
2 aware of, at least, in Macau, it seems to be a popular
3 way of doing business, rather than the operator
4 controlling everything, certain sections of the casino
5 are under the operations of the VIP operator.

6 MR. MCCABE:

7 And the junket ---?

8 ATTORNEY CREANY:

9 And the junket companies that bring in
10 customers, primarily, I believe, from mainland China.

11 MR. MCCABE:

12 In your background, did you query law
13 enforcement, local law enforcement, the regulatory
14 agencies where Lawrence Ho is licensed and did they
15 have any objection or do they have any evidence that
16 he was involved in something he shouldn't have been.

17 ATTORNEY CREANY:

18 I'll have to consult with our agents on
19 that.

20 MR. MCCABE:

21 I got to make them earn their money, they
22 came all the way from New Zealand, Australia, they had
23 a great tour.

24 MR. GINTY:

25 If you're bringing the agent down, I'd be

1 interested in understanding some of the government
2 agencies that we talked to, just to expand on
3 Commissioner McCabe's question.

4 CHAIRMAN:

5 Remember to state your name and spell
6 your name and position.

7 ATTORNEY CREANY:

8 Please state your name and identify your
9 position for the record, please.

10 MR. TEDRICK:

11 Steven Tedrick, T-E-D-R-I-C-K,
12 investigator for the Pennsylvania Gaming Control
13 Board.

14 ATTORNEY CREANY:

15 Mr. Tedrick, were you involved in the
16 background investigation for Crown?

17 MR. TEDRICK:

18 Yes.

19 ATTORNEY CREANY:

20 And in that process, where did you travel
21 to conduct aspects of your background investigation?

22 MR. TEDRICK:

23 To Australia, to Singapore, Macau and
24 Hong Kong.

25 ATTORNEY CREANY:

1 And in those travels, what specific
2 agencies did you obtain the information the shows up
3 in your background investigative report?

4 MR. TEDRICK:

5 In Australia, we met with the Victorian
6 Commission on Gaming Regulation, I believe is their
7 official name, the regulators in Singapore and U.S.
8 Government Officials in Hong Kong.

9 ATTORNEY CREANY:

10 What U.S. Government Officials?

11 MR. TEDRICK:

12 We originally went through the Department
13 of State, but eventually, when we arrived, there was a
14 board, basically, consisting of Homeland Security,
15 Department of State, IRS, Federal Bureau of
16 Investigation and there may be others, I can't recall.

17 ATTORNEY CREANY:

18 Were there any consultations with
19 government agencies or regulators in Macau?

20 MR. TEDRICK:

21 Not that we performed. That may have
22 been done by other agent.

23 ATTORNEY CREANY:

24 In the course of your contacts in this
25 investigation, was there any evidence that you

1 uncovered relative to Lawrence Ho being involved in
2 any organized crime, associated with any people who
3 are involved in organized crime or any convictions by
4 Mr. Lawrence Ho of criminal activity?

5 MR. TEDRICK:

6 No, there were not.

7 CHAIRMAN:

8 Mr. McCabe, do you have questions for the
9 witness?

10 MR. MCCABE:

11 You say another agent may have queried
12 the authorities in Macau?

13 MR. TEDRICK:

14 The case agent, as a process of the
15 investigation, would send out verification letters to
16 various jurisdictions, and in this case, the case
17 agent, I believe, sent one to the Macau authorities.
18 I'm uncertain whether he received a response or not.

19 MR. MCCABE:

20 Barry, do you know --- I didn't see
21 anything in the report, I just want to get it on the
22 record.

23 ATTORNEY CREANY:

24 Nothing that I'm aware of, sir.

25 MR. MCCABE:

1 Thank you. I'm satisfied, thanks.

2 CHAIRMAN:

3 Commissioner Ginty, do you have
4 questions?

5 MR. GINTY:

6 I have a couple just to follow up on Mr.
7 McCabe's line of questioning. What conditions have we
8 put in place that will assure us that this arrangement
9 will not somehow involve Mr. Ho or other elements that
10 we don't want in Pennsylvania?

11 MR. TEDRICK:

12 Sir, as presented in our background
13 investigation reports, we recommended four specific
14 conditions. Without the specific wording, the first
15 condition requires that Crown give notice to the Board
16 and the Bureau of Investigations and Enforcement when
17 there's any contracts of a material nature between
18 Crown and any entities involving Stanley Ho and we
19 define material as being something in a range of a
20 \$500,000 or more.

