

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

IN RE: MOUNT AIRY #1, LLC - PETITION FOR APPROVAL OF  
A CASINO FLOOR RECONFIGURATION

BEFORE: WILLIAM H. RYAN, JR., CHAIRMAN  
Gregory C. Fajt, James B. Ginty,  
Keith R. McCall, Anthony C. Moscato,  
Gary A. Sojka, Kenneth I. Trujillo; Members  
Christopher Craig, Representing Robert  
McCord, State Treasurer  
Robert Coyne, Representing Daniel P.  
Meuser, Secretary of Revenue  
Matthew Meals, Representing George Greig,  
Secretary of Agriculture

HEARING: Tuesday, November 22, 2011, 10:00 a.m.

LOCATION: PUC Keystone Building  
Hearing Room #1  
Harrisburg, PA 17120

WITNESSES: James Tuthill, Richard Whitby

Reporter: Jolynn C. Prunoske

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A P P E A R A N C E S

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OFFICE OF ENFORCEMENT COUNSEL  
NAN DAVENPORT, ESQUIRE  
Deputy Chief Enforcement Counsel  
PA Gaming Control Board  
P.O. Box 69060  
Harrisburg, PA 17106-9060  
Counsel for Pennsylvania Gaming Control Board

MICHAEL D. SKLAR, ESQUIRE  
Levine Staller  
3030 Atlantic Avenue  
Atlantic City, NJ 08401-6380  
Counsel for Mount Airy #1, LLC



E X H I B I T S

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One	PowerPoint Slides	47	47*

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## P R O C E E D I N G S

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CHAIRMAN:

Good morning, everyone. Thank you all for being here today. My name is Bill Ryan. I am the Chairman of the Pennsylvania Gaming Control Board. Before we begin, I would like to ask everyone to please turn off your cell phones, PDAs and other electronic devices. Thank you.

I'd also remind everyone --- and those of you who have been in this room before know this firsthand, the acoustics in this room are not very good, and the court reporter may have difficulty getting everything that is said if you don't keep your voice up. So, try to remember to do just that so that we don't have interruptions or repetitions.

In addition to the seven members of the Board, joining us today is Christopher Craig, representing State Treasurer, Robert McCord; Robert Coyne, representing Secretary of the Department of Revenue, Daniel Meuser; and Matt Meals, representing the Secretary of Agriculture, George Greig. Thank you all for coming, gentlemen.

I will now call this meeting to order. And the first order of business, I'd like to ask

1 everyone to stand for the Pledge of Allegiance.

2 PLEDGE OF ALLEGIANCE RECITED

3 CHAIRMAN:

4 We have one item before the Board today  
5 for a public hearing, and that will take place prior  
6 to our public meeting. At the conclusion of this  
7 hearing, we will take a recess to conduct quasi  
8 judicial deliberations in executive session before  
9 returning to conduct our regularly-scheduled meeting.

10 The public hearing scheduled today is  
11 Mount Air #1, LLC's Petition for Approval of a Casino  
12 Floor Reconfiguration. Can I please have all persons  
13 who are participating in these proceedings come  
14 forward? They have done so. Can I have all persons  
15 who are non-attorneys but who will be presenting  
16 evidence please stand to be sworn?

17 -----

18 WITNESSES SWORN EN MASSE

19 -----

20 CHAIRMAN:

21 Before we begin, I would ask all persons  
22 participating, please identify yourselves before  
23 speaking. Also, if you could spell your name for the  
24 benefit of the court reporter, that would be greatly  
25 appreciated. Mount Airy, you may begin.

1                   ATTORNEY SKLAR:

2                   Thank you. Good morning, Mr. Chairman,  
3 Commissioners. Michael Sklar, S-K-L-A-R, on behalf of  
4 Mount Airy. With me this morning is Jim Tuthill, who  
5 is Vice President of Gaming at Mount Airy, and Rich  
6 Whitby, who's the Director of Slot Operations.

7                   If you will recall, we were here before  
8 the Board in December 2010, requesting a slot  
9 reduction of 300 machines. And at the hearing itself,  
10 we modified our request and cut it in half and  
11 requested a 150-machine reduction. And we said at the  
12 time we wanted to see and evaluate what kind of  
13 impacts the 150 reduction would have and then  
14 possibly, after being evaluated and analyzed what the  
15 impact was, possibly come back before you and make  
16 another request for reduction. So, this morning we're  
17 going to present the rationale for why we're here  
18 before you today. Specifically, we're requesting a  
19 200 slot machine reduction from the current count of  
20 2,275 down to 2,075. And in addition, as part of the  
21 reconfiguration, the proposed relocation of the  
22 existing poker room to the third floor and relocating  
23 the current high slot room to the location of the  
24 former poker room. And the --- essentially the  
25 rationale for this request is --- there's several

1 reasons. Specifically with respect to the reduction  
2 in slot machines, after analyzing the data, again,  
3 it's pretty overwhelming, the statistics and the  
4 evidence which Jim and Rich will get into, the  
5 utilization and occupancy of the current slot machine  
6 count on the floor is overwhelming, that there is an  
7 excess supply. And in addition, the win-per-unit  
8 statistics show that Mount Airy is significantly below  
9 the industry average.

10           In addition, the benefits of the  
11 reconfiguration beyond this, the slot machine  
12 reduction, these moves will relieve congestion and I  
13 think make it a better customer experience and enable  
14 a better flow on the floor. The poker room will be  
15 expanded and will have a dedicated cage, bar, and it  
16 will just be a much more comfortable experience for  
17 the poker players. In addition, the high slot --- the  
18 high-limit slot room will be moved to a larger area.  
19 We'll be able to increase the number of machines and  
20 it will be a much better location.

21           And lastly, this reconfiguration is going  
22 to allow Mount Airy to define the smoking and non-  
23 smoking areas a lot better and is going to be not ---  
24 right now, currently, it's a little piecemeal, and  
25 it's going to be --- the division is going to be much



1 more defined, which I think is going to be beneficial  
2 for everybody.

