

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: HARRAH'S CHESTER CASINO AND RACETRACK
PETITION FOR A BOARD ORDER PERMITTING
THE OFFERING OF SENIOR SECURED NOTES

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PUBLIC HEARING

* * * * *

BEFORE: GREGORY C. FAJT, CHAIRMAN
Raymond S. Angeli, James B. Ginty,
Keith R. McCall, Anthony C. Moscato,
Gary A. Sojka, Kenneth I. Trujillo
(via telephone); Members
Jennifer Lang, Representing Robert M.
McCord, State Treasurer
Robert Coyne, Representing Daniel P.
Meuser, Secretary of Revenue
Matthew Meals, Deputy Secretary of
Agriculture, Representing George Greig,
Secretary of Agriculture

HEARING: August 18, 2011, 11:34 a.m.

Reporter: Tyler S. Rhoads

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LOCATION: North Office Building
401 North Street
Harrisburg, PA 17120

WITNESSES: Eric Hession, Lynne Hughes, Ron Baumann

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CHAIRMAN:

Our final hearing this morning is Harrah's Chester Casino & Racetrack, a Petition for a Board Order Permitting the Offering of Senior Secured Notes. All parties providing testimony, please come forward and identify yourselves. As previously mentioned, we would ask that you spell your names for the court reporter. And also, any non-lawyers who will be offering testimony today should stand to be sworn in.

ATTORNEY DIGIACOMO:

Good morning, Mr. Chairman, ---

CHAIRMAN:

Good morning.

ATTORNEY DIGIACOMO:

--- members of the Board. Frank DiGiacomo from the firm Duane Morris, D-I-G-I-A-C-O-M-O. I have with me today from both Chester Downs and Caesars Entertainment, to my immediate left is Eric Hession. He's the Vice President of Finance and the Treasurer for Caesars Entertainment. H-E-S-S-I-O-N. Next to him is Lynne Hughes, VP of Legal Affairs and chief legal officer

1 for the Eastern Division of Caesars Entertainment.
2 And Ron Baumann, who is the Senior Vice President and
3 General Manager of the Harrah's Chester Casino.

4 CHAIRMAN:

5 Now, Mr. DiGiacomo, could you please have
6 any of the non-lawyers stand and be sworn in?

7 -----

8 WITNESSES SWORN EN MASSE

9 -----

10 CHAIRMAN:

11 Thank you. And with that, Mr. DiGiacomo,
12 you can begin.

13 ATTORNEY DIGIACOMO:

14 Bear with me for a moment.

15 CHAIRMAN:

16 Sure.

17 ATTORNEY DIGIACOMO:

18 Thank you, Mr. Chairman. Thank you for
19 the opportunity to appear here today. And I'd be
20 remiss if I don't thank staff for the quick
21 turnaround. BIE, the Office of Enforcement Counsel
22 (OEC), Financial Investigation Committee, along with
23 the Chief Counsel's Office, did a wonderful job in
24 turning this matter around when it became apparent
25 that we needed to file a petition to seek Board

1 approval.

2 I think more background is also
3 appropriate. Chester Downs, in addition to having its
4 obligations under the Gaming Act and the regulation,
5 entered into a Statement of Conditions with the Board,
6 which sets forth and requires it to provide
7 notification with respect to its financial status
8 generally but also with respect to changes in debt
9 position. We, as a licensee, have --- since we were
10 licensed by this Board, we've repeatedly done that and
11 have continued to do so. Most recently, in May of
12 this year, we notified the Board, through Licensing,
13 of our intention to refinance existing debt. We
14 supplemented those notifications and in July the
15 Board's request for BIE, to OEC requested that we file
16 this present petition here today.

17 Concurrent with that, we also
18 provided --- filed a motion for confidentiality
19 because we provided a significant amount of detailed
20 findings from information, which it's our position
21 comes under the confidentiality provisions of the
22 Gaming Act. And in fact, the OEC has joined in that
23 motion, in connection with their submission as well.

24 Another issue I need to bring to the
25 attention of the Board is because of that detailed

1 financial information and I think the relief we're
2 seeking here today, there may be an implication with
3 regard to security laws that may require us to request
4 a closed executive session to answer those questions
5 more specifically.

6 There are essentially two ways to tell a
7 security under U.S. security laws. You register the
8 security or you seek an exemption. And registrations
9 are very rare for this type of debt offering we are
10 proposing. Almost all these types of securities
11 proceed through the exemption process. They're more
12 generally known as private offerings. In order to
13 avail ourselves of that exemption, federal security
14 law and the interpretation by the FCC have placed
15 significant restrictions, ones we can publicly
16 disclose. And those public disclosures would include
17 disclosures here today in this public hearing as well.
18 Therefore, it's customary in these types of offerings
19 to provide very limited public information. We
20 provide detailed information to those private
21 qualified investors who are going to purchase the
22 offering. However, public disclosures through any
23 medium can jeopardize that exemption. I bring this up
24 at the beginning of the presentation because I know
25 that the Board has, to its credit, historically gone

1 to great lengths to conduct these public hearings in
2 an open manner, as required by law. With that said,
3 under the Pennsylvania Sunshine Act and the
4 confidentiality agreement with the Gaming Act, they
5 allows us to strike that balance between public
6 disclosure and --- I think protection is a requirement
7 that we need to comply with under U.S. security laws.