21 The second one requires notice of any
22 acquisition of any interest in either Crown, that
23 joint entity, which is Crown's operating in Macau or
24 in Melco by Stanley Ho. So if Stanley Ho or any of
25 Stanley Ho's companies acquire any further interest in

1 Crown, Melco or in the joint venture, there's a duty
2 on Crown's part to notify the Bureau and the Board.

3 Third, there is to be no associations
4 between the joint venture parties, including their
5 officers and directors, and those who are involved in
6 operations with CCR. As I read that, the member that
7 they appoint, the non voting member they appoint to
8 that management committee would not be somebody that's
9 also involved in the Macau operations.

10 Fourth is that they establish a risk
11 management committee, I believe they also already have
12 this, but the risk management committee must implement
13 a program to monitor those three prior conditions and
14 give us notice of any non compliance at that time. So
15 in effect, what we've recommended by these conditions
16 that have been agreed to by counsel for Crown and he
17 represents the organization in its entirety is that we
18 are isolating the situation --- we are freezing the
19 situation to its present, isolating Stanley Ho so if
20 there's any creeping or any additional involvement or
21 control or ownership by Mr. Ho that we have notice of
22 it and as Chief Enforcement Counsel said, we would
23 then take action, bring it to the Board's attention.

24 MR. GINTY:

25 And Crown, as well, will have to reapply,

1 what is it, every two years, now? Every three years
2 for licensure, but there is a condition that, you
3 know, you advise us of any changes. Mr. Neilson, good
4 day, I wanted to get that out. I guess you've heard
5 what our concerns are and I would hope you would take
6 that back to Australia with you.

7 ATTORNEY NEILSON:

8 Certainly, sir, and we don't have a
9 relationship with Stanley Ho and we don't intend to
10 have one so we're happy to accept those conditions and
11 as Mr. Creany has said, we've already established a
12 risk management and a compliance committee, as we have
13 to under Nevada Gaming Law and we would propose to
14 widen the charter of those committees to insure that
15 they cover those issues.

16 MR. GINTY:

17 I think you'll find us stricter than
18 Nevada. Mr. Levenson, I have one question for you.
19 You conceived that, notwithstanding that there is no
20 control changing here, there's no voting rights that
21 you're still subject to the change of control
22 provisions?

23 ATTORNEY LEVENSON:

24 Yes, but I'd like to argue the amount
25 when the opportunity arises. But before I do that or

1 before any other questions, I just wanted to make sure
2 that the record was clear with regard to condition
3 number three. Condition number three does recommend
4 that there be no individuals from Melco Crown, as far
5 as office of directors, also, have anything to do with
6 the Pennsylvania licensee, unless those individuals
7 have been licensed in Pennsylvania. Just to clarify
8 that. Is that right, Mr. Creany?

9 ATTORNEY CREANY:

10 That's correct.

11 ATTORNEY LEVENSON:

12 Okay.

13 CHAIRMAN:

14 Other questions? Mr. Trujillo?

15 MR. TRUJILLO:

16 Thank you, Mr. Chairman. Mr. Neilson, I
17 guess what I'd like to get a sense of from you, as I
18 understand there was initially the contemplation of
19 100 percent acquisition and now to a 24 percent more
20 or less acquisition of non voting shares. What's the
21 purpose for the acquisition? What's your business ---
22 you're familiar with what a management discussion
23 analysis is, so if you could kind of give me your MDNA
24 on what the purpose of the 24 percent acquisition is?

25 ATTORNEY NEILSON:

1 We've always like Canary business and we
2 like Canary management, we think they're good managers
3 of casinos. We particularly like the Meadows asset
4 that Canary has developed here. So there are a number
5 of reasons that converged as to why the parties
6 renegotiated their original deal, but certainly, one
7 of Crown's priorities was to insure continued
8 exposure, albeit in a minority position, to the
9 businesses and the management that Canary operates.

10 MR. TRUJILLO:

11 I'm not sure that answers my question.
12 You can easily get exposure to folks without investing
13 the kind of money that's being investing here, so ---.
14 And ordinarily, gaming companies don't park money for
15 the sake of parking it, so I really do want to
16 understand what the purpose of this transaction is.
17 Is it Crown's intention to gain a foothold either in
18 Pennsylvania or elsewhere in the United States?