3           I know that there have been a number of  
4 petitions before you for slot reductions, and I know  
5 it's a sensitive area. I think the principle is that  
6 there's no correlation necessarily between the number  
7 of slot machines that you have and GTR. And I think  
8 that the experience certainly of Mount Airy and I  
9 think some of the other facilities bears that out.  
10 It's not to say that --- you know, I'm not making the  
11 case that a reduction in slot machines is going to  
12 increase GTR. I don't think anyone could say  
13 definitively that there's a cause and effect. But I  
14 think the point is that there's certainly no  
15 correlation between a reduction in slot machines and a  
16 reduction in GTR, which I think is the primary point  
17 and the issue before the Board and the sensitivity  
18 with slot reductions in general.

19           With that, I'm going to turn it over to  
20 Jim, and he's going to walk through the current floor  
21 plan and what the proposed reconfiguration is  
22 comprised of. And just before I hand you over, I just  
23 want to apologize for not coordinating --- we had a  
24 PowerPoint, and we dropped the ball and didn't  
25 coordinate to have a projector and computer with us.

1 So, we're going to try to --- and I apologize to the  
2 audience, but we'll try to identify on the slides so  
3 the commissioners can follow with us. With that, I  
4 turn it over to Jim.

5 MR. TUTHILL:

6 Good morning. I'm happy to be here this  
7 morning. My name is James Tuthill, spelled T, as in  
8 Thomas, U-T, as in Thomas, H-I-L-L. If the  
9 commissioners will kindly turn to --- I believe it's  
10 page five. The title of the page is Current Operating  
11 Plan, parentheses, OP-6A, closed parentheses. You'll  
12 see the current floor as it exists today and has  
13 currently been operating under since the last  
14 reduction that we appeared before the Board for. And  
15 I'll take you --- starting in the upper right-hand  
16 corner, the orange highlighted areas in particular,  
17 you'll see two circles and a long rectangular  
18 arrangement there. That is an egress area that is  
19 directly in front of the casino cashier. The round  
20 area below that is the bus entrances to the main  
21 entrance to the property. And the games were put in  
22 --- the slots were put in there with the addition of  
23 table games in order to more or less squeeze the games  
24 of the slot assets on the floor because we have  
25 maintained that number of slot machines at a time.

1 So, it's a public egress area, and that's one of the  
2 areas that we've designated to move in order to make a  
3 much more pleasant guest experience. To the left of  
4 that you see two games, a long rectangle, orange area,  
5 that's adjacent to the table game area. We plan on  
6 shortening those rooms and then to provide more egress  
7 for table games and a slot area. Below that, on the  
8 other side of the table game area, towards the center  
9 of the casino, is the circled bar. And again, opening  
10 up that area is a major pinch point for peak periods,  
11 Friday, Saturday and holidays. Traffic gets jammed up  
12 in there, and we want to relieve those pinch points.  
13 To the far left there's a small area highlighted in  
14 orange. That's the current high-limit slot room.  
15 There are fewer than 30 slot assets in that room.  
16 This is a comfortable, little room. It doesn't give  
17 us much of an opportunity to market to the high-end  
18 segment for the slots. And in terms of opening up the  
19 poker area, we can more than double our inventory of  
20 high-limit slots, and we intend to market to that  
21 segment. I think it's a huge benefit to us.

22                   To the far left is the third floor, and  
23 that's currently all slots. The area that is  
24 highlighted in orange is the proposed location for the  
25 poker room. So, we will be taking the poker room,

1 which is immediately opposite, on the other side of  
2 the page, highlighted in orange, the large square  
3 area, and placing that up to the third floor area.

4           And if you will go to the next page, it's  
5 entitled New Operating Plan OP-7. And it indicates  
6 just exactly on the first floor how the area will  
7 look. And the areas in blue are all the areas  
8 relieved of slot assets and will be open to the  
9 public, a much more gracious playing environment. It  
10 will be easy to traverse the entire casino floor.

11           On the following page you will find the  
12 new poker room plan. You'll notice at the bottom the  
13 current square footage for the poker area is 1,968  
14 feet. It allows us to increase the poker room area to  
15 2,761 games --- or 2,761 square feet.

16           The primary concern and the problem in  
17 our current poker room has been the fact that it's a  
18 very tight space for the amount of players that come  
19 in that area. This will allow us to open up the area  
20 and to make it a more comfortable environment. I  
21 think it will help us a great deal in the corporate  
22 area, which has been very successful. Mike, do you  
23 want to go through the parameters?

24                   ATTORNEY SKLAR:

25           Sure. The next page is the poker room

1 parameters. You see in the background there's a small  
2 lounge, bar area that will be set up in there. There  
3 will be several tables down in there with seating and  
4 several seats at the bar. And adjacent to that will  
5 be the cage. So, we will be able to service the poker  
6 area on the third floor with the cage up there. And  
7 also it will improve service to the slot machines that  
8 will be on the other side of the third floor. So,  
9 we'll have a cage and beverage service up there, where  
10 currently we have very limited beverage service and we  
11 have no cage up there at the current time.

12           The next page is the new high-limit slot  
13 room plan. We're going to increase from 22 assets to  
14 65 assets in that particular area. We're going to be  
15 offering many of the most popular products that are  
16 available to us and, as I said, not only to be able to  
17 market to the segment, where currently we're unable to  
18 because of our limited facility in the high-limit spot  
19 now. Square footage increase is 572 to 1,968 square  
20 feet.

21           And on the following page you'll see a  
22 rendering of the new high-limit slot room. It's open.  
23 It's spacious. It's the current poker room, and it's  
24 almost exactly what it's going to look like. It's  
25 very close to what it will look like. It's beautiful.