8 I think we are prepared to proceed with
9 our presentation that we can make public. I suspect,
10 however, though, there may be questions from this
11 Board, perhaps from OEC, that may require us to go to
12 a closed executive session in order to answer those
13 questions.

14 CHAIRMAN:

15 Let's do this, Mr. DiGiacomo. Why don't
16 you proceed with your presentation, get as much
17 information as we can under public domain. We'll then
18 go to Enforcement Counsel, see what their questions
19 are and whether you've answered those in the public
20 domain, and then we'll go to the Board's questions.
21 And if we need to have an executive session at that
22 time, we'll have the executive session of the Board.
23 And then we'll just continue that executive session
24 with our other matters. After you're finished, we'll
25 go into the other two hearings that we've had today.

1 So why don't you go ahead with your presentation, and
2 then we'll go to Enforcement Counsel for their
3 questions and presentation.

4 ATTORNEY DIGIACOMO:

5 I appreciate your consideration.

6 MR. TRUJILLO:

7 Mr. Chairman?

8 CHAIRMAN:

9 Yes, Commissioner Trujillo.

10 MR. TRUJILLO:

11 Just one question on the confidentiality
12 issue. If I can ask this preliminarily because it may
13 make this go faster. But is the request on
14 confidentiality on the petition --- as I understand
15 the confidential petition that you're seeking to be
16 treated as confidential is the attachments to the
17 petition, not the petition itself. Am I accurate or
18 are you seeking for the petition itself to also be
19 considered confidential?

20 ATTORNEY DIGIACOMO:

21 Commissioner Trujillo, I think to the
22 extent that the petition made certain averments, we
23 were also requesting that that be maintained
24 confidential as well.

25 MR. TRUJILLO:

1 I would just --- as you are going through
2 your presentation, if there's somebody there who can
3 be looking at that. Because as I --- in my review of
4 the petition, I understand that it's not very
5 detailed. So, I just want somebody to be able to
6 address, you know, --- by and large, most of it could
7 be considered to be non-confidential. But if you can
8 just deal with that. And similarly Cyrus, on your
9 side, I understand that the attachments have the
10 detailed information, but you don't --- I'd like you
11 to keep as much of it on the record, personally, as
12 possible. Thank you, Mr. Chairman. That's all I
13 have.

14 ATTORNEY DIGIACOMO:

15 Mr. Chairman, just to address that, I
16 would offer a compromise. I agree that there are
17 portions of the petition that are more historical in
18 nature and don't implicate the security law issues
19 that I discussed. Perhaps a redacted form of the
20 petition in terms of some of the more detailed
21 requests would be more appropriate, if there's a
22 compromise position available.

23 CHAIRMAN:

24 I'm looking over at our Chief Counsel and
25 Enforcement Counsel?

1 ATTORNEY MILLER:

2 Yes, Mr. Chairman. This is Dale Miller,
3 D-A-L-E, M-I-L-L-E-R, Deputy Chief Enforcement Counsel
4 for the Eastern Region. I just want to add that when
5 we responded to the petition, and Mr. Trujillo, you
6 are correct that it's the attachments to our response
7 that are confidential. Those are FIE reports that are
8 confidential. But within our response to the
9 petition, we refer to those reports and I believe in
10 some instances actually may quote from them. And to
11 that extent, we've asked that our response also be
12 confidential.

13 CHAIRMAN:

14 Okay. Commissioner Ginty?

15 MR. GINTY:

16 And not only in this instance, but in the
17 future we should at least provide redacted. I mean,
18 if we're filing petitions that themselves have
19 confidential information in it, fine, I understand
20 that and we can grant the confidentiality. But both
21 in terms of the petition and responses that are filed,
22 we should receive a public document that's, you know,
23 appropriately redacted so that at least people know
24 the nature of the matters in sum.

25 CHAIRMAN:

1 I agree. I think what we'd like to do is
2 at the conclusion of the hearing; we can go into
3 executive session if we need to do that. You can work
4 with our lawyers, OEC and Chief Counsel to come up
5 with a redacted version that everybody's comfortable
6 with. But I do agree with Commissioner Ginty and
7 Commissioner Trujillo that something needs to be on
8 the public record and it can't be the whole petition
9 as being a confidential document.

10 ATTORNEY DIGIACOMO:

11 I understand and appreciate that, and I
12 think it's an excellent suggestion. I would just add
13 that, in this particular instance, since --- assuming
14 we are able to proceed with the offering, many of
15 those issues regarding confidentiality requests will
16 be moot post offering. They're not necessarily ---
17 some of the information is traditional confidential
18 financial information, and I agree that's primarily in
19 the attachment. However, some of the averments in the
20 petitions may implicate the security laws that I
21 discussed earlier and post issuance of the security
22 will no longer an issue.

23 CHAIRMAN:

24 Understood. Okay. Why don't we proceed
25 with your presentation?

1 ATTORNEY DIGIACOMO:

2 Thank you. I'd like to turn it over to
3 Mr. Hession.

4 MR. HESSION:

5 Thank you, Chairman, members of the
6 Commission and staff. Once again, thank you for
7 giving us the opportunity to come and talk to you
8 today. As we mentioned earlier, we wanted to provide
9 you with some information about our financial
10 standing, as well as give you an update on the
11 property in general and some of the activities that
12 we're undertaking. In particular, as we mentioned,
13 I'm not able to provide any forward-looking statements
14 or projections in terms of our financial standing, but
15 what I can do is talk about our historical performance
16 as well as some of the metrics that I think are
17 important when you're considering the amount of debt
18 and interest and leverage that's on a particular
19 property. So, with that, I'll move forward.