19 ATTORNEY NEILSON:

20 Commissioner, I don't think it's part of
21 a grand plan to grab a foothold in either Pennsylvania
22 or the United States. We want exposure to the market
23 here. We like the locals operation of the Canary
24 properties, the operations in Nevada are not on the
25 strip, they're not the big resort casinos, they're

1 locals casinos and we can see the merit in that
2 business model and we certainly like the Pennsylvania
3 --- the new jurisdiction, the changes that are going
4 on here, the potential growth here is, I think, where
5 the blue sky is. It's not part of a grand strategy to
6 expand further into the United States. I'm not saying
7 that won't happen at some point in time, but there's
8 no current grand plan to do that.

9 MR. TRUJILLO:

10 And your view of the Pennsylvania market,
11 can you tell us what your view of the future of the
12 Pennsylvania market is?

13 ATTORNEY NEILSON:

14 We have a very positive view of the
15 future of the market. We think the market is being
16 well handled and it's opening up in the initial years.
17 There's some good operators here, there's some good
18 product here. There's probably the opportunity for
19 some further expansion. Obviously, the national
20 economic situation in the United States has put the
21 brakes on a little bit here, but, you know,
22 Pennsylvania seems to have faired better than some
23 other states in that situation. So we have a positive
24 outlook, probably over the medium term for
25 Pennsylvania.

1 MR. TRUJILLO:

2 Incidentally, you had testified that
3 there's obviously been significant involvement by
4 yourself and by Crown and various gaming jurisdictions
5 if I heard you correctly, is that true?

6 ATTORNEY NEILSON:

7 Yes, we're licensed in a number of
8 jurisdictions.

9 MR. TRUJILLO:

10 And at least in the United States
11 jurisdictions, you understand you have to maintain
12 suitability, do you not?

13 ATTORNEY NEILSON:

14 Yes, sir, as we do in other
15 jurisdictions, as well.

16 MR. TRUJILLO:

17 Do you have any misunderstanding or is
18 there any lack of clarity in your mind as to what it
19 means to be suitable? You don't have to define it for
20 me, I just want to understand that ---. I want you to
21 tell me, do you know what it means to be suitable?

22 ATTORNEY NEILSON:

23 I think so. I mean, we've been operating
24 casinos for almost 20 years in Australia and Australia
25 has a very robust gaming regulatory system based

1 largely on the system in both New Jersey and in Nevada
2 and I think I do know what the suitability is. We've
3 retained counsel that we're very confident in. If I
4 have any doubts, I'm sure they'll advise me.

5 MR. TRUJILLO:

6 Thank you. Does Crown or any of the
7 companies affiliated with this transaction have any
8 actions or negative findings found against them in any
9 other gaming jurisdictions?

10 ATTORNEY NEILSON:

11 No, sir.

12 MR. TRUJILLO:

13 I believe there was a discussion of 1.7
14 percent interest that Mr. Stanley Ho had in Melco.
15 The one thing I didn't hear, I know that it was a,
16 obviously, small percentage, but was there any
17 indication that even by virtue, that 1.7 percent
18 interest, that he has any management or any other kind
19 of control over Melco?

20 ATTORNEY LEVENSON:

21 Just a formal role as director or officer
22 at Melco. At one time, he was chairman until March of
23 2006. In 2006, he stepped down and at that point
24 there's been no evidence to indicate it's anybody but
25 Lawrence Ho that is the co-chairman and he's the chief

1 executive officer of Melco. So we don't see anything
2 more than 1.77 percent shareholder interest.

3 There is one thing, just to fill it out,
4 there is a development when they had City of Dreams
5 property out on the Cotai Strip. Under the Cotai
6 Trust, the Great Respect is a trust that was
7 established, there's a trustee that's a formal bank,
8 the Society General is the trustee of that and the
9 beneficiaries named in it are Stanley Ho, Lawrence
10 Ho's mother, who is Stanley Ho's second wife, now
11 they're divorced, and Stanley --- I'm sorry, Lawrence
12 Ho, himself, and Lawrence Ho's offspring. At this
13 point in time, they have these, what are called
14 convertible loan notes that at some point in the
15 future, if exercised, could issue additional shares of
16 Melco to the Great Respect. With our examination of
17 that, the investigators found it's reasonable to
18 regard the interest of Lawrence Ho's mother and
19 Stanley Ho with respect to Great Respect as being more
20 of a life interest, life estate interest, and that
21 upon their death, the interest as a beneficial, the
22 discretionary beneficiary of this trust would be
23 extinguished to the benefit of the other discretionary
24 beneficiaries. So at this point in time, that is out
25 there for possible exercise until September of 2013.

