

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: PETITION FILED BY MOUNT AIRY CASINO FOR  
APPROVAL OF A CORPORATE RESTRUCTURING  
PETITION FILED BY MOUNT AIRY CASINO FOR APPROVAL TO  
AMEND THE BOARD'S ORDER  
PETITION FILED BY MOUNT AIRY CASINO FOR A MODIFICATION  
OF ITS STATEMENT OF CONDITIONS

\* \* \* \* \*

PUBLIC HEARING

\* \* \* \* \*

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  
Jennifer Langan, Representing Robert M.  
McCord, State Treasurer  
Robert Coyne, Representing Daniel P.  
Meuser, Secretary of Agriculture  
HEARING: Wednesday, May 23, 2012  
10:00 a.m.

Reporter: Kayla Bolze

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LOCATION: Strawberry Square Complex

Second Floor

Harrisburg, PA 17101

WITNESSES: Lisa DeNaples, Ed Granci

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OFFICE OF ENFORCEMENT COUNSEL

CYRUS PITRE, ESQUIRE

Chief Enforcement Counsel

NAN DAVENPORT, ESQUIRE

Deputy Chief Enforcement Counsel, Central

Pennsylvania Gaming Control Board

P.O. Box 69060

Harrisburg, PA 17106-9060

Counsel for Pennsylvania Gaming Control Board

MICHAEL D. SKLAR, ESQUIRE

Levine, Staller, Sklar, Chan, Brown & Donnelly, PA

3030 Atlantic Avenue

Atlantic City, NJ 08401-6380

Counsel for Mount Airy Casino

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CHAIRMAN:

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

Joining us today is Jennifer Langan representing State Treasurer Rob McCord and Robert Coyne representing the Secretary of the Department of Revenue, Dan Meuser. Thank you both for coming.

Quorum of members being present, I will call today's meeting to order. First order of business, I would ask everyone to stand for the Pledge of Allegiance.

PLEDGE OF ALLEGIANCE RECITED

CHAIRMAN:

To begin we have three public hearings scheduled for this morning. Because all of the scheduled hearings involve Mount Airy business and there appears to be substantial overlap between them, what we would like to do is consolidate these hearings into one, thereby cutting down on what I'm sure would otherwise be some redundancies in the presentations.

1                   With that being said, I would also ask  
2 the parties to not necessarily jump around on the  
3 subject matter of one petition to the next, but  
4 address these matters in as organized a fashion as you  
5 can to make it as easily understandable to everybody  
6 as we can and for the sake of a record that is as  
7 clear as it can be. Do the parties have any objection  
8 to this approach? Mr. Sklar?

9                   ATTORNEY SKLAR:

10                   No.

11                   ATTORNEY PITRE:

12                   None whatsoever.

13                   CHAIRMAN:

14                   At the conclusion of the hearing we will  
15 go right into our regularly scheduled meeting. Can I  
16 please have all the persons from Mount Airy who will  
17 be participating in each of these proceedings come  
18 forward? And I think you're all forward.

19                   Before we begin, I would ask all persons  
20 participating please identify yourselves before  
21 speaking. Also, if you can spell your name for the  
22 benefit of the court reporter, that would be  
23 appreciated. And as I think everybody knows, anyone  
24 who is going to speak who is not an attorney should be  
25 sworn by the court reporter. So Mount Airy, you may

1 begin.

2 ATTORNEY SKLAR:

3 Thank you. Good morning Mr. Chairman,  
4 Commissioners. Michael Sklar, S-K-L-A-R, on behalf of  
5 Mount Airy Casino. With me this morning are Lisa  
6 DeNaples, who's the owner and managing Trustee of  
7 Mount Airy, and Ed Granci, who is the chief financial  
8 officer. I don't know, Mr. Chairman, is it  
9 appropriate at this point to have them sworn in?

10 CHAIRMAN:

11 Do you intend to call them as witnesses  
12 in your case, sir?

13 ATTORNEY SKLAR:

14 I do not. They're here more to answer  
15 any questions that you pose of them.

16 CHAIRMAN:

17 It probably wouldn't be a bad idea. Why  
18 don't you do that?

19 -----

20 WITNESSES SWORN EN MASSE

21 -----

22 CHAIRMAN:

23 Okay. Thank you, Mr. Sklar.

24 ATTORNEY SKLAR:

25 As you said, Mr. Chairman, we have three



1 petitions before you today. The first is a Petition  
2 for Approval of a Corporate Restructuring. There is  
3 two aspects to that petition. One is the sale of  
4 six-sevenths of the ownership interest in Mount Airy  
5 to six trusts that were established by Lisa DeNaples'  
6 siblings. And the second aspect is the Withdrawal of  
7 Louis DeNaples's Principal License Application. And I  
8 have a PowerPoint that will run through that gets into  
9 the basis for that petition.