20 The first slide we show here is an
21 adjusted cash flow statement. And what --- these are
22 in millions of dollars. And we're trying to show that
23 the property is a very substantial operation. We
24 generate a significant amount of cash flow. You can
25 see that the cash flows have been steadily growing in

1 2010 and '11, touching \$70 million. We'd expect the
2 trend to continue, particularly with the introduction
3 of table games. That's a very welcome result of the
4 property. And the amount of cash flow shown here is
5 before interest, amortization and capital. And the
6 objective is to show that we project for the last 12
7 months we would have \$72 million to spend on interest,
8 amortization and capital reinvestment in the property.

9 Turning to the next slide, another key
10 metric that we look at when we're considering certain
11 financing is the amount of debt per EBITDA dollar. We
12 put up some columns, and what I've shown for Chester
13 itself here, the existing debt to EBITDA ratio.
14 That's 3.3 times. We consider that very reasonable
15 and on the lower end of the scale of single property
16 assets.

17 Another key metric that ---.

18 CHAIRMAN:

19 Can I interrupt you? Can we have copies
20 of that? Yeah, it is very difficult to see that.
21 Could we either have one of your copies or two of
22 yours and maybe from Enforcement Counsel? Thank you.
23 Mickey, can you grab those? Thank you. Can we start
24 over?

25 MR. HESSION:

1 Absolutely.

2 CHAIRMAN:

3 Thank you.

4 MR. HESSION:

5 I apologize for that. Turning to ---
6 turning to slide one, as I discussed, this is a figure
7 that we calculated for our property itself that shows
8 the historical cash flow that's available for
9 interest, amortization, capital reinvestment in
10 property so far. In 2009 it's around \$50 million and
11 then the trailing 12 months it's close to \$70 million.

12 Turning to slide two, this is the debt to
13 EBITDA ratio slide. On the far right-hand side it's
14 3.3 times for Chester. Again, that's the trailing 12
15 months or the last four quarters metric. We're
16 showing some costs, and these costs are reflected
17 based on the anticipated amount of EBITDA that would
18 be generated per the rating. So the actual results
19 can certainly be different in the properties as they
20 became operational.

21 Turning to the next slide, another key
22 metric that's used to evaluate the amount of financial
23 stability a property has with respect to the amount of
24 debt or leverage on it. It's the EBITDA to interest
25 coverage. We're showing Chester on the left-hand side

1 as being on the higher end, currently at
2 two-and-a-half times. That means we generate
3 two-and-a-half times more EBITDA than we do interest
4 expense on a per-year basis. And once you get down to
5 a leverage, let's say, of one or one-and-a-half times,
6 then you get concerns about whether there's sufficient
7 capital or the ability to spend on other items besides
8 interest. And so when the analysts look at this
9 ratio, you know, we've drawn a line around
10 two-and-a-half times, which is very good coverage for
11 this metric.

12 Turning to the next slide, we wanted to
13 provide some information on just the general stability
14 of the property. You can see that we've grown gross
15 gaming revenues throughout the history of the
16 property, including the last trailing 12 months at
17 \$407 million. From a net gaming revenue perspective,
18 that's also up on a compounded annual growth rate
19 basis. But we did have a slight decline in 2009 of
20 3.8 percent. And I'll also point out you can see in
21 2011, the trailing 12-month period, the strong impact
22 that table games had on the operations.

23 The next slide, slide five, here we show
24 the quarterly EBITDAM for the property. This is
25 another metric of essential cash flow that's available

1 for use to further the property. You can see that in
2 the first and second quarter we've improved the
3 results significantly, up 30 percent. And then the
4 most recent quarter is 51. Obviously, those are
5 tremendous results and you would not expect growth
6 rate of that type to go forward, but it does show the
7 stability of the property. Even in the prior four-
8 quarter period you can see that the cash flow is
9 extremely stable and --- between \$15 million and \$20
10 million quarter basis.

11 So, with that I know it's a historical
12 looking very high level. And as we mentioned, we'd be
13 very happy to address more details and specifics about
14 plans and about the financials in a private setting.

15 CHAIRMAN:

16 Thank you.

17 MR. BAUMANN:

18 Good morning, Chairman. Good morning,
19 Commissioners. Ron Baumann, Senior Vice President and
20 General Manager of Harrah's Chester. It's my pleasure
21 today to walk you through a little bit of the property
22 and how we're doing and how we're thinking about the
23 property.

24 The first slide really shows the
25 strategic report of Harrah's Chester. It is a \$400

1 million initial investment, of which we put in an
2 additional \$50 million since 2007, when the property
3 first opened. It is a converted Brownfield site, as
4 you all know, and it is of extreme value to our
5 organization.

6 Our major accomplishments if I look at it
7 since opening were ten million visitors, 2.9 visitors
8 this year, which is up over the previous year. We
9 have created 1,800 jobs at Harrah's Chester, many of
10 those going to Chester residents. We remain committed
11 to the community. We've donated over \$1.5 million in
12 charitable contributions. And we've also been
13 steadfast in purchasing products and services from in
14 Pennsylvania. Thus far this year, we've purchased
15 about \$2.7 million from PA firms.