1                   And the last two slides, we have our  
2 current smoking and non-smoking area. You'll see  
3 currently it's kind of a patchwork quilt of smoking  
4 area --- the green areas are the smoking areas. And  
5 if you go to the next page, you'll see how we  
6 simplified it. The pink area is the smoking area.  
7 The white area is the non-smoking area. The  
8 non-smoking area is dedicated to --- directly in front  
9 of the restaurant facilities. And to be quite honest  
10 with you, since we did the last reconfiguration, the  
11 majority of comments that we get from our guests are  
12 that they wish we would put it back to where it was.  
13 This is very similar to the configuration that you had  
14 originally. And I think that we'll make great strides  
15 in terms of guest service, in terms of a more refined  
16 smoking versus non-smoking. It's a hot topic, and  
17 they're important issues to that. With that, I'll  
18 turn it over to Rich.

19                   MR. WHITBY:

20                   Good morning. My name is Richard Whitby,  
21 W-H-I-T-B-Y. I'm the Director of Slot Operations at  
22 Mount Airy. As Michael referred to earlier, with the  
23 win-per-unit on the casino floor, prior to our last  
24 reduction we had 2,450 slots. Our win-per-unit is  
25 approximately \$175. In April we finished our

1 reduction down to 2,275 units. Our win-per-unit has  
2 increased to \$180. Going forward, I think with this  
3 reduction of 200 units, we look to increase our  
4 win-per-unit again. We still are the lowest in the  
5 state. If you look at that slide number 14, we're  
6 currently at \$187.80, with the industry average being  
7 \$257. We would like to see our win-per-units increase  
8 to somewhere in that area.

9           As far as occupancy goes, if you look at  
10 slide number 13, we're looking at April through July  
11 of 2011, and our average weekday occupancy is only  
12 32.3 percent. Our average weekend is 51 percent. So,  
13 we see very little times during even our peak weekends  
14 where we're hitting a little above 50-percent  
15 occupancy. So, we have plenty of units, we believe,  
16 to --- even with this cut, you will still not get  
17 anywhere near an occupancy where we would consider  
18 industry average to be about 80 percent.

19           We calculated the cost savings to us in  
20 reduction. In slide number 16, the average cost of a  
21 slot machine today is about \$20,000. By reducing the  
22 casino floor by 200 units, in the future we will not  
23 have to replace these units. That alone is a \$4  
24 million savings to us. Along with that we have  
25 approximately \$40,000 in operating cost savings for

1 maintenance, for electricity, for parts, et cetera.  
2 So, just by reducing the units we would save a  
3 considerable amount of money in capital replacement  
4 costs and operating costs.

5 ATTORNEY SKLAR:

6 Rich, can you just --- going back to the  
7 occupancy, slide 13, can you just explain for the  
8 Board how that is calculated and give a little more  
9 flavor to those percentages?

10 MR. WHITBY:

11 The way we calculate the occupancy is  
12 based on handle pulls or spins, if you want to say it,  
13 for a customer playing a machine. So, we graph the  
14 handle pulls per hour through our slot system, our  
15 ACSC slot system. We divide that by 60, which would  
16 be 60 minutes in an hour. So, with that amount, the  
17 average number of handle pulls per customer per minute  
18 on each machine is 7.8. From there we divide that 7.8  
19 and we get our total number of games played per hour.  
20 With that, you divide that by your total number of  
21 machines on the casino floor, and you're going to come  
22 up with your occupancy percentage. The last time we  
23 were here, we captured our occupancy by our slot  
24 monitoring system, which is a manual reading that our  
25 staff actually looks at a monitor every hour and



1 writes down how many games were in play. The Board  
2 requested that we come up with a system-generated  
3 report, which we were able to run through our IT  
4 department. Took this calculation, we captured the  
5 handle pulls and we ran the calculation and we were  
6 able to come up with an occupancy report that's  
7 provided through our slot system.

8 ATTORNEY SKLAR:

9 And last thing, Rich, on slide 15 it  
10 shows the impact of the December 2010 slot reduction,  
11 the 150 machines. Can you run through what the  
12 experience was with that reduction?

13 MR. WHITBY:

14 Sure. Our last season, we got the  
15 reduction of 176 slot machines. We started in  
16 February, I think it was, and finished right at April  
17 1st. So, this slide shows our gross terminal revenue  
18 from April through July 2010. The average number of  
19 machines, April through July 2010, was 2,343. We were  
20 in the process of adding table games at that time, so  
21 our numbers did go up and down a little bit. But our  
22 gross terminal revenue was \$50 million, approximately,  
23 with a win-per-unit of \$175. When we finished our  
24 reduction in April, we were at 2,275 slot machines.  
25 Our gross terminal revenue increased to \$52,149,000,

1 with a win-per-unit of \$188. So, we see a variance of  
2 68 less slot machines with an increase in gross  
3 terminal revenue of \$2 million, \$13 towards the win-  
4 per-unit.

5 ATTORNEY SKLAR:

6 Thanks, Rich. That concludes our  
7 presentation. I just want to reiterate. I think that  
8 the management's goal, I think everyone can agree, is  
9 to maximize revenue and profit certainly for Mount  
10 Airy, and that would obviously coincide with the  
11 interest of the Commonwealth. And here I think that  
12 with the data, with the occupancy statistics and  
13 win-per-unit, I think it's pretty clear and I think  
14 pretty overwhelming that there's not going to be ---  
15 there's no correlation between a reduction in slot  
16 machines with the excess supply that Mount Airy has  
17 currently and GTR. So, with that, I think that it's a  
18 pretty compelling case for the reconfiguration, not  
19 only in slot reduction but also the other ---  
20 relocation of the high slot limited room and the poker  
21 room. And with that, we'll be happy to answer any  
22 questions.

23 CHAIRMAN:

24 Does the Office of Enforcement Counsel  
25 have any questions of any of Mount Airy's witnesses?

1                   ATTORNEY DAVENPORT:

2                   Yes, we do. Good morning, Chairman and  
3 commissioners. Nan Davenport, D-A-V-E-N-P-O-R-T. I'm  
4 the Deputy Chief Enforcement Counsel for the Office of  
5 Enforcement Counsel. With me today I also have Rich  
6 O'Neil, who is the Financial Investigative Unit  
7 Supervisor. He and his staff prepared a report that's  
8 attached to OEC's Answer, which is confidential. And  
9 we're available to answer any questions after I ask  
10 some questions today.