10 The second petition is a Petition to  
11 Modify the Board's September 23rd, 2009 Order. And in  
12 particular, certain restrictions were placed on Mount  
13 Airy and Mr. Louis DeNaples, and we're asking that  
14 those restrictions be lifted.

15 The third petition is Mount Airy's  
16 Petition to Modify its Statement of Conditions and  
17 specifically to amend it a Slotting Community Charter.

18 And I don't know if you have a  
19 preference. If you want me to go through each  
20 petition and then turn it over to the Enforcement  
21 Counsel or if you just want me to run through each of  
22 the petitions.

23 CHAIRMAN:

24 Why don't we run through each of the  
25 petitions. I think it would probably be easier that

1 way.

2 ATTORNEY SKLAR:

3 Sure. So, I'll just run through the  
4 slides briefly. Mount Airy was issued its Category 2  
5 Slots License in July 2007. At that time Mount Airy  
6 was 100 percent owned by Louis DeNaples. Right around  
7 that time in late 2007 for estate planning purposes,  
8 Mr. DeNaples, his intent was always to pass the  
9 ownership onto his children and grandchildren. So,  
10 that was always, you know, in his mind.

11 And the first step in that estate  
12 planning really occurred in September 2009. We filed  
13 a petition earlier in 2009 for Louis to transfer his  
14 100 percent interest to a trust that was established  
15 by Lisa DeNaples. And the reason why he did it in  
16 steps --- and like I said, the intent was always  
17 ---. Louis had his seven children and Louis is 71.  
18 So the intent on an estate planning point of view  
19 always is getting the assets out of your estate as  
20 quickly as possible. So the intent was always to pass  
21 it on to his seven children.

22 In 2009 Lisa was the only child who was  
23 licensed by the Board, so at that time we decided  
24 let's do this in stages because it was going to be  
25 --- everyone understands the background investigations

1 associated with Principals is pretty extensive and  
2 time consuming. So the first step was to transfer the  
3 interest to Lisa's Trust. And Lisa is the sole  
4 Trustee and the sole beneficiary of her trust.  
5 There's additional beneficiaries that can come in,  
6 which are her nieces and nephews when and if they're  
7 licensed by the Board. And I'll get into that.  
8 That's step two.

9           So, that transfer took place with Board  
10 approval in September 2009. As part of the sale, the  
11 ---. Like I said, the intent was always ---. Lisa's  
12 Trust obligation is to transfer six-sevenths of the  
13 ownership in Mount Airy to the other sibling trusts  
14 when and if they are licensed. So that was a specific  
15 requirement that was written into the agreement of  
16 sale originally back in 2009.

17           Lisa Trust purchased a 100 percent  
18 interest. The first price was determined pursuant to  
19 an appraisal that was obtained by an independent, well  
20 respected appraisal company and Lisa Trust took the  
21 ownership subject to the existing first lien debt.

22           Lisa delivered a note to Louis in the  
23 amount of the purchase price. The note is not secured  
24 by Lisa Trust's interest in Mount Airy. And just for  
25 the sake of clarity, Lisa Trust --- there's a holding

1 company in between Lisa Trust and Mount Airy #1, LLC,  
2 which is the Licensee. There's Mount Airy Holdco. So  
3 Lisa Trust owns 100 percent of Holdco, Holdco owns 100  
4 percent of Mount Airy #1, LLC.

5 Over the past several years, Louis  
6 DeNaples has made various loans to Lisa Trust for  
7 different corporate purposes, including the Table Game  
8 License fee and costs associated with installing the  
9 table games.

10 So here, this slide depicts the current  
11 existing ownership of Mount Airy. Right now Lisa is  
12 the sole --- like I said, the sole Trustee. She's the  
13 manager of Mount Airy #1, LLC; the manager of Mount  
14 Airy Holdco, LLC. She has the full authority right  
15 now and is the only person who has the authority to  
16 act on behalf of buying the company. There's an audit  
17 committee that's currently in place. There's three  
18 independent audit committee members. And we'll get  
19 into that with the third petition that we discuss.

20 Day-to-day management is vested in John  
21 Culetsu, who is the General Manager; and Ed Granci,  
22 who is with us here today, Chief Financial Officer for  
23 the senior managing. So they essentially run the  
24 day-to-day operations in consultation with Lisa, but  
25 day to day is really --- on the casino side is John

1 and Ed.

2                   So, now we move to step two, which is the  
3 subject of today's petition. The Petition is  
4 requesting Board approval to transfer one-seventh of  
5 the ownership interest in Mount Airy Holdco to each of  
6 the sibling trusts which are listed on this slide.  
7 And let me say, right now each of these six sibling  
8 trusts are established or in place. The initial  
9 Trustee is Lisa. She's the initial sole Trustee.  
10 With Board approval, her brother, Dr. Louis DeNaples,  
11 Jr. and her sister, Donna Dileo will be added as  
12 Trustees to each of those trusts.