16 The other stat that's not on here we're
17 proud of is our racing operations. We are one of the
18 few tracks that have shown growth. We showed --- race
19 numbers were up last year and we are up this year
20 also. So it's something we are very, very proud of.
21 And our partnership and operation with the PHHA, and
22 we look forward to growing the racing community
23 further. That relationship and activity I think that
24 everybody is looking for is alive and well out of
25 Chester.

1 We've been a good steward to the
2 Commonwealth, providing almost \$1 million in tax
3 revenues in various forms that are here in the state.
4 In addition to that, we've also provided about
5 \$9 million in annual --- through our annual
6 contributions. We're on top of the public and state
7 funds. It's a good partnership that we have.

8 From a performance standpoint, through
9 June --- these numbers are mainly through June, our
10 last reported quarter. Our net revenues are up, 15,
11 16 percent. We are, again, up in visitor count. From
12 a Harrah's --- or a Caesars' portfolio perspective,
13 this property is vitally important and one of the top
14 performers in our company. Generally speaking, we are
15 in the top five or the top ten in every single
16 category our company measures, revenue, slot revenue,
17 table win, poker win, EBITDA. We are one of the top
18 performing properties.

19 From a tri-state area, when we looked at
20 a tri-state through June, we are second in the slot
21 wins, third in table win and second in poker win. If
22 you look at us and throw New Jersey in, they're
23 actually fourth on --- fourth on slots, not third.
24 So, I apologize for that error. So, the property
25 performs significantly well whether we judge it from a

1 national perspective or what it represents to Harrah's
2 and for Caesars in our portfolio or whether we look at
3 it in terms of the tri-state area, competitive
4 landscape. You can see we currently have about a
5 12-percent share if you look at it from a state
6 perspective. And we have a 27-percent share from a
7 local perspective. My job is to look locally. And
8 when we look locally, we consider Delaware one of our
9 chief competitors. One unique thing about our
10 property is we have three competitors within 25 miles,
11 Delaware, Parx being a competitor. So we've got about
12 a 27-percent share.

13 Capital planning. As I said, we have
14 about \$450 million invested in the property. This
15 year alone, we are tracked to put into the property
16 about \$1.7 million. Approximately one million of that
17 is dedicated to slot --- new slot technology, which is
18 currently employed at the property. We were the first
19 in the region to offer that. It is not available at
20 all Atlantic City properties as of yet. We're one of
21 the first to get it. Finally about \$700,000 into
22 property improvements, from the creation of a WSOP
23 tournament to other forms of restaurant and property
24 maintenance. We have about \$200,000 left unspent for
25 spending over the next two months. So we remain

1 steadfast in maintaining the property.

2 Looking forward to 2012, we are currently
3 in our capital planning and approval process. What I
4 can tell you is that our capital ask and request will
5 focus in on three things, one, revitalizing our
6 restaurants, all of our restaurants. We are currently
7 in negotiations now with bringing in different product
8 there. Two is we are looking at expanding our
9 parking. Our visitor count has run into a great
10 problem, that is we don't have enough parking. And
11 it's one of those great problems to have. And then
12 three is --- it will focus again on slot technology.
13 We are currently on track to employ the technology you
14 see in here. They call it the GPG. We will be the
15 first to offer that in the Eastern Region. That will
16 be introduced at Harrah's Chester. Again, a very,
17 very important aspect to us, and we spent a lot of our
18 time, effort and energy to think about how to grow the
19 business for the benefit of the organization and all
20 the stakeholders.

21 From a marketing perspective, we are on
22 track this year to book a record amount of events on
23 the property, some events such as boxing and MMA and
24 shows. We will, by the end of the year, have
25 somewhere north of 18 events. I think the most we

1 ever did was eight. We brought the World Series Poker
2 Tournament. Thanks to the Board and Kevin and his
3 team for helping us launch that from the State of
4 Pennsylvania. And in September we're going to be
5 doing our first foray into utilizing the infield of
6 track in some events. It will be our first test. We
7 plan on doing many more of those. Specifically next
8 year, in the month of September, we partnered with the
9 Racing Commission and Harness Commission to alter the
10 schedule of racing a little bit the last --- do a
11 little something different in September, when the
12 market allows for events.

13 We have spent almost \$10 million on
14 advertising since we've opened up. This year alone we
15 will spend over \$2 million. We have a commercial
16 running now. I believe for those of you in the east
17 that promotes Harrah's. We continue to leverage and
18 utilize total rewards as the number one reason why a
19 customer visits our property. We do surveys that say
20 why are you here, why are you with us. The number one
21 reason is that we total rewards in a rewards program,
22 which is the ensuing program. And we are in the
23 process with --- waiting with bated breath with Kevin
24 to launch slot tournaments and look forward to the
25 approvals to come forward on that guidance from Kevin

1 and his team. So very aggressive in our marketing
2 efforts.