11                   With respect to the decision to remove a  
12 particular slot machine, could you just go through  
13 what the decision is based on? Was it the type of  
14 machine, denomination, the software of the machine or  
15 location of the machine, or was it a combination?

16                   MR. WHITBY:

17                   It was pretty much based on a pointed and  
18 win-per-unit calculation. We tried to target the  
19 underperforming units on the floor based on those two  
20 factors.

21                   ATTORNEY DAVENPORT:

22                   This is the fifth time, since Mount Airy  
23 opened, that they've requested a reduction in the  
24 number of slot machines on the gaming floor and the  
25 second time that they have requested a reduction since

1 the January 2010 amendment to the Gaming Act that  
2 authorized table games. During the December 2010  
3 hearing of what ended up being 150-slot reduction,  
4 plus another 26 slot reduction for games that were  
5 close to elevators, you stated that the termination in  
6 the amount of slots to reduce was more an art than a  
7 science. So, if you could just go through how you  
8 arrived at the number of slots with this present  
9 reduction, how you arrived at 200 slots.

10 MR. WHITBY:

11 The number of slots for this reduction  
12 was determined based upon our occupancy, of course,  
13 and having done system-generated reports. At our peak  
14 period, using 80 percent as an industry standard for  
15 full occupancy, we barely hit 70 percent for a couple  
16 hours a day once a week when we are at premium play.  
17 When we are at our busiest period during the course of  
18 the week, we are at 70 percent. That's only for about  
19 two hours every week. By reducing the floor 200 games  
20 exactly, it takes us right to about 79 percent, which  
21 is just under the 80 percent optimum utilization we  
22 like to see. So, that's how we got to 200 games.

23 ATTORNEY DAVENPORT:

24 With respect to the 70 percent during a  
25 two hour period, is that on weekends or during the

1 week?

2 MR. WHITBY:

3 Typically, on Sunday afternoons.

4 ATTORNEY DAVENPORT:

5 What impact, if any, would the 200 slot  
6 reduction have on the 34 percent tax paid from the  
7 daily gross terminal revenue of Mount Airy's slot  
8 machines?

9 MR. WHITBY:

10 I don't know that that would have any,  
11 presuming that --- based upon our last appearance and  
12 the premise was that we would redistribute the revenue  
13 on the other games that were available. The  
14 underperforming units would be taken off the floor.  
15 People would come and play the games that were  
16 available. The revenue would --- tax benefit to the  
17 State should not be hindered.

18 ATTORNEY DAVENPORT:

19 Reviewing the slides, it appears that the  
20 new seven slide, that once the slots are removed, it's  
21 just going to be empty space. Is that correct or do  
22 you plan to spread out the remaining slots in those  
23 areas?

24 MR. WHITBY:

25 Actually, the original floor plan I

1 believe we have is an empty space in the egress areas  
2 that we would like to open up to the public. Again,  
3 there are peak periods on Friday nights, Saturday,  
4 Sunday. We find ourselves with major pinch points  
5 that are very difficult to traverse for our guests, so  
6 it's a very uncomfortable situation. They do a lot of  
7 bumping and shoving. And the one area with the two  
8 circles directly in front of the cage has some long  
9 lines that kind of jump into the traffic flow. So,  
10 we're trying to open up these areas to make it more  
11 comfortable for service.

12 ATTORNEY DAVENPORT:

13 I noticed on a couple of slides that you  
14 referenced that the square footage is increasing. One  
15 of the slides is the new approved plan. I did not see  
16 in the actual petition the square footage of the  
17 gaming floor is going to be increased. Will there be  
18 an increase in the gaming floor size?

19 MR. WHITBY:

20 The overall square footage of the gaming  
21 floor will not increase, but the poker room is being  
22 moved to a new area of the floor, and that provides  
23 more square footage. The overall square footage will  
24 remain the same.

25 ATTORNEY DAVENPORT:

1           Your petition references --- indicates  
2 slot performance for the periods, April through July  
3 2010, and April through July 2011. What is the  
4 significance of those two periods of time?

5           MR. WHITBY:

6           We wanted to compare --- show a  
7 comparison of before and after the reduction compared  
8 to the same time of the year for the previous year.  
9 So, we finished our slot reduction right before April  
10 1st, 2011. We wanted to see what the impact would be  
11 comparing it to the same time the previous year.

12           ATTORNEY DAVENPORT:

13           All right. I noticed also that during  
14 your testimony you stated that the slot reduction  
15 would not result in layoffs. Conversely, would it  
16 lead to increase in staff?

17           MR. TUTHILL:

18           The staff should remain the same.

19           ATTORNEY DAVENPORT:

20           Is the request in reduction related to  
21 installation of table games at Mount Airy?

22           MR. TUTHILL:

23           It has absolutely nothing to do with  
24 table games.

25           ATTORNEY DAVENPORT:

1                   And does Mount Air perceive coming back  
2 at a later date to request additional decreases in the  
3 number of slot machines?

4                   MR. TUTHILL:

5                   There are no plans on the table at this  
6 point.

7                   ATTORNEY DAVENPORT:

8                   Does Mount Air currently have enough  
9 space in its two off-site storage areas to store these  
10 200 slot machines?

11                  MR. WHITBY:

12                  Yes, we have room.

13                  ATTORNEY DAVENPORT:

14                  And what's the proposed time limit on  
15 removing these machines?

16                  MR. WHITBY:

17                  Actually, we would like to start on  
18 Monday to remove the machines and have about an eight  
19 week implementation plan to finish the project.