1 It was, I think, in the fall of 2010, it could have
2 been exercised, but they renegotiated to extend it out
3 for financial reasons. It, I guess, would have
4 affected the debt position of Melco, itself. So at
5 this point in time, that's looming out there, but that
6 would be something, I think, that would be required to
7 be disclosed under the recommended conditions.

8 MR. TRUJILLO:

9 And Mr. Neilson, I guess you understand
10 that that would have to be --- if that were to occur,
11 that that would be disclosed to BIE?

12 ATTORNEY NEILSON:

13 Yes, sir.

14 MR. TRUJILLO:

15 Just a couple more questions. With
16 respect to Lawrence Ho, and I went through the
17 investigation, but Mr. Neilson, perhaps if you can
18 describe to me what the relationship between Crown and
19 Lawrence Ho is, I would like to hear it from you.

20 ATTORNEY NEILSON:

21 Sure. Lawrence Ho --- and let me get
22 this clear for the record, too. There are two
23 companies, Melco Crown Entertainment, which is a
24 NASDAQ listed company in which both Crown and another
25 company, Melco International, have a one third

1 interest, the other third is free float that other
2 shareholders own. That functions like a, in my
3 experience, normal publicly traded company. It has a
4 very robust board, ten directors on the board, three
5 Crown appointees, three Melco appointees and four
6 independent members. Lawrence Ho is the co-chairman,
7 along with James Packer, of that board, and Lawrence
8 Ho is the chief executive officer of the company. So
9 on a day to day basis he manages the operations of the
10 company, the senior executive team reports to him. He
11 has a close working relationship with the senior
12 executive team at Crown, particularly James Packer.
13 They speak regularly on Macau matters. It's a good
14 working relationship, but a professional one in the
15 course of, in my experience, a normal public traded
16 company.

17 MR. TRUJILLO:

18 Thank you. And finally, with respect to
19 the option to purchase the 100 percent, I mean, I
20 heard both Mr. Levenson and you, Mr. Neilson, say that
21 that won't happen. A, I assume that that means that
22 you would be willing to make that a condition of this
23 --- approval of this transaction?

24 ATTORNEY NEILSON:

25 The non exercise of that option?

1 MR. TRUJILLO:

2 Yes.

3 ATTORNEY NEILSON:

4 Yes, I think that would be --- if
5 necessary, we'd be prepared to agree to that.

6 MR. TRUJILLO:

7 And I assume that the options are neither
8 put or call options, it's just a standard option as I
9 understand it; am I correct?

10 ATTORNEY NEILSON:

11 Yes.

12 MR. TRUJILLO:

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

14 ATTORNEY CREANY:

15 Mr. Chairman, a couple points to fill in.
16 Commissioner Trujillo, your question with respect ---
17 follow up to the Great Respect. The exercise of the
18 option for the securities reporting purposes, they
19 beneficially attribute interest. We had in our
20 reports earlier that if that Cotai Trust converts
21 those notes into Melco shares, it would have been an
22 8.8 percent interest attributed to Stanely Ho. That's
23 his 1.77 plus the interest that would come with the
24 conversion, but that's --- that basic six percent
25 difference goes to each of the other beneficiaries, as

1 well. So at this point in time, that potential is out
2 there as it was last reported at 8.8 percent. Then
3 Commissioner McCabe had asked about contacts with
4 Macau regulators and Investigator Tedrick spoke to the
5 fact that we made contacts. Our reports do indicate
6 that in August of 2008, we did get a report from Macau
7 indicating that there was no derogatory information
8 relative to Crown in Macau, not specific to that Melco
9 company, the joint venture that Macau's in. There was
10 no derogatory information. We've made recontacts in
11 our recent --- you know, to renew this investigation,
12 bring it up to date, and there's been no responses to
13 a lot of those just issued in the last couple months.

14 CHAIRMAN:

15 Commissioner Trujillo?

16 MR. TRUJILLO:

17 With respect to when you make an inquiry
18 or when any of the investigators make an inquiry to
19 another jurisdiction and you hear nothing back, so the
20 conclusions of the reports are obviously --- we find
21 no reason why not, as opposed to we think that they
22 ought to be --- that an applicant ought to be found to
23 be suitable. If you hear nothing back, if the
24 investigators hear nothing back, what's done to follow
25 up, particularly if you have a jurisdiction like this

1 one where Macau actually seems to be the center of the
2 universe for the Hos and has a significant part of the
3 Crown business. So what do you do to determine
4 whether or not there ought to be further follow up if
5 you don't hear something back from a jurisdiction?