13                   The terms of the sale to the --- and I  
14 refer to its additional sibling trusts, are  
15 essentially the same as what Lisa --- when Lisa Trust  
16 acquired her interest. They will assume one-seventh  
17 of the outstanding debt that's on the Lisa Trust Note  
18 that was delivered to Louis. And again, those notes  
19 are not going to be secured by the ownership interest  
20 in Mount Airy. So, I just want to be clear with that.  
21 To the extent that there is a default under that note,  
22 there is no ability for Louis DeNaples --- and I'll  
23 get into the aspect with the refinancing interest  
24 incurred, that note was actually collaterally assigned  
25 to JP Morgan. And I'm getting ahead of myself. But

1 at the end of the day there is no ability for whoever  
2 is the holder of that note, there's no ability to  
3 seize Mount Airy.

4           So, this next slide depicts what the  
5 proposed ownership structure is if the Board grants  
6 the approval with the transfers and licenses. Each of  
7 the trusts and trustees, beneficiaries, et cetera.  
8 Anyone associated with this structure. All the  
9 applications for the entities and individuals have  
10 been submitted to the Board's staff and extensive  
11 investigation has occurred, interviews, et cetera.  
12 And I'll let Enforcement Counsel address that.

13           If the restructuring is approved by the  
14 Board, Mount Airy will be governed by a management  
15 committee which will be comprised of Lisa DeNaples,  
16 Dr. Louis DeNaples, Jr. and Donna Dileo. They will  
17 act as a Board of Directors dealing with high level  
18 types of events, refinancings, significant capital  
19 expenditures, anything that a typical Board of  
20 Directors would be involved in. That's what they will  
21 be invested in. They will not be involved with  
22 day-to-day operations. Day-to-day operations will be  
23 continued with John and Ed leading the existing team  
24 that's in place.

25           The second aspect of the Petition for

1 Approval of Corporate Restructuring is the Withdrawal  
2 of Louis DeNaples' Principal License Application. As  
3 you know, the Principal --- there's already specific  
4 requirements under the Act and the regulations for who  
5 is required to be licensed as a Principal or Key  
6 Employee. What you see on this slide are essentially  
7 the criteria synthesized for those individuals that  
8 fall into the category of a Principal or Key Employee.

9           So, Mr. DeNaples, as we sit here today he  
10 is not --- has no direct, indirect beneficial  
11 contingent --- any type of ownership interest in Mount  
12 Airy or its affiliates whosoever. Not a director,  
13 officer or employee of Mount Airy. He's not a lender  
14 to Mount Airy. He's not a financial backer to Mount  
15 Airy and he's not a guarantor of Mount Airy's debt.  
16 Previously, prior to the refinancing that closed on  
17 April 19th, Mr. DeNaples was a financial guarantor of  
18 the old debt. With the refinancing he is no longer a  
19 financial guarantor.

20           As I've said, the refinancing closed on  
21 April 19, 2012. There is currently \$165 million of  
22 new 1st lien debt. You can see on the chart there  
23 down at the bottom, the old 1st lien debt was \$271  
24 million. The \$106 million reduction in debt was 40  
25 percent. Very, very significant. And if you have any

1 questions, Ed is --- will certainly answer any  
2 questions. It goes without saying, Mount Airy's in a  
3 much better financial position with that 40 percent  
4 reduction in debt.

5           The loan is secured solely by Mount  
6 Airy's assets. There is no one else, Mr. DeNaples,  
7 anyone, who is backing the debt with a guarantor of  
8 the debt. Solely for Mount Airy is standing on its  
9 own right now.

10           The other aspect of the refinancing is  
11 ---. We can go back to this slide. Well, what  
12 happened to the balance of the old 1st lien debt. Mr.  
13 DeNaples personally assumes that debt. And solely  
14 guaranteed by his personal assets, he is solely  
15 responsible for repaying that personal loan. There's  
16 no recourse against Mount Airy. In fact, there's  
17 absolutely no ties to Mount Airy on the personal loan.

18           The last aspect of the refinancing, which  
19 I mentioned before, was the collateral assignment of  
20 the Lisa Trust Note. And essentially, what happens  
21 --- or would happen, was Louis was the recipient under  
22 the Lisa Trust note of any payments for the purchase  
23 price and the additional loans that he had made. He  
24 has collaterally signed that to JP Morgan. So, he has  
25 assigned all of his interests, rights to receive any



1 payments under the Lisa Trust Note to JP Morgan. He's  
2 given them an irrevocable Power of Attorney. So, any  
3 payments, to the extent there's any payments that are  
4 permitted or that can be made they'll go through ---  
5 not paid out to Lisa --- to Holdco to Lisa Trust to  
6 Louis, and then to JP Morgan. It's distributed to  
7 Mount Airy Holdco, and under the documents, Holdco is  
8 required to make the payment directly to JP Morgan.  
9 So those will never see a penny on the payment under  
10 the Lisa Trust Note. They'll go directly to JP  
11 Morgan.