20                  ATTORNEY DAVENPORT:

21                  That's all we have at this time.

22                  CHAIRMAN:

23                  Does the Board have any questions of  
24 Mount Airy? Gary?

25                  MR. SOJKA:



1 I do have a few comments or questions.  
2 One was going to be an exceedingly small point, having  
3 to do only with the clarification of language, because  
4 this is a public hearing with a transcript. And  
5 because Mount Airy has now, on several occasions, come  
6 in and asked for a reduction in slot machines, based  
7 on past history, we have to look forward and think  
8 it's conceivable that it can happen again. Should  
9 that be the case, I don't want to let something  
10 hanging in the transcript unchallenged. I fully  
11 understand, Mr. Sklar, what you're saying about there  
12 is no correlation between the actual number of slot  
13 machines and the gross terminal revenue, but let's  
14 clarify that that means that statement is only true in  
15 the situation where you make a case that Mount Airy is  
16 more than saturated in slot machines. I think we  
17 would all agree that there is some critical point in  
18 reduction beyond which that statement would no longer  
19 be true. If you reduce to a certain point, then there  
20 is going to be a direct correlation between the number  
21 of machines and the amount of gross terminal revenue.  
22 Do you agree to that?

23 ATTORNEY SKLAR:

24 Absolutely.

25 MR. SOJKA:

1           Okay. So, we can't ever, in the future,  
2 come back to this, since we've established that point.  
3 The thing that troubles me with regard to that,  
4 though, is Mr. Tuthill, your comment when asked about  
5 the difference between art and science in determining  
6 the number of slot machines. And unless I  
7 misunderstand the mechanism you used in giving us your  
8 answer, you, in fact, did infer that there is some  
9 correlation, that you drop by a certain number of  
10 machines, you calculated the increase in the amount of  
11 utilization. That would imply there must be some  
12 correlation at least at that level; is that correct?

13           MR. TUTHILL:

14           Well, clearly, you don't go into this  
15 willy-nilly. And you waive as much as you can  
16 possibly waive. The art part of it is the variables  
17 and unknowns that lie ahead of you. But clearly, you  
18 try to calculate as best you possibly can to project  
19 what your expectations are going to be.

20           MR. SOJKA:

21           But that calculation would be based on an  
22 assumption correlation?

23           MR. TUTHILL:

24           It would be based on an assumption  
25 correlation and, in addition to that, you also have to

1 take into consideration what's popular, what's not  
2 popular, what you have on the floor, and that's the  
3 art of it.

4 MR. SOJKA:

5 Thank you. And then an unrelated  
6 question that has to do, again, with the security of  
7 the storage facility. Assuming again, please correct  
8 me if I'm wrong, that these machines will be  
9 inventoried, that the numbers will be known to the  
10 Gaming Control Board, they can be identified, and just  
11 as a hypothetical, if, at some point in the future,  
12 someone wished to walk in and see those machines, they  
13 would all be there in that specific spot?

14 MR. WHITBY:

15 Yeah, that is correct. We have two  
16 locations that we store slot machines. One of them is  
17 on site, which is locked down and only accessible by  
18 slot employees, as well as under surveillance. The  
19 other one is off site, has an alarm system on it, a  
20 camera, motion detectors. The building is locked, of  
21 course. Inside, I believe the slot area is locked  
22 separately and only accessible to slot department  
23 employees. We notify the surveillance department, on-  
24 site gaming representatives whenever we go into that  
25 room and we provide an updated master list every month

1 of the games and where they're located at, that's  
2 correct.

3 MR. SOJKA:

4 Thank you.

5 CHAIRMAN:

6 Mr. Fajt?

7 MR. FAJT:

8 Thank you, Mr. Chairman. One question  
9 for Mount Airy, then one for OEC. This is unrelated  
10 to the matter before us today, but I continue to have  
11 some concerns about the Mount Airy performance. And  
12 I'm not telling you anything you don't know, but where  
13 you rank among the ten casinos that are up and running  
14 in Pennsylvania right now. I understand, you know,  
15 you're not in a high population area. I kind of  
16 justify that in my mind as the reason. But we've  
17 heard from Mount Airy in the past that, you know, new  
18 marketing initiatives were taking place that a new  
19 hotel was being contemplated. You know, with the  
20 upcoming ski season that is now approaching, you know,  
21 my thoughts turn to, you know, what's happening with  
22 marketing efforts in that area. So, I guess  
23 specifically --- I don't know who wants to answer the  
24 question. Let's start with the hotel. What is the  
25 current plans for the new hotel or the expansion of

1 the current hotel?

2 ATTORNEY SKLAR:

3 Rich and Jim are in more of the gaming  
4 operations, so I can let the Board know.

5 MR. FAJT:

6 Okay. How about marketing? Same answer?  
7 I understand you guys aren't marketing experts, but  
8 are there any new marketing initiatives being planned?

9 MR. TUTHILL:

10 Well, I think I can give a little bit of  
11 a brief overview. I think that your point is well  
12 taken. And we meet on a weekly basis. There are  
13 members of our marketing group in the meetings that we  
14 attend. We realize that because of our location being  
15 somewhat remote, that, in fact, folks who visit us  
16 have to make a decision to travel 30, 45 minutes to  
17 get to us. We realize that we're an event-drive type  
18 of property, and we are attempting to put this in the  
19 best place as possible in order to get people to come  
20 to Mount Airy.

21 The one thing that stands out, and there  
22 are several things that stand out, but one of the  
23 things that stands out about this plan is something I  
24 mentioned as we were going through the slides, and  
25 that is that a marketing option we have missed in not

1 being able to address is the high-end segment. And  
2 for the property size of Mount Airy, 65 asset rooms is  
3 about correct. I worked in the properties, and  
4 typically you'll have 82 to 120 high-end assets and  
5 maybe in a high-end room. And I believe 65 to 70 is  
6 about what we have for Mount Air. So, in terms of  
7 marketing to the high end, I'm relatively confident  
8 --- I hate to speak for marketing, but this will give  
9 them an opportunity to draw some revenue today for  
10 that particular location, its highest and best usage  
11 on the casino floor.

12 MR. FAJT:

13 Thank you. And Mr. Sklar, if you can get  
14 back to us just on the status of that, that would be  
15 helpful.

16 Quick question for OEC, this is a very  
17 small point, that Mount Airy testified that the cost  
18 of slot machines is \$20,000. I thought that sounded  
19 high. My recollection is that slots typically cost  
20 between \$12,000 and \$15,000. Do you have any  
21 information on that?