6 ATTORNEY PITRE:

7 Well, in this instance, we will follow
8 up, but normally, the agents are all --- when they're
9 assigned a background, it's their job to keep track of
10 the jurisdictions, anything that occurs with the
11 company are the people that did the background
12 investigations. They're assigned to keep track of
13 anything that pops up on there. So they'll do checks
14 and they'll keep in contact with jurisdictions in
15 order to make sure that there's nothing negative out
16 there. We have some updated information with respect
17 to Mr. Stanley Ho that we can't make public right now
18 which makes us feel even more comfortable with this
19 transaction. So they do keep track of where our
20 licensees are and what's going on in those
21 jurisdictions.

22 MR. TRUJILLO:

23 Thank you. That's all I have, Mr.
24 Chairman.

25 CHAIRMAN:

1 Thank you. Commissioner Coy? Yes, Mr.
2 Levenson?

3 ATTORNEY LEVENSON:

4 If we could stay with Commissioner
5 Trujillo for just one second. With your mention, sir,
6 with regard to a question to Mr. Neilson of whether
7 there would be a problem adding an additional
8 condition of not exercising the 100 percent, there is
9 no intention to access 100 percent. It's obviously
10 two months from now, it would have to be done and
11 completed. Also, it would require your approval and
12 I'm concerned with any kind of condition because it
13 might look to other jurisdictions that somehow you are
14 saying that we could buy 24 and a half percent, but we
15 could not buy 100 percent. No decision has been made
16 on that because it's not before you, so I request that
17 that not be a condition. It doesn't have to be a
18 condition because we'd have to appear before you to
19 get it approved in any event.

20 MR. TRUJILLO:

21 I appreciate that. I understand.

22 ATTORNEY LEVENSON:

23 Thank you.

24 CHAIRMAN:

25 Commissioner Coy?

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MR. COY:

Thank you, Mr. Chairman. Mr. Chairman, I want to really thank Commissioner McCabe for asking these types of questions and while I do not share his extensive background in law enforcement, I share his concerns. Frankly, the more I read about this family, the less I like it and I think it begs for Mr. Pitre's further examination. I'm concerned that --- and I appreciate your response to the question from Commissioner Trujillo about the follow up, but I think this case begs for more follow up and begs for more scrutiny on behalf of our staff and I encourage you in that direction. While not attempting to climb the lioness wall, I do encourage you to be watchful in this regard and I was glad to hear your one statement that something you've learned recently makes you more comfortable with it, but I do encourage you in that regard. And I also encourage you because as I continue to hear of the travels of our BIE agents to these far away places with strange sounding names, that the costs of these investigations are forwarded to the applicant and that they are paid completely, not by tax dollars, but by, indeed, the cost of the investigation by the applicant and I encourage you in that direction, too.

1 ATTORNEY PITRE:

2 We will take that into consideration and
3 I can tell you, Commissioner Coy, that we have
4 traveled a great extent and we've looked at a number
5 of documents. In fact, Crown wasn't even aware that
6 we were going to all these places, they receive a bill
7 and they pay it. So they probably didn't know all the
8 places we've gone until they heard it here today. I
9 can assure you that we'll probably be doing some
10 additional travel at some point in time just to verify
11 and we will reach out to officials. We continue to do
12 so with all our licensees. As you know, Sands has an
13 operation in Macau. We've reached out to them to
14 figure out what was going on in Sands, just like
15 Nevada has. So, you know, if it doesn't happen
16 anytime soon, it will happen in the future and we
17 continue to reach out in those different jurisdictions
18 to insure that we have a good working relationship
19 with all the regulatory agencies around the world.

20 MR. COY:

21 Thank you, sir.

22 CHAIRMAN:

23 Commissioner McCabe?

24 MR. MCCABE:

25 Just one last --- just one more thing.

1 Your interest in converting --- is it --- 24.5. Isn't
2 just in Pennsylvania at the Meadows; right? This is
3 also an interest in their facilities in Las Vegas; is
4 that correct?