3 Careers. Again, one of our chief
4 stakeholders in Caesars is always our employees.
5 We're proud that we have 1,800 committed employees.
6 We offer an excellent compensation package with full
7 benefits. Our average wage, not including benefits,
8 from an hourly perspective is over \$10 an hour. Our
9 average salary is \$55,000 an hour (sic), not including
10 benefits. It's a life-changing salary for many, many
11 individuals. As you know, when we launched table
12 games, we provided free training to dealers. Many of
13 those individuals were unemployed in the State of
14 Pennsylvania. We currently have a great relationship
15 with many union partners. We employ over 700 union
16 employees. And we've spent a lot of our time, effort
17 and energy thinking about and partnering with the City
18 of Chester and how can we help the city and the youth
19 of that city share in the success of the property and
20 the initiatives that take place through gaming.
21 That's a big part of that we want to do.

22 From a community standpoint, we're proud
23 that we contribute over \$1.5 million to various
24 charitable organizations, some of them a one-time
25 grant and many of them continuous. Two of them I'd

1 like to talk about. One is the Chester Resident
2 Scholarship Fund, which is \$400,000. We began that in
3 2008 and provide \$100,000 each year for scholarships
4 for Chester residents. So far, 105 individuals have
5 taken advantage of that scholarship. I think that's a
6 pretty impressive number. This year, on top of that,
7 we have introduced Project Transition, which is a
8 \$120,000 annual grant. And that is to help people
9 achieve the dream of going to college. So, this is
10 dedicated to 11th and 12th graders in the City of
11 Chester who have the academic ability to get to
12 college. And these are to give them additional skills
13 and competency to help them realize their dreams and
14 remain and not drop out once they get into college.
15 So we just launched that. And we also just launched
16 our Walk to Work Program in 2000 --- late 2010, where
17 we provide for the family and for any individual who
18 wants to purchase a home in Chester and work in
19 Chester. So, again, I'm very proud of where we are
20 from a community standpoint.

21 Diversity and inclusion is alive and well
22 at Chester. Forty-six (46) percent of our staff are a
23 minority and 43 percent are women. We have taken on a
24 much more aggressive approach also with minority
25 procurement, posting various vendor fairs in

1 Philadelphia and within the community to make sure
2 that everybody shares in the success of Harrah's
3 Chester.

4 Again, we talked about our commitment to
5 PA and make sure that some of the money stays home, so
6 to speak. And we have also taken very serious our
7 commitment to local vendors in Chester --- local,
8 meaning Chester. And we purchased about \$350,000
9 worth of goods and services from the different
10 businesses in the City of Chester so far this year.

11 So, again, to summarize, I think the
12 property is performing well. It is of great
13 importance to our organization, and we are firmly
14 committed to both the success of the property and the
15 success of all stakeholders, employees, customers, the
16 Commonwealth, the community, and we look forward to
17 sharing more information.

18 CHAIRMAN:

19 Thank you.

20 ATTORNEY DIGIACOMO:

21 Nothing further at this time.

22 CHAIRMAN:

23 Yes, Commissioner Ginty.

24 MR. GINTY:

25 I know there's a lot of confidential

1 information here, but I mean, can't you share with us
2 what the nature of the refinancing is?

3 MR. HESSION:

4 That's actually not allowed under the FCC
5 rules because it would be considered a solicitation.
6 So, I'm not allowed to talk to you what form it's
7 going to be in, how much it's going to be or any of the
8 projections to support it. I apologize. But if we do
9 that, then the FCC could rule that we're no longer
10 exempt under the qualification. We would then have to
11 go through a multi-month process, and we may --- may
12 need an extended period to complete the refinancing.

13 MR. GINTY:

14 Cyrus, do you agree with that?

15 ATTORNEY PITRE:

16 I concur.

17 CHAIRMAN:

18 All right. Thank you for your
19 presentation. OEC, do you have questions for any of
20 the witnesses?

21 ATTORNEY PITRE:

22 Not any that --- unless we have some
23 general questions, not any that we could ask the
24 company may have answers.

25 CHAIRMAN:

1 Okay. Are there any general questions,
2 Mr. Miller?

3 ATTORNEY MILLER:

4 Mr. Chairman, I think what the Petitioner
5 here is trying to do is obviously ask the Board's
6 permission to make a bond offering. And I think the
7 main question that we would like to know --- and I
8 must say that our position I think is quite clear
9 through our response and our objection to this in the
10 pleading, but I think what we would like to know and
11 the public would like to know is what effect this will
12 have on our Pennsylvania casino at Harrah's Chester.
13 You testified that the casino is doing great. It's
14 one of your top performers, and yet you want to do
15 this refi. And I think you can state publicly why
16 you're doing it and to what effect it will have on our
17 casino.

18 ATTORNEY DIGIACOMO:

19 I'm not sure we can say that publicly,
20 certainly not completely. Let's put it that way. I
21 would hope it wouldn't have a negative effect.

22 MR. HESSION:

23 Maybe I should just jump in --- this may
24 not address your question entirely, but when we look
25 at the portfolio of properties that we have under the

1 Caesars brand, the Chester property is certainly one
2 of the outstanding performers. It's doing very well.
3 It generates a significant amount of EBITDA for our
4 portfolio. When our owners and the potential equity
5 holders in the company look at our portfolio, what
6 they're looking for is a long-term ability to sustain
7 and grow revenue. And it would not be in our best
8 interest to put leverage on a property that would then
9 enable or not enable us to invest appropriately in the
10 property to make sure that we're doing the right
11 things we need and to really put strains on that
12 property from a physical plant standpoint or from a
13 marketing standpoint. So, although I can't get into
14 the details of the offering and the amount of proceeds
15 that we would plan to raise, what I can say is that,
16 looking at the range of comps that we provided and
17 looking at our ability to service the debt and to make
18 payments, we're very confident that it won't impact
19 our ability to reinvest in the property at all.