12                   And the way this works is it ties in with  
13 the 1st Lien debt. Obviously, the lenders on the 1st  
14 Lien debt want to get their payments before anything  
15 else --- any other cash goes out. And I don't want to  
16 continue in the public forum. I'd be happy to get  
17 into it if you want to go into a closed session, but  
18 there's certain dollar thresholds where there's excess  
19 cash flow under the 1st Lien credit agreement where  
20 there's permitted distributions to Mount Airy Holdco.  
21 In those circumstances Mount Airy Holdco, under the  
22 collateral assignment, will make those payments  
23 directly to JP Morgan on account of the Lisa Trust  
24 Note which was collaterally assigned.

25                   The last aspect of the collateral

1 assignment, Louis DeNaples and JP Morgan agreed that  
2 to the extent that there are any payments that are  
3 made on account of the Lisa Trust Note, he's going to  
4 get a dollar-for-dollar credit on that personal loan  
5 that he's taking back. It's an agreement that  
6 those two parties reached. They could have said no  
7 credit, they could have said two times credit. They  
8 decided between the two of them that we're going to  
9 give you a dollar-for-dollar credit. And that's what  
10 the agreement is right now.

11                   So that is the first petition. The  
12 second petition is to modify the Board's September 23,  
13 2009 Order. Let me take everyone back. When Louis  
14 was --- his license was suspended when he was indicted  
15 back in February of 2008. There were restrictions  
16 that were placed. His license was suspended and there  
17 was certain restrictions that were put in place on  
18 both Mr. DeNaples and Mount Airy.

19                   As you know, the district attorney  
20 ultimately withdrew the charges and we petitioned the  
21 Board at that time to --- when the charges were  
22 withdrawn, to vacate the suspension and lift the  
23 restrictions. It was an agreement raised between  
24 Louis and the district attorney with the Withdrawal  
25 Agreement it was called and the Withdrawal Agreement

1 provided for certain restrictions on Mount Airy and  
2 Louis DeNaples.

3           And I came before you ---. And there was  
4 a provision in the last paragraph in the Withdrawal  
5 Agreement that it's subject to whatever action the  
6 Board takes and will modify the Withdrawal Agreement  
7 to the extent that the Board deems inappropriate. So  
8 ultimately with whatever the Board says. Everyone  
9 recognizes the Board's in control here in terms of  
10 Louis's licenses. And I remember, Mr. Ginty, that you  
11 and I had a discussion about that. And I think  
12 ultimately, the Board decided, well, if Louis reached  
13 these terms with the district attorney he should live  
14 with them with the Board. And essentially, the Board  
15 took those restrictions and put them in an Order that  
16 was dated June 3rd, 2009.

17           Then subsequently, we came back again and  
18 asked the Board to lift the restriction --- there was  
19 some additional restrictions with the Trustee that was  
20 in place, Dr. Ceddia. So we came back a second time  
21 and said, can we dissolve the trusteeship? And that  
22 was memorialized in the September 23rd, 2009 Order.  
23 The Board still maintained certain restrictions on Mr.  
24 DeNaples and Louis. In April of 2011 the agreement  
25 with the district attorney was amended, and it

1 specifically said that there is no restrictions or  
2 prohibitions on Mr. DeNaples.

3           In May of 2011 Dauphin County Court of  
4 Common Pleas entered an Order expunging the records  
5 relating to the initial charges that were filed by the  
6 district attorney. On September 19, 2011 the same  
7 Court issued a second Order making clear that the  
8 Withdrawal Agreement is of no force and effect. So,  
9 the whole basis for the Petition that's before you  
10 today is the source, and the whole reason why those  
11 conditions and restrictions were initially put in  
12 place sourced from the DA agreement. That is entirely  
13 gone, so I think it's now appropriate for the  
14 restrictions to go away as well.

15           Now, with that being said, if you look at  
16 the --- there's four restrictions that are in place  
17 currently. And some of the things, it goes without  
18 saying that Mr. DeNaples would need licensed in any  
19 event as Principal if he was going to, for example,  
20 serve as a director or officer of Mount Airy. It goes  
21 without saying that he needs licensed if he's going to  
22 receive money from the casino. He needs to get  
23 licensed, there's no dispute about that.

24           But I think that it's --- Louis should go  
25 back in the Petition as if the charges were never

1 brought. He should be treated like any other person.  
2 And there's no need, I don't think, to have these  
3 restrictions in place because everyone knows for these  
4 things to occur, he's got to be licensed. It's just  
5 unnecessary and Louis DeNaples is being singled out if  
6 these restrictions are kept on him. And frankly, I  
7 don't know that they would be put in place for anybody  
8 else. And I just think it's unnecessary given the  
9 events that have transpired.