5 ATTORNEY NEILSON:

6 Yes, sir, in the parent company.

7 MR. MCCABE:

8 Which leads me, then, do you also need
9 Las Vegas' commission approval to do this?

10 ATTORNEY NEILSON:

11 Yes, we've already been registered in
12 Nevada as a publicly traded corporation and we had
13 approval to acquire the original 100 percent, which
14 has now lapsed, but we now need a separate approval to
15 proceed with 24.5 percent, even though we're already
16 registered in Nevada.

17 MR. MCCABE:

18 So you still need that?

19 ATTORNEY NEILSON:

20 Yes, sir. That's pending, too.

21 MR. MCCABE:

22 And that hasn't been given. I wanted to
23 see if that --- I was aware that you probably had to.
24 I just wanted to see if you had it yet and if you did,
25 that helps. Thank you.

1 ATTORNEY PITRE:

2 Mr. McCabe, they received approval from
3 Nevada previously when they initially sought to
4 purchase 100 percent. We hadn't given our approval
5 and at that time, they decided to go a different
6 route. So they had previous approval from Nevada.

7 MR. MCCABE:

8 I remember. Thank you.

9 CHAIRMAN:

10 Commissioner Ginty, did I see you with a
11 question?

12 MR. GINTY:

13 No.

14 CHAIRMAN:

15 Okay. Before we move off of this matter,
16 let's address the fee. Mr. Levenson, you mentioned
17 before that you had a comment about the change of
18 control fee.

19 ATTORNEY LEVENSON:

20 Since it was open --- the discussion was
21 just open with regard to --- by Commissioner Coy with
22 regard to the amount of money --- the cost of your
23 investigation of your agents and the like. The cost
24 as of June of '09, which is I guess a year and a half
25 ago, we tallied to be \$518,000. We're not

1 complaining, we're just saying that that did not come
2 from tax dollars, that came from Crown dollars and I'm
3 sure ---. Say again?

4 MR. COY:

5 Nothing.

6 ATTORNEY LEVENSON:

7 And so I am sure that we'll be getting
8 another bill and based on your comments, we'll get
9 another bill, but I just wanted to make it clear that
10 we are paying our own investigation. So the \$2.5
11 million should be separated, as I know you will
12 separate the discussion from the costs of the
13 investigation, because we pay that as we go and as,
14 obviously, \$518,000 is a significant amount of money
15 as of a year and a half ago. So we expect that to
16 rise and of course, we'll pay it as soon as we get the
17 bills.

18 My comments with regard to \$2.5 million
19 are the following. In your notice, you reserve the
20 right to impose a lower fee than \$2.5 million.
21 Previously, before, you had the notice it could have
22 been anything, but what you did routinely was impose a
23 \$2.5 million fee, you were going to do that with
24 regard to the Fortress Penn National transaction, but
25 that did not occur and that was for 100 percent of

1 Penn National. If we had gone forward and purchased
2 100 percent of this asset, we would not be having this
3 discussion now. I would tell my client just pay the
4 \$2.5 million because you're buying 100 percent, but
5 your law is that a change of control only occurs over
6 20 percent. So if we start at 20.0001 and we end up
7 with 24.5, we really are buying a de minimis amount
8 above the more than 20 percent threshold and since you
9 have reserved discretion to lower that fee, under
10 circumstances that are not set out particularly in the
11 notice, I would assume, if you reserve the right, that
12 there is a case out there that would beg for a smaller
13 fee, or else there would be no reason to reserve
14 discretion. We have no voting rights, we have no
15 operational rights, we are purely an investor of --- a
16 minority investor, significantly minority investor and
17 one that's just a few percentage points above the
18 threshold. So what I am suggesting and requesting is
19 this Board's indulgence to reduce that fee accordingly
20 because I submit that we should not pay the same fee
21 as somebody like a Fortress, like a Crown, previously,
22 that was coming in, buying an entire company,
23 operating an entire company, hiring and firing
24 employees, as you would in any operation. The only
25 thing that we have here, and we don't have any voting,

1 we have a right to be sort of a fly on the wall in the
2 management committee meetings, but no right to vote on
3 anything that happens with regard to this licensee.
4 So most respectfully, I would request a reduction.