20 CHAIRMAN:

21 Mr. Miller?

22 ATTORNEY MILLER:

23 That's probably the only question we have
24 that would be subject for a public hearing at this
25 point.

1 CHAIRMAN:

2 Okay. Commissioner Ginty?

3 MR. GINTY:

4 Before we go --- are we going into
5 executive session?

6 CHAIRMAN:

7 Well, no. I was going to have Mr. O'Neil
8 tell us why certain refinancings are petitions before
9 the Board and why certain ones are not and get into a
10 little bit of detail of what he does to review those
11 refinancings.

12 MR. GINTY:

13 And if I might just --- before we go into
14 executive session, I'd like to have our Chief Counsel
15 testify as to what the standard of review will be on
16 the general finances so that, you know, we all will
17 know what the measure there is going to be?

18 MR. TRUJILLO:

19 Mr. Chairman?

20 CHAIRMAN:

21 Yes, Commissioner Trujillo.

22 MR. TRUJILLO:

23 Before we go over to Doug, one question I
24 think, which I'm trying to ask it in a way that
25 doesn't implicate the FCC concerns but I think needs

1 to be answered, and that is without the amount or the
2 details of it, you know, what are the general purposes
3 of the sources of the refinancing?

4 CHAIRMAN:

5 Can either one of you answer that
6 question? Do you need more clarity on the question?

7 MR. HESSION:

8 I think I can --- other than --- again,
9 unfortunately, I'm not sure I feel comfortable
10 answering that in a public setting. I understand the
11 question clearly. I'm happy to provide it. I would
12 say the one thing, you know, that I can certainly
13 comment on is that at the time when we put the initial
14 debt in place on the property, the economic
15 environment was significantly different. Although the
16 last few weeks it proved to be challenging as well, it
17 was a different role two years ago. And the interest
18 rates that we're paying right now is 12 and
19 three-eighths percent interest. So one of the
20 significant objectives of this transaction would be to
21 lower the interest rate significantly. And then what
22 I'd like to --- if we could, in a private session, get
23 into the details obviously in terms of the magnitude,
24 the operating and what we do with the sources that we
25 have.

1 CHAIRMAN:

2 Okay. I think what makes the most sense
3 here is, you know, we're dancing around all these
4 questions and answers. Let's hear from Mr. O'Neil.
5 Give us an overview of what matters need to come
6 before the Board on these refinancings and why certain
7 matters do and certain matters don't. Talk a little
8 bit about what you do when you're looking at a
9 refinancing, both those that come before the Board and
10 those that don't. We can break for executive session,
11 get into more detail. And then once we have executive
12 session, if we come to agreement as to what we can go
13 out and disclose to the public that doesn't give you
14 heartburn and helps us with transparency, we can come
15 back out and disclose those things. Sound like a game
16 plan?

17 ATTORNEY O'NEIL:

18 It does. Thank you.

19 CHAIRMAN:

20 Okay. All right. Mr. O'Neil, why don't
21 you talk to us ---?

22 ATTORNEY MILLER:

23 Can I ask what would be preparatory
24 questions so we can --- just to get the record
25 clarified, Mr. Chairman?

1 CHAIRMAN:

2 Yes.

3 ATTORNEY MILLER:

4 I would say, first of all, that Mr.
5 O'Neil is an attorney. He has not been sworn because
6 he is a licensed attorney. I want to say that up
7 front. And I would just ask him, your name --- spell
8 your last name for the record, please.

9 ATTORNEY O'NEIL:

10 Rich O-N-E-I-L.

11 ATTORNEY MILLER:

12 And what is your position with the PGCB?

13 ATTORNEY O'NEIL:

14 Supervisor of the Financial
15 Investigations Unit of BIE.

16 ATTORNEY MILLER:

17 And as supervisor of the Financial
18 Investigations Unit, the BIE, what is your job?

19 ATTORNEY O'NEIL:

20 To review the financial aspects of all
21 the applicants and licensees on an ongoing basis.

22 ATTORNEY MILLER:

23 When a processing licensee refinances or
24 borrows funds, is it your policy and your duty and the
25 policy of the Financials Investigations Unit to review

1 the transactions and any documents related to the
2 transaction?

3 ATTORNEY O'NEIL:

4 Yes.

5 ATTORNEY MILLER:

6 And generally, what do you look for when
7 you do that review?

8 ATTORNEY O'NEIL:

9 There's a number of issues. Each
10 refinance is different, so we have to take a very
11 broad view on what's happening. I would first start
12 with what's the effect on our casino. How does it
13 affect it, whether it's the debt of our casino,
14 whether our casino is a co-borrower, things like that?
15 That would be the starting point.

16 ATTORNEY MILLER:

17 And did you review the documents in this
18 particular case relating to Harrah's Chester Casino?

19 ATTORNEY O'NEIL:

20 I reviewed what's been made available.

21 ATTORNEY MILLER:

22 And did you conduct that review in the
23 normal course of business, as you would normally
24 review any financial transaction from any other slots
25 licensee?