10           The third Petition is to amend the Audit  
11 Committee Charter. Now, I'm going to take you back to  
12 the initial license hearings in late 2006. It was  
13 actually Mount Airy who proposed and came up and said  
14 we think it's a good idea to have an Audit committee  
15 in place. Louis DeNaples is --- at that time was the  
16 sole owner. We think it's a great idea to have an  
17 Audit Committee.

18           The purpose --- and we still believe this  
19 to be the case, the purpose of an Audit Committee in  
20 the context of the Gaming company is to be that  
21 independent sounding board for some of the key  
22 departments in the casino and the outside auditor.  
23 For those people, if they suspect something wrong is  
24 taking place or strawed (phonetic) there's something  
25 amiss, they need to have an independent body to go to

1 without fear of reprisal who then can take action and  
2 go to the Board and go to Enforcement Counsel.

3           So we think it's entirely appropriate to  
4 keep. I'm not arguing that the Audit Committee should  
5 go away by any stretch of the imagination. What we're  
6 asking in the modifications are more I think to --- I  
7 think that it went too far, the current Audit  
8 Committee Charter.

9           And the Audit Committee Charter that's in  
10 place currently is --- the way that came about was in  
11 October of 2007. It was actually a Board meeting up  
12 in the Scranton area. And the Board adopted a general  
13 policy for Audit Committee criteria. It was imposed  
14 on Mount Airy --- I think Mount Airy was the only  
15 casino company at that time --- where it was go into  
16 the statement conditions that their Audit Committee  
17 Charter has to provide with that policy that was  
18 adopted back in October of 2007.

19           Subsequent to that, as I'm sure you're  
20 aware, in March of 2008 the Board published a  
21 regulation memorializing that policy that was adopted.  
22 There was significant comment and opposition to that  
23 proposed regulation, which ultimately was pulled and  
24 was never adopted by the Board.

25           So all we're asking at this point in time

1 that at a later date if the Board approves a  
2 restructuring with this management committee that's  
3 going to be in place with Board approval, I don't know  
4 that. I think that --- I think that may be of service  
5 to audit people who are not taking that step at this  
6 point. All we're asking is the current charter be  
7 amended. And also, that if Enforcement Counsel, as  
8 part of --- in their answer they wanted some  
9 additional criteria put in to beef the independents  
10 criteria for each of the Audit Committee members,  
11 which we did not oppose. We think it's a good idea to  
12 have the independents in the Audit Committee. We're  
13 not opposed to that substantively, and I'm happy to  
14 get it done. I don't know how much detail. I'm just  
15 going to get a view of the changes that were  
16 requested.

17 CHAIRMAN:

18 First you're going to do what ---?

19 ATTORNEY SKLAR:

20 The current charter specifies the  
21 compensation that the Audit Committee members are to  
22 receive. I don't think it's necessary for the charter  
23 itself to ---. And frankly I don't think that the  
24 October 2007 policy even mandated that. I think it  
25 was Mount Airy who came up with that great idea. I

1 just don't think it's appropriate to have it in a  
2 charter to specify a compensation. I think it's for  
3 the company to negotiate that with the Audit Committee  
4 members themselves, and whatever they can agree to I  
5 think should be fine. Should be mandated in the Audit  
6 Committee itself --- the charter itself.

7           The two other things that I'm going to  
8 mention. One is there's a requirement now that the  
9 Audit Committee understand and ensure compliance with  
10 the internal controls of Mount Airy. As I'm sure you  
11 know, that there is approximately 60 pages in the  
12 regulations covering internal controls. Mount Airy's  
13 internal controls themselves fill at least a three  
14 inch binder. I don't think it's appropriate for the  
15 Audit Committee to be the experts for internal  
16 controls.

17           And remember, I've come back to ---.  
18 Really, the purpose for a gaming company audit  
19 committee is that oversight to be that independent  
20 sounding board. So to understand and to be downsided  
21 (phonetic) with internal controls, I think it's  
22 unnecessary for the Audit Committee to do that. The  
23 outside auditors are now required annually to test the  
24 internal controls. There's an internal audit team in  
25 Mount Airy. I just don't think it's necessary. I



1 think it goes too far for the Audit Committee to have  
2 that duty and responsibility potentially being with  
3 the internal controls.

4           The other thing that we're --- that I'm  
5 going to touch on is with respect to the outside  
6 auditors. The current policy requires that the  
7 auditors be nationally recognized. I'm not sure if  
8 anyone other than the big four accounting firms could  
9 meet that requirement. As you know, Mount Airy does  
10 not have one of the big four that are --- Ms. Connelly  
11 (phonetic) is its auditor. The Board has approved  
12 Demetrius, who is the current auditor, on a couple of  
13 occasions already. So we're asking that the charter  
14 be revised just to say that the outside auditor has to  
15 have sufficient experience in order to conduct the  
16 audit, and the Audit Committee themselves will be the  
17 ones who make that determination and ensure that the  
18 independent auditor satisfies that criteria. So those  
19 are the ones that I'll be happy to ---.