5 In our papers, maybe we were a little
6 aggressive in doing a computation, but our computation
7 was that since we were only a four and a half percent
8 above the 20 percent that we did the math and we came
9 up with \$112,500 --- I'm sorry, \$122,500. However, we
10 request that --- we would request that your
11 consideration, if it's not that amount, an amount of
12 no more than at least 50 percent of the \$2.5 million,
13 which would certainly give you, the taxpayers, a
14 significant amount of money, but would be more in line
15 with what we're actually buying here, as opposed to
16 buying a casino. And in no other matter here in
17 Pennsylvania has anybody bought as little as we have.
18 There's been a 50 percent, there's been a 70 percent,
19 90 percent --- 80 percent in Pittsburgh. And
20 obviously, there was the intention, our intention of
21 100 and Fortress intention of 100, but you have a
22 unique situation here and as I said, to start this,
23 we're paying as we go, so this, obviously, should not
24 be looked at as any kind of need for you to get paid
25 for your agent's activities and travels, that is being

1 paid on an ongoing basis. Thank you.

2 CHAIRMAN:

3 Go ahead, Commissioner Sojka.

4 MR. SOJKA:

5 I just want to make sure that we
6 understand the basis behind your mathematics. I've
7 looked at the math and I find no problem with it, but
8 the whole concept is that it is based on linking the
9 mathematics to the threshold; is that correct?

10 ATTORNEY LEVENSON:

11 That's what we had --- in our petition
12 for a change of control, we linked your threshold of
13 20.001 to our 24.5.

14 MR. SOJKA:

15 Other than for the benefit of the case
16 that you're trying to make, do you see any other logic
17 to connecting that to the threshold? We've done
18 nothing like that in the past.

19 ATTORNEY LEVENSON:

20 Correct, but you've never had anything
21 like this in the past.

22 MR. SOJKA:

23 Understood. But the issue really is,
24 does the threshold, in any way, weigh on the matter,
25 mathematically?

1 ATTORNEY LEVENSON:

2 And that's why I said that might be a
3 little aggressive, then you would say, then, that we
4 should get one quarter of the \$2.5 million, which is
5 the 25 percent --- 24.5.

6 MR. SOJKA:

7 We understand that. Okay. Thank you.
8 That's all.

9 CHAIRMAN:

10 Commissioner McCabe?

11 MR. MCCABE:

12 Yes, I have a question, probably for our
13 chief counsel, point of clarification for me. We're
14 going to charge them a fee this time, now if they come
15 back and want to convert or approach us, change of
16 control another 30 percent or 40 percent, do we charge
17 this each time that they come before us?

18 ATTORNEY SHERMAN:

19 Actually, Commissioner, the provision on
20 a fee for change of control is statutorily defined.
21 As the Board may, in its discretion, eliminate the
22 need for qualification and/or proportionately reduce,
23 but not eliminate the new licensee, otherwise required
24 pursuant to the section. So I would say that, number
25 one, the Board, way back years ago when we had the

1 first change of control, had made the determination
2 that a new license fee of \$50 million, which certainly
3 was within the discretion of the Board to impose, it
4 was probably a little bit overzealous because that
5 license fee is already factored into the purchase
6 price by the acquiring entity. And that's when the
7 board came up with a \$2.5 million presumptive fee for
8 a change of control. I would submit that if we're
9 buying 24.5 percent now and later would exercise the
10 right to buy a portion of the licensed entity, which
11 again met the threshold for a change of control fee,
12 that it would certainly be within your discretion to
13 impose another fee at that time. Those are all ---
14 clearly, we're speaking hypothetically, but those are
15 all matters within your discretion.

16 MR. MCCABE:

17 And then from something that Mr. Levenson
18 brought up, do we have to also determine, then, is
19 this a change of control? If he's saying they don't
20 have any voting rights, they're just going to be a fly
21 on the wall, is there any, really, in fact, a change
22 of control?

23 ATTORNEY SHERMAN:

24 I don't think there's any dispute here
25 that it's a change of control as the term is defined

1 in the statute. It might not be control in the
2 conventional sense of actually exercising dominion
3 over an entity and being in the boardroom, making
4 decisions, but the statute defines a change of control
5 as a change of 20 percent or more of the ownership.

6 MR. MCCABE:

7 Thank you.

8 CHAIRMAN:

9 Commissioner Ginty?

10 MR. GINTY:

11 I think this is a very unique definition
12 of change of control in both corporate and if I recall
13 my tax days. Let me ask a couple of questions. On
14 Hara's, was there --- I mean, that was truly a change
15 of control, was it not? I mean Hara's took it all
16 over?