1 ATTORNEY O'NEIL:

2 Yes.

3 ATTORNEY MILLER:

4 When you conducted that review, at the
5 end of your review, did you generate a report of your
6 findings?

7 ATTORNEY O'NEIL:

8 The report was based on the petition.
9 Because we don't have final documents or near final
10 documents, the report really doesn't deal with a lot
11 of the points that we can't comment on right now.

12 ATTORNEY MILLER:

13 And when you --- but you did generate a
14 report; correct?

15 ATTORNEY O'NEIL:

16 Yes.

17 ATTORNEY MILLER:

18 In fact, you generated two reports here;
19 correct?

20 ATTORNEY O'NEIL:

21 Correct.

22 ATTORNEY MILLER:

23 And were those reports submitted as part
24 of the OEC response to the petition?

25 ATTORNEY O'NEIL:

1 Yes.

2 ATTORNEY MILLER:

3 And were those reports confidential?

4 ATTORNEY O'NEIL:

5 Yes.

6 ATTORNEY MILLER:

7 Have you received and reviewed any
8 additional materials since your reports were
9 submitted?

10 ATTORNEY O'NEIL:

11 The only additional information was the
12 presentation that they had today.

13 ATTORNEY MILLER:

14 And based upon that additional --- the
15 additional information received in the presentation;
16 did that cause you to change anything that's in any of
17 the reports that you generated and submitted?

18 ATTORNEY O'NEIL:

19 No.

20 ATTORNEY MILLER:

21 Now, Mr. O'Neil, the Chairman has asked
22 if you would explain in perhaps greater detail what
23 you review and how you review it on a normal basis
24 when you receive financial documents from a slot
25 machine licensee in regard to either refinancing or

1 borrowing funds. Could you do that, please?

2 ATTORNEY O'NEIL:

3 Do you want me to just go ahead? Okay.
4 I break it down into two points. One is a process,
5 which is how the documents get to us and how we begin
6 the review process, whether we receive notification
7 pending transactions, whether it's a project, whether
8 it's a public offering, the road show presentations,
9 they have those or a straight loan, in which case it's
10 just a new debt. We will have a meeting with BOL to
11 discuss potential issues with the refinance, things
12 like are there going to be new entities involved that
13 need to be licensed. We also then set up a process so
14 that all communications that come in are directed to
15 the proper people that are responsible for the report
16 or responsible for the review. We'll ask for a
17 timeline on the offer so we know what our deadlines
18 are, what the anticipated deadlines are. We will also
19 request that we be kept up to date on any revisions to
20 offer memorandums or debt agreements. And I usually
21 ask if there's any updated information to be presented
22 in a format which is searchable because that will
23 speed up our process and enable us to key in on the
24 particular items that have changed. I also ask for a
25 clean version, which makes it much easier to look at

1 once we get the updated version reviewed.

2 Within FIU I'll assign the project to one
3 or two persons or more, depending on the complexity,
4 the timeline of those documents that type of thing.
5 We begin reviewing the documents and come up with an
6 initial outline or format of where we think we're
7 going with this based on the information, because a
8 lot of times, particularly with these private
9 offerings, a lot of the terms are not available
10 because it's very preliminary and also because we only
11 have an offer and memorandum. We don't have the final
12 documents yet. So we work with what we have to fill
13 in the gaps and then question if there's particular
14 items that come to our attention that we want to
15 pursue any further. So, there's a lot of
16 communication back and forth between the licensee and
17 FIU.

18 ATTORNEY MILLER:

19 In addition to reviewing all the
20 documents, is it correct to say that you also meet
21 personally with the slot machine licensee to answer
22 any questions that you might have?

23 ATTORNEY O'NEIL:

24 We do whenever we have to to ---.

25 ATTORNEY MILLER:

1 Is that done?

2 ATTORNEY O'NEIL:

3 Yes, there are meetings.

4 ATTORNEY MILLER:

5 And there were meetings in this one;
6 correct?

7 ATTORNEY O'NEIL:

8 Yes.

9 ATTORNEY MILLER:

10 And did Harrah's cooperate with you in
11 this particular instance?

12 ATTORNEY O'NEIL:

13 Yes.

14 ATTORNEY MILLER:

15 Is there anything else you'd like to add,
16 Mr. O'Neil?

17 ATTORNEY O'NEIL:

18 Yeah. Once we feel confident that we
19 have a near final document and can really speak to
20 what the transaction is, then we'll prepare a report
21 and deal with OEC to see where we want to move with
22 this.

23 ATTORNEY PITRE:

24 I want a little bit more clarity, Mr.
25 Chairman. The process that was developed was started

1 when we went through the old holdings acquisition
2 scenario. That process called for an initial meeting
3 internally with staff that was involved. Once an
4 internal meeting is set up, subsequent to the
5 notification we reach out to the licensee or the
6 applicant, whoever is involved in the financing. We
7 need to bring in the financial people. We bring those
8 people in. There's a large --- if there's a credit
9 switch or a J.P. Morgan, we get a representative down.
10 Whoever we need to speak to we reach out to and get
11 them at a table with us so we can discuss what's going
12 on. Within a 48-hour period we try to give them
13 notice as to whether or not we think they're going to
14 have to file a petition with the Board. What leads us
15 to determine whether or not a petition needs to be
16 filed depends upon what's in the documents. If those
17 documents lead us to believe that our licensee ---
18 that there could be some type of impact on our
19 licensee that we don't view as positive, then we ask
20 that person or that licensee to file a petition
21 because, quite frankly, that's above my pay grade.
22 That's a determination the Board will have to make. I
23 have my opinion, but I think that it's a determination
24 --- those determinations have to be made by the Board.
25 If it's a straight refinancing where all the terms