22 ATTORNEY DAVENPORT:

23 No, we don't have any information on  
24 that. We have to defer to Mount Airy's calculations.

25 MR. FAJT:

1           Yeah. But if you could have our staff  
2 just get an answer for me on that, I'd appreciate it.  
3 Thank you.

4           MR. SOJKA:

5           Can I ---?

6           CHAIRMAN:

7           Yes.

8           MR. SOJKA:

9           Thank you. Mr. Sklar, again, I'm not  
10 sure if it's addressed, because I have a similar kind  
11 of question that Commissioner Fajt had, which is the  
12 standard --- and I know this is something that, I  
13 guess, perhaps is more useful to give you a preview of  
14 some of my questions which are like in the middle of  
15 the hearing, but to me, the notion of a --- I mean, I  
16 understand the issue here, from your perspective, is  
17 how do you increase the revenue and what's the  
18 appropriate mix. So, whether it's art, science, a  
19 mixture of that or --- whatever it is, we don't know  
20 what the role is. I am, like Commissioner Fajt,  
21 though, more interested in perhaps a better  
22 understanding of the overall strategy because your  
23 financial fitness requires you not only to have an  
24 operation that is efficient but also looks towards  
25 having a steady growth in your revenue. And I'm

1 pleased to see that the gross terminal revenue up to  
2 52, but I agree with Commissioner Fajt that your  
3 performance has been an underperformance based upon  
4 what was originally presented to this Board. So,  
5 whether it's now or whether it's in the less familiar  
6 area, I just want to make sure that you're aware that  
7 I'm going to have some significant questions and like  
8 to understand from an overall strategy standpoint what  
9 you're going to do in order to maintain that financial  
10 fitness. I don't know that that requires a response,  
11 but I wanted to put that out there.

12 CHAIRMAN:

13 Anyone else on the Board? Keith?

14 MR. MCCALL:

15 A quick follow-up on Commissioner Sojka's  
16 questions. OEC, I heard you testify that this is the  
17 fifth time. Did I understand that correctly, ---

18 ATTORNEY DAVENPORT:

19 That's correct.

20 MR. MCCALL:

21 --- the fifth time they've asked for a  
22 reduction? What was the number, say grand opening,  
23 when they first opened their doors, of the slot  
24 machines?

25 ATTORNEY DAVENPORT:



1                   They opened on October 27, 2007 with  
2 2,523 slot machines. OP-2 was a removal of ten slot  
3 machines. That was in November of 2008. So, that  
4 brought them down to 2,513 slots. OP-3 was in June of  
5 2009 and was a removal of eight slot machines. OP-4  
6 was the removal of 50 slot machines in December of  
7 2009, and that brought them down to 2,451 slot  
8 machines. It's a temporary removal of 320 slots, but  
9 I didn't calculate that. And then OP-6 was the  
10 removal --- it's two petitions. There was one  
11 petition to remove 300 slots. And Attorney Sklar on  
12 the record requested a reduction, a 150 slot reduction  
13 at that point. There's also another petition to  
14 remove 26 slots, and that's slots that were in the  
15 hallway by the elevators. And it's a concern for OEC  
16 as well as Mount Air that it's an invitation for  
17 underage individuals access on the gaming floor and  
18 playing slots. So, at the end of OP-6 they were at  
19 2,271 slot machines.

20                   MR. MCCALL:

21                   Thank you. And I'm not sure if this is  
22 to OEC or Mount Airy, the effect on all those  
23 occasions, the five occasions that you came and asked  
24 for reduction, what was the effect on the gross  
25 terminal revenues in each of those instances? Was

1 there an increase, decrease, stayed the same?

2 MR. TUTHILL:

3 I would have been involved with the last  
4 one, and we've had an increase in gross terminal  
5 revenue as a result of that.

6 ATTORNEY DAVENPORT:

7 OEC hasn't broken it down to specific  
8 time periods, but we will do that if requested.

9 MR. MCCALL:

10 I think along the lines of Commissioner  
11 Sojka, the length of time here, these reductions will  
12 not result in the increase of gross terminal revenue.  
13 We do, in fact, understand that. Your business people  
14 we were hearing maximize the investment and maximize  
15 the amount of money that you make. We have been  
16 cognizant of that as well, of these changes. No other  
17 questions. Thank you.

18 CHAIRMAN:

19 Jim?

20 MR. GINTY:

21 Yeah, I just have a couple questions. I  
22 keep trying to understand the art of slot machines  
23 versus table games, so let me ask you a couple  
24 questions. That's the \$64,000 question here. Have  
25 your tax payments to the State gone up or down or

1 remained the same, more or less?

2 MR. TUTHILL:

3 Well, on the last reduction, we've seen  
4 approximately --- and that's the period of April 2010  
5 through October 2007 versus April of 2011 through  
6 October of 2011, our tax payments have increased  
7 approximately \$700,000.

8 MR. GINTY:

9 And I wasn't referring just to slots. I  
10 mean, would that be the table tax as well?

11 MR. TUTHILL:

12 That's slots only. I don't have the  
13 table ---.

14 MR. GINTY:

15 Okay. We know the slots were increased.  
16 By the way, in the future, that would be a very nice  
17 number to know. From the staff's position as well, I  
18 mean, I think that's the --- one of the cruxes of the  
19 map.

20 I guess the second question is I  
21 understand that casinos only have to pay the slot and  
22 table game taxes, but you also pay income taxes to the  
23 State, as I understand. Is that true?

24 MR. TUTHILL:

25 I don't have any understanding of that.

1                   MR. GINTY:

2                   The understanding is, if you become  
3 profitable or more profitable, the State takes a piece  
4 of that as well. So, the interest is making you more  
5 profitable.

6                   Lastly, so I can try and better  
7 understand Mr. Sklar, do you keep statistics on  
8 operating margins on slots and operating margins on  
9 table games?