17 ATTORNEY PITRE:

18 Yeah, that was 100 percent.

19 MR. GINTY:

20 And both in terms of equity interest and
21 voting?

22 ATTORNEY PITRE:

23 Right.

24 MR. GINTY:

25 Pittsburgh, I guess was about ---.

1 ATTORNEY PITRE:

2 About 80, give or take.

3 MR. GINTY:

4 About 80 percent, that would be an 80
5 percent control.

6 ATTORNEY PITRE:

7 Right.

8 MR. GINTY:

9 So this is really the first case we've
10 had where there's no real voting interest being ---.

11 ATTORNEY PITRE:

12 No voting interest, but distributions.

13 MR. GINTY:

14 But distributions. I think that answers
15 --- I just wanted to make sure. This is actually a
16 new case before us.

17 CHAIRMAN:

18 Commissioner Trujillo?

19 MR. TRUJILLO:

20 Mr. Levenson, \$50 million might be
21 aggressive, I think you're quite right, 100 and some
22 thousand is also similarly aggressive, so if we were
23 to buy your argument and not do the 2.5, but a lesser
24 amount, whatever that may be, and if at some later
25 time your client comes in and wants a greater than 24

1 percent interest, I assume you won't say we already
2 paid our change in control fee; am I correct?

3 ATTORNEY LEVENSON:

4 Well, it may not be me because ---.

5 MR. TRUJILLO:

6 Well, it may not be. I mean, that is a
7 serious question. I assume you have no quibble with
8 our chief counsel's view that that would be within our
9 discretion to impose an additional change in control
10 fee?

11 ATTORNEY LEVENSON:

12 I have no problem with that.

13 MR. TRUJILLO:

14 Thank you.

15 CHAIRMAN:

16 Commissioner Sojka?

17 MR. SOJKA:

18 Again, I just wish to urge my colleagues
19 here to --- I have no problem with our considering a
20 different kind of fee or a different level of fee
21 based on the definition of control, but again, talking
22 about matters of precedence. I would really like to
23 recommend that we avoid linking this kind of
24 mathematics to a threshold which really does not tie
25 into this control issue. I think that would be a bad

1 way for us to go.

2 CHAIRMAN:

3 So noted. Commissioner Angeli, going
4 once, going twice? Okay. That concludes today ---
5 before we do, any final comments from anybody? Any of
6 the legal counsel?

7 ATTORNEY PITRE:

8 No, you have our recommendation.

9 ATTORNEY LEVENSON:

10 We have nothing further from the
11 Applicant.

12 MR. GINTY:

13 I think we have some more thinking to do
14 and I'll be clear, thinking to do on the fee
15 arrangement. So I'm going to move that we ---.

16 CHAIRMAN:

17 Can I just --- hold off on that for one
18 second?

19 MR. GINTY:

20 Yeah, sure.

21 CHAIRMAN:

22 That concludes today's public hearing on
23 this matter. The Board did discuss this matter at
24 length in Executive Session yesterday and because this
25 is a late addition to the agenda, as well as the fact

1 that it involves not only deciding this petition, but
2 potentially, the original licensure of 28 entities or
3 people, the Board is not comfortable in deciding this
4 matter today. Rather, I believe the Board would like
5 to take this matter under advisement and table it
6 until the Board has had time to review the pleadings,
7 the evidence presented today, as well as suitability
8 reports for all of the purchasers associated with this
9 transaction. With that being said, Commissioner
10 Ginty, I will entertain a motion.

11 MR. GINTY:

12 I would move to table the matter.

13 MR. MCCABE:

14 Second.

15 CHAIRMAN:

16 All in favor?

17 ALL SAY AYE

18 CHAIRMAN:

19 Opposed? The motion is tabled, the
20 motion passes. Thank you.

21 * * * * *

22 HEARING CONCLUDED AT 11:30 A.M.

23 * * * * *

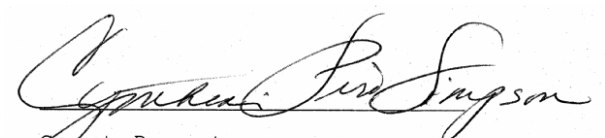
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CERTIFICATE

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I hereby certify that the foregoing proceedings, public hearing held before Chairman Fajt, was reported by me on 01/06/2011 and that I Cynthia Piro Simpson read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.



Cynthia Piro Simpson
Court Reporter