1 seem like they're better, there's no impact and
2 there's a brace that basically fits right across the
3 board, we usually have no issues with those. We wait
4 for the closing documents. We monitor through the
5 whole process, as to the communication back and forth.
6 At any time if we see something that raises a red flag
7 for a better use that causes us to question that we
8 can't get an answer that we think is something that we
9 can make a decision on, we ask them to file a petition
10 before the Board. But if it's something that it seems
11 like there is nothing questionable or everything is
12 positive, we'll allow them to move forward and it's
13 followed up. We execute the closing documents, which
14 are reviewed once again to make sure it's all
15 consistent with what they've given us in the past, and
16 then a final report is delivered to the Board at the
17 end of that transaction.

18 CHAIRMAN:

19 Thank you. That was helpful. Do any of
20 the Board members have any questions of Cyrus or Mr.
21 O'Neil or Mr. Miller on the general rules for what
22 comes before the Board or not? Okay.

23 MR. TRUJILLO:

24 Mr. Chairman, I just have a couple of
25 questions.

1 CHAIRMAN:

2 Yes. Commissioner Trujillo?

3 MR. TRUJILLO:

4 Cyrus, as I understand it then, the
5 review depends on the decision whether or not to send
6 it or review and approval if the --- a routine
7 refinancing would be one in your view, as I understand
8 it, that would not have a material change in the
9 condition that would potentially negatively affect the
10 financial viability of the licensee?

11 ATTORNEY PITRE:

12 That's correct.

13 MR. TRUJILLO:

14 And so one that would not be routine
15 would be one which has material changes or change in
16 material, either in the terms of the financing that
17 creates a red flag, in your view, that they need to
18 have the attention and approval of the Board?

19 ATTORNEY PITRE:

20 That's correct.

21 MR. TRUJILLO:

22 Which is not to necessarily say that
23 there is a problem with the financing, but it is that
24 the changes are significant enough that they warrant
25 these and that you would not consider them to be

1 routine?

2 ATTORNEY PITRE:

3 That's correct.

4 MR. TRUJILLO:

5 Okay. I think I understand, Mr.

6 Chairman.

7 CHAIRMAN:

8 Thank you, Commissioner Trujillo. Why
9 don't we do this. Let's break for executive session.
10 Everybody else can go have some lunch. Yes,
11 Commissioner Ginty?

12 MR. GINTY:

13 Can we ask Doug just to go on the public
14 record ---?

15 CHAIRMAN:

16 I'm sorry. Yes, absolutely. We'll have
17 our Chief Counsel, Doug Sherman, to go on public
18 record as to what we are and are not allowed to review
19 in executive session and what is confidential and
20 non-confidential.

21 ATTORNEY SHERMAN:

22 I think that might be a different
23 question than what Mr. Ginty wanted me to do.

24 MR. GINTY:

25 I'd like to be very clear on what the

1 standard is on our review ---.

2 ATTORNEY SHERMAN:

3 And the Board's view of this matter is
4 going to be guided by Section 1313 of the Gaming Act.
5 And that's the section that addresses financial
6 viability of an applicant for a license. By virtue of
7 the statement of conditions on every licensee, they
8 are bound to maintain the same standards of financial
9 fitness as a licensee that they are as an applicant.

10 In a case such as this, with a
11 refinancing, there's really two things for the Board
12 to look at when you hear the details of the
13 refinancing plan, you look at the materials that are
14 before you. One is whether or not, in this case,
15 Harrah's can establish by clear and convincing
16 evidence that it has sufficient business ability and
17 experience to create and maintain a successful and
18 efficient operation. And number two, more importantly
19 under Section 1313E as to their operational viability
20 is whether they're likely to maintain a financially
21 successful, viable and efficient business operation
22 and will likely be able to maintain a steady level of
23 growth and revenue to the Commonwealth.

24 Literally, the standards that the Board
25 should impose upon this application I specifically ---

1 if the refinancing is approved, is Harrah's likely to
2 maintain a financially successful, viable and
3 efficient business operation; and two, will they be
4 able to maintain a steady level of growth to the
5 Commonwealth.

6 MR. GINTY:

7 Thank you. Can I just go forward?
8 That's the standard. Now, what is the proof?

9 ATTORNEY SHERMAN:

10 It's a clear and convincing burden.

11 CHAIRMAN:

12 Okay. Let's break for executive session.
13 We will have an executive session on this refinancing
14 and then go immediately into executive session on the
15 license renewal for the Washington Trotting
16 Association and then also the Harrah's petition for
17 their refinancing. I'm going to guess that's ---.
18 Why don't we reconvene at 1:30? Just so everybody
19 knows that the session on this refinancing takes a
20 little longer. Obviously, it will take a little
21 longer, but let's shoot for 1:30.

22 * * * * *

23 HEARING CONCLUDED AT 12:24 P.M.

24 * * * * *

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CERTIFICATE

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I hereby certify that the foregoing proceedings, hearing held before Chairman Fajt, was reported by me on 08/18/2011 and that I Tyler S. Rhoads read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