10                   MR. TUTHILL:

11                   We don't personally, but yes, they are  
12 kept.

13                   MR. GINTY:

14                   Okay. Could you make that available?  
15 I'm interested to see if the operating margin for  
16 Mount Airy casinos, in general, is higher on the slot  
17 side, table side.

18                   ATTORNEY SKLAR:

19                   We can try to go through the exercise.  
20 It's a difficult exercise to do because you can  
21 certainly isolate the slot operation and slot  
22 personnel and table personnel and allocate those  
23 directly to each of those departments, but then you  
24 get into security, surveillance.

25                   MR. GINTY:

1 I'm talking about operating revenue. I  
2 understand the allocation processes that have to take  
3 place. We probably had more than we know what to do  
4 with. But I think that could be very important to how  
5 you spent it, quite frankly. Are you making more  
6 money here or there? If you would kind of work with  
7 the staff and find that data, that would be helpful.  
8 That's all, Mr. Chairman.

9 CHAIRMAN:

10 Anyone else from the Board? Do any of  
11 the ex-officio members have any questions?

12 MR. CRAIG:

13 Just a couple, Mr. Chairman. Again, my  
14 name is Christopher Craig. I represent Treasurer  
15 McCord. And I appreciate the points that you've made  
16 because that's the points that I think are important  
17 about the partnership between the Commonwealth and the  
18 future success of Mount Airy.

19 The Treasurer is the custodian of all the  
20 funds from which gaming revenue is posited as a result  
21 of this matter. Just for the information of  
22 Commissioner McCall and others that may be interested,  
23 the Treasurer's report has a trailing 12 months of  
24 historical performance of Mount Airy's slot revenue as  
25 juxtaposed on top of the win-per-unit, and all that is

1 probably available to anybody that would be  
2 interested.

3 I have a couple questions from my  
4 personal interest about the process in which you ID'd  
5 underperforming machines. In that process were you  
6 able to discover any commonality between the  
7 underperforming machines, such as location or type of  
8 game or real versus the video machines, that kind of  
9 thing?

10 MR. TUTHILL:

11 Well, what we primarily find is that some  
12 of the older models of slot machine design, we're  
13 looking at ITT, S2000, meaning a real machine, they've  
14 been in service forever, basically. It's one of your  
15 original manufacturers, in the way the machine works.  
16 They tend to underperform. In Pennsylvania, it seemed  
17 like the video product and then the product with  
18 bonuses and all the fancy video screens seem to be  
19 performing much better than these older games. When  
20 we opened up, we had --- the majority of our games are  
21 these real machines. We purchased machines.  
22 Obviously, the technology has increased over the last  
23 four, four or five years since we've opened up. But  
24 unfortunately, we have not purchased a lot of machines  
25 since then, so we tend to find these real games. And

1 it's a different combination from pennies all the way  
2 it, so it depends on your performance.

3 MR. CRAIG:

4 Well, I'm interested to know how you view  
5 market saturation in the Pocono or at least in the  
6 northeastern region of the Commonwealth. Do you think  
7 we're at market saturation? And if so, do you believe  
8 that the Commonwealth should be able to expect future  
9 revenue growth, or do you think it's going to be  
10 plateaued in the future?

11 MR. TUTHILL:

12 That's strictly personal opinion.  
13 Several weeks ago I appeared at a planning seminar in  
14 Scranton, and this was a similar point. I think we're  
15 going to be facing increased competition from New  
16 York, from Ohio. And I think that it's a comment on  
17 the operators in the State of Pennsylvania, in the  
18 northeast in particular. To Commissioner Sojka's  
19 point on that point of deterrence and not go behind us  
20 so that you are gleaned efficient? So that you'll be  
21 able to continue to be profitable and for people to  
22 enjoy the environment. But I think that one of the  
23 things that we all have to be cognizant of is the  
24 increasing competition from New York and Ohio.

25 MR. CRAIG:

1           What percentage of your market would you  
2 estimate is from New York or New Jersey?

3           MR. TUTHILL:

4           I couldn't quote it, but it's a very high  
5 percentage from New York and New Jersey.

6           MR. CRAIG:

7           Do you think, overall, you're prepared to  
8 respond aggressively to New York in competitiveness for  
9 expansion?

10          MR. TUTHILL:

11          Yes, I do. I think this request is part  
12 of the response.

13          MR. CRAIG:

14          Well, I guess one of the questions I  
15 have --- and let me be clear, the Treasurer's Office  
16 has no objection --- at least not going to voice any  
17 objection, but I guess some of my concerns is that  
18 this really doesn't get to the root of the performance  
19 of the machines. I understand that it would improve  
20 the win-per-unit calculation, but that kind of, you  
21 know, masks the real concern, and that is gross  
22 terminal revenue. And one of the issues that popped  
23 up to me is that the slide on page 15, this is the  
24 April to July 2010, April to July 2011, appears to  
25 give the impression that over the year gross terminal



1 revenue has increased. But if we take a look at the  
2 numbers from this fiscal year, July, August, September  
3 and October, we don't have the full number for  
4 November, they've actually been a steady decrease.  
5 And I'm more concerned about --- and maybe your next  
6 hearing is a more appropriate forum to discuss it in  
7 detail, but I'm more concerned about what are the  
8 plans to reverse the gross terminal revenue trend  
9 overall.

10 MR. TUTHILL:

11 Well, there were two hearings that took  
12 place in August and October of 2011. It did not take  
13 place in 2010. Obviously, in 2011, there was a severe  
14 hurricane that hit the northeast, and it impacted  
15 gross terminal revenue severely in the month of  
16 August. In October we had the snowstorm, which  
17 knocked out power and killed traffic and decreased  
18 visitation to the property on both events. So, I  
19 think if we keep track of those both in it, it kind of  
20 normalized the data. And I'm unable to give an exact  
21 number to each of those. However --- and I don't have  
22 the numbers with me today, but certainly when we get  
23 beat at our own games on a monthly basis and we look  
24 at the impact, it's very strong in the recent months.  
25 And this kind of pulled the rug out from under us in

1 both those natural disaster events.