20           CHAIRMAN:

21           Mr. Sklar, how many other changes does  
22 Mount Airy propose?

23           ATTORNEY SKLAR:

24           I would say that there's --- I think that  
25 the other changes are more refining the language in

1 the charter, as opposed to substantive changing.  
 2 There's two other things that I can mention. One is  
 3 for changes in the charter itself for determining one  
 4 of the Audit Committee members. The proposed change  
 5 is that Mount Airy --- if they decide to terminate or  
 6 if they want to change the charter, that we'll submit  
 7 that proposed change to Enforcement Counsel. And if  
 8 Enforcement Counsel says no, it's got to go before the  
 9 court, we'll be happy to file one whole petition. And  
 10 we just want to have the flexibility that if there's a  
 11 minor change, a couple words for whatever reason we  
 12 want to change the charter, they'll have to go through  
 13 a formal process and Enforcement Counsel be able ---  
 14 be the betting of that change to determine whether  
 15 it's --- rises to a level.

16                   And that's all we have in our  
 17 presentation. Like I said, we're happy to answer any  
 18 questions the Board asks. Thank you.

19                   CHAIRMAN:

20                   Mr. Pitre, any questions of Mount Airy?

21                   ATTORNEY PITRE:

22                   No, we've taken care of all our  
 23 questions, asked and answered them through our process  
 24 over the last years I guess we've been doing this.

25                   CHAIRMAN:

1 Do you have a presentation to make?

2 ATTORNEY PITRE:

3 I have brief comments, and we do have  
4 some things we'd like to enter into the record.

5 CHAIRMAN:

6 Go ahead, sir.

7 ATTORNEY PITRE:

8 Okay. Subsequent and pursuant to the  
9 Board's September 23rd, 2009 Order regarding Mount  
10 Airy #1, LLC second amended Petition for Approval of a  
11 Corporate Restructuring, an agreement of sale between  
12 Louis A. DeNaples and the Grantor-II Trust of Lisa  
13 DeNaples was executed and completed, which resulted in  
14 Grantor-II Trust of Lisa DeNaples, accounting for 100  
15 percent owner of Mount Airy. At that time the Board's  
16 Order contemplated in paragraphs two and seven that  
17 there will be a possible debt refinancing or  
18 additional restructuring, which would include  
19 additional trusts, and that Board approval would be  
20 necessary to accomplish such a restructure.

21 Also pursuant to the Board Orders, prior  
22 to and subsequent to the sale, Mr. Louis A. DeNaples,  
23 Sr. was allowed to make various loans to the  
24 Grantor-II Trust of Lisa DeNaples for various  
25 purposes. These loans resulted in a limited or

1 restricted recourse promissory note being executed by  
2 and between the Grantor-II Trust of Lisa DeNaples and  
3 Mr. Louis A. DeNaples. And since that time, this note  
4 has been amended and assigned to JP Morgan with  
5 limited recourse provisions in place.

6           The initial pleadings in this present  
7 matter were filed with Board on March 28th, 2011. The  
8 original and initial restructuring filing dates back  
9 to late 2007. And since that time there have been  
10 several filings by Mount Airy and the OEC as well as  
11 numerous discussions between the parties, which at the  
12 time included representatives of Mr. Louis DeNaples  
13 and Mount Airy's original lender, JP Morgan, regarding  
14 the ownership restructuring and the debt refinancing  
15 of Mount Airy #1, LLC.

16           These discussions led to detailed  
17 agreements that the parties believed were provided for  
18 the financial viability and independence of Mount  
19 Airy, without the need of further financial support or  
20 the financial guarantee of Mr. Louis A. DeNaples.  
21 Additionally, the proposed restructuring would  
22 complete that which was originally contemplated.

23           Based upon the recently completed  
24 refinancing, associated agreements, OEC no longer  
25 objects to the restructuring or the withdrawal of the

1 renewal application of Louis A. DeNaples, and has  
2 entered in to a joint stipulation with Mount Airy and  
3 filed the same for the Board's consideration. As it  
4 relates to Mount Airy's petition to amend the Board's  
5 Order, should the Board approve the restructuring and  
6 allow the withdrawal of Mr. Louis A. DeNaples, OEC  
7 would recommend additional conditions to be placed  
8 upon Mount Airy and its Principals, as well as keeping  
9 those restrictions implemented by the Board's  
10 September 23rd, 2009 Order. In any event, we do not  
11 believe that it is necessary, nor is the time right to  
12 relieve Mount Airy of any of these restrictions.

13           We have also entered into a joint  
14 stipulation as it relates to an Audit Committee, and  
15 we believe that it provides for the efficient  
16 independent oversight of the operations of Mount Airy  
17 and have filed a copy of that stipulation for the  
18 Board's consideration. If the Board so chooses, we  
19 are ready to provide the Board any additional  
20 recommended conditions and restrictions should the  
21 Board decide to approve the restructuring.

22           Additionally, we have another exhibit to  
23 enter into the record, the already pending petitions  
24 that we can either enter into the record in global or  
25 individually for the Board's pleasure. We will answer

1 at this time any of the Board's questions you have.

2 CHAIRMAN:

3 Why don't we do it now?

4 ATTORNEY DAVENPORT:

5 Good morning, Chairman. Nan Davenport,  
6 Deputy Chief Enforcement Counsel. I'll read off the  
7 proposed conditions. The Trustees of each of the  
8 children's trusts, which consists of the Grantor-II  
9 Trust of Lisa A. DeNaples, the Grantor-II Trust of  
10 Louis A. DeNaples, Jr., the Grantor-II Trust of Diane  
11 Dileo, Grantor-II Trust of Anne DeNaples, the  
12 Grantor-II Trust of Dominica DeNaples, and the trust  
13 for the benefit of the children, Margaret Mary Glodzik  
14 and the trust for the benefit of the children,  
15 Nicholas DeNaples. You must notify the Board and the  
16 Bureau of Investigations and Enforcement (BIE) within  
17 five business days prior to the acquisition of sale or  
18 assets or other investments.

19 The Board shall approve any changes of  
20 trustees or beneficiaries of the children's trusts.  
21 The trustees of each of the children's trusts shall  
22 provide a quarterly report certified audit trustees  
23 and all activity that receipts and disbursements in,  
24 for, and by each trust. If there has been no activity  
25 during the month, it should be so stated. Any

1 activity reported shall include copies of all  
2 documentation related to each transaction.

3           Number four, that the children's trusts  
4 may not invest in any entities in which Louis A.  
5 DeNaples has any ownership interest, or any entity in  
6 which he has control.

7           Number five, that the children's trusts,  
8 Mount Airy #1, LLC, or Mount Airy Holdco may not  
9 provide Louis A. DeNaples directly or indirectly any  
10 remuneration, cash, or property distributions from any  
11 of the children's trusts, Mount Airy, or Holdco  
12 without prior Board approval.

13           Number six, Mount Airy should provide the  
14 Financial Investigation Unit with copies of the  
15 following reports and documents, as required under  
16 Section 501 of this \$165 million credit agreement  
17 within the same time frame as stated in that section.  
18 And that would include the monthly reports, as  
19 required under Section 501(a), the quarterly financial  
20 statements required under Section 501(b), the  
21 compliance certificate required under Section 501(d),  
22 the notice of default required under Section 501(f),  
23 the notice of litigation required under Section  
24 501(g), the financial plan required under Section  
25 501(i), the notice regarding material contracts

1 required in Section 501(l), the annual collateral  
2 verification required under Section 501(o), and the 12  
3 month budgets required under Section 501(q).

4           Number seven, that Lisa A. DeNaples must  
5 immediately notify the Board or BIE either upon the  
6 amended restated and consolidated promissory note with  
7 limitation of recourse, which is dated April 19, 2012,  
8 in return to Louis A. DeNaples been reassigned or be  
9 amended in any fashion. The collateral assignment and  
10 agreement to pay as it relates to the involved note  
11 dated May 19, 2012 may not be amended without prior  
12 approval of the Board. Number eight --- I'm sorry,  
13 April 19th, 2012.

14           The trustees of each of the children's  
15 trusts must immediately notify the Board and BIE of  
16 default by any of the trusts that are required to take  
17 any part of the amended, restated and consolidated  
18 promissory note with limitation of recourse dated  
19 April 19th, 2012.

20           And number nine, Mt. Airy shall continue  
21 to provide the Financial Investigation Unit with  
22 monthly financial statements.

23           In addition to these conditions and  
24 restrictions, OEC is of the opinion that the  
25 restrictions and conditions implemented by the Board's



1 September 23rd, 2009 Order will require the licensure  
2 of Louis A. DeNaples, and as such, recognizes such  
3 restrictions and conditions remain in place until such  
4 time that Louis A. DeNaples has submitted an  
5 application for a Principal licensure and the Board  
6 has issued such a license or otherwise ordered. Thank  
7 you.

8                   At this time I'd like to move ---. We  
9 have two binders containing exhibits. A binder  
10 containing 27 exhibits relating to Mount Airy's  
11 Petition for Approval of A Corporate Restructuring, as  
12 well as a binder containing nine exhibits relating to  
13 Mount Airy's Petition to Modify its Independent Audit  
14 Committee Charter. I'd like to move that into the  
15 record.