2 MR. CRAIG:

3 Understood. And again, I'm looking at  
4 the numbers on a month-to-month basis for the last two  
5 calendar years. You know, it's either a steady trend  
6 or a slightly downward dip. Instances are going to  
7 occur in a business, but I guess I'm raising the  
8 concern that --- maybe the next hearing is the more  
9 appropriate one to discuss, but you know, the plan is  
10 really to generate and to try to turn this thing  
11 around. And that, you know, the removal of slot  
12 machines, I understand it provides cost savings, et  
13 cetera, but the concern from the Commonwealth's  
14 perspective is really the gross terminal revenue  
15 achieved. Thank you. I appreciate your time.

16 CHAIRMAN:

17 Okay. Thank you, gentlemen. Oh, I'm  
18 sorry. Mr. Fajt?

19 MR. FAJT:

20 Yes. Thank you, Mr. Chairman. One  
21 follow-up question. Do you own all of your slot  
22 machines versus lease?

23 MR. TUTHILL:

24 We do not own all of our slot machines.  
25 We lease a percentage of them. And if I can follow up

1 to that briefly. We're constantly looking for the  
2 best product to be able to put on the floor. Part of  
3 this exercise --- and we take this extremely  
4 seriously, and I think everyone understands that, but  
5 you know, is to free up capital and be able to grow  
6 capital so we can purchase units and consistently look  
7 at what our leased product or proprietary product is  
8 on a daily, weekly, monthly basis, and moving that  
9 product in and out designed to meet what the market  
10 cases are in that month, that quarter, that year.

11 MR. FAJT:

12 Let me go back here a little bit more.  
13 Do you know the percentage of what you own versus what  
14 you lease?

15 MR. WHITBY:

16 We currently lease just under 200 units  
17 of the total casino.

18 MR. FAJT:

19 So ten percent you lease, 90 percent you  
20 own?

21 MR. WHITBY:

22 Correct.

23 MR. FAJT:

24 And so when you lease a machine, is it  
25 for a set period of time, a year, two years, six

1 months, or is it monthly?

2 MR. WHITBY:

3 It's monthly. If the machine --- like  
4 Jimmy said, we constantly monitor performances of the  
5 leased equipment. And from an operator's standpoint,  
6 I would expect a machine that I lease to earn two-and-  
7 a-half times the amount that a game I own earns.

8 MR. FAJT:

9 Okay.

10 MR. WHITBY:

11 So we constantly --- if we lease, say, 50  
12 machines from ITT, those machines underperform, the  
13 benefit of leasing ITT's machines have something to  
14 replace it with. So, we don't normally send them back  
15 and reduce and increase our interest, we just swap  
16 them out for something new.

17 MR. FAJT:

18 So 90 percent of the machines you own,  
19 when they are non-performing, you put them in this  
20 warehouse or two warehouses that you have on the  
21 property; is that right? They're put out to pasture  
22 then?

23 MR. WHITBY:

24 Well, unfortunately, we don't have the  
25 luxury of doing that. We don't have a bunch of other

1 machines to replace them with. Your options at that  
2 point are to modify or change the machine through a  
3 kit. If a machine is underperforming, you can  
4 purchase from an operator a new --- basically a new  
5 machine. But you're just changing the guts of the  
6 machine, making it's something that you hope will  
7 perform better. We don't have a bunch of machines  
8 sitting in a warehouse that we bring back when  
9 something is underperforming. We don't have the  
10 luxury of that.

11 MR. FAJT:

12 I thought that you had responded to  
13 Commissioner Sojka that you did have machines in a  
14 warehouse on the property.

15 MR. WHITBY:

16 The question was whether we were going to  
17 store these machines when we removed them, if I  
18 recall, in our warehouse, when these machines are  
19 removed.

20 MR. FAJT:

21 Okay. And so those, again, let's just  
22 say 90 percent of them are owned, so they will stay in  
23 that warehouse then for some period of time until you  
24 sell them on a secondary market or destroy them? Is  
25 that the way that works?

1                   MR. WHITBY:

2                   That is correct. And we will use them  
3 for parts. Some of the parts are valuable. And then  
4 --- or if the opportunity arises for some sort of  
5 trading value to purchase new equipment or just  
6 selling them outright. We would weigh our options at  
7 that point.

8                   MR. FAJT:

9                   Mr. Tuthill, did you want to weigh in? I  
10 thought I saw you over at the mic.

11                   MR. TUTHILL:

12                   No, sir. And Rich and I would thank you.

13                   MR. FAJT:

14                   Thank you, Mr. Chairman.

15                   CHAIRMAN:

16                   Anyone else? All right. Does the Office  
17 of Enforcement Counsel have any presentation they'd  
18 like to make?

19                   ATTORNEY DAVENPORT:

20                   No, we don't, but we would ask that if  
21 the Board grant this petition, that it be subject to  
22 the conditions as set forth in OEC's Answer. I'd also  
23 like to point out that we wish for confidentiality  
24 with respect to the report that's attached to OEC's  
25 Answer.

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CHAIRMAN:

Any comment or response to that, Mount  
Airy?

ATTORNEY SKLAR:

No objection.

CHAIRMAN:

Does the Board have any additional  
questions? All right. Thank you, ladies and  
gentlemen. The record is now closed. We will now  
recess and resume this matter in executive session.  
We should be back in approximately ten minutes.

ATTORNEY SKLAR:

Mr. Chairman, can I just move to ask that  
the PowerPoint be admitted into evidence?

CHAIRMAN:

You may, and they will be admitted into  
evidence.

ATTORNEY SKLAR:

Thank you.

(Mount Airy Exhibit One marked for  
identification.)

\* \* \* \* \*

HEARING CONCLUDED AT 11:02 A.M.

\* \* \* \* \*

## CERTIFICATE

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I hereby certify that the foregoing proceedings, hearing held before Chairman Ryan, was reported by me on 11/22/2011 and that I Jolynn C. Prunoske read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

*Jolynn C. Prunoske*