16                   We would also ask for both binders to  
17 remain confidential. Even though the binders contain  
18 some petitions and answers, part of the petitions and  
19 part of the answers are confidential. The petitions  
20 and answers are already available for public  
21 inspection by the Office of Hearings and Appeals  
22 (OHA).

23                   CHAIRMAN:

24                   Mr. Sklar, any objection to the admission  
25 of those documents?

1                   ATTORNEY SKLAR:

2                   No objection.

3                   CHAIRMAN:

4                   Anything further, Mr. Pitre?

5                   ATTORNEY PITRE:

6                   Nothing further, Mr. Chairman.

7                   CHAIRMAN:

8                   Any response, Mr. Sklar?

9                   ATTORNEY SKLAR:

10                  None. I would just ask that the  
11 PowerPoint be entered as an exhibit.

12                  CHAIRMAN:

13                  Questions from the Board. Who wants to  
14 start? Ken?

15                  MR. TRUJILLO:

16                  Michael, first let me say, I --- as you  
17 know, I can be about as granular here as anybody can  
18 be on some of the petitions. So, I'm kind of --- that  
19 urge on my part. And what I'd really like to do is  
20 try to understand precisely the bigger picture of  
21 what's going on. I think I do, but I want to make  
22 sure that I have it, at least in my mind, straight.  
23 And then I just wanted to understand also --- I feel a  
24 bit like we're being asked to swallow an ocean that  
25 goes to a cup of coffee.

1           As I understand the requests, my big  
2 picture understanding is a desire by Mr. DeNaples to  
3 not be subject to the Board as a Principal and not be  
4 a party to the License. To turn over ownership to his  
5 children through appropriate trusts, documents, and  
6 transactions which have had good tax money involved,  
7 and in short extricate himself from not just the  
8 operations. I think that that's from the ownership  
9 --- any ownership control of --- control over Mount  
10 Airy. So that's good how I read it. But perhaps if  
11 you can tell me I'm right/wrong. But the big picture  
12 --- is it that you are trying to get accomplished  
13 here?

14                           ATTORNEY SKLAR:

15           Essentially it's to fulfill Louis's  
16 initial desire with estate planning is to --- I mean,  
17 the ownership aspect, like you said, is already out of  
18 his hands. And now the intent was for it to be shared  
19 by the seven kids and grandkids, et cetera. So that's  
20 really what's going on here. Louis, I think, even  
21 dating back to December 2006 when he stated on the  
22 record, owning interest in running --- I don't know  
23 anything about running a casino. I'm going to put in  
24 experienced people to run the operations. And with  
25 the ownership at the time of licensure, he was 100

1 percent owner. Now, we just want to complete his  
2 wishes with the estate planning. And that's  
3 essentially all.

4 MR. TRUJILLO:

5 And the things that I just want to  
6 understand --- the transactions, although they're  
7 documented in a large part as arms length transaction,  
8 by and large don't strike me as arm's length  
9 transactions. For example, the notion that somebody  
10 unconditionally assuming that --- you take that ---  
11 some of the things that he's done in the past. I  
12 don't think that in the ordinary course of business  
13 you would want to do that. I think even the sale as  
14 it's structured --- the conditional sale, the Lisa  
15 Note, those transactions are obviously to relatives.  
16 You're making transactions to accomplish some of the  
17 goals, but they're not arm's length transactions.

18 And so because of that, that brings in,  
19 at least in my mind, some questions about any ongoing  
20 potential for his continued or down the road  
21 involvement in either --- not necessarily the day to  
22 day management, but at least if the Board has more  
23 ultimate, bigger decisions, that they might be made by  
24 Mount Airy. So, I start from the premise ---. And I  
25 think you're quite right that there's nothing in the

1 statute that quote, unquote, requires this under the  
2 stipulations as I read it. You can believe that  
3 there's no, quote, unquote, requirement this  
4 transaction was approved --- these three petitions  
5 approved, that Mr. DeNaples be licensed. However, as  
6 I read the statute, it is still well within the  
7 court's discretion to require that licensure. And I  
8 think I'm correct. Is that your understanding, Mr.  
9 Sklar?

10 ATTORNEY SKLAR:

11 I think you're right. I think that the  
12 Board has the ability to require whoever they deem  
13 appropriate to be licensed. But let me address a  
14 couple of things you said. In terms of arm's length,  
15 the initial sale --- I don't know about --- I may  
16 agree with you that it's not arm's length. I can tell  
17 you though, that there was a great sensitivity with  
18 the estate planning gift tax consequences of the sale.  
19 So, the purchase price wasn't just picked out of the  
20 air ---.

21 MR. TRUJILLO:

22 I know that the purchase price is derived  
23 from both market value less the debt. And then  
24 consequently as I read that, that was being sensitive  
25 to it not being an outright gift at the time. I'm

1 aware of that.

2 ATTORNEY SKLAR:

3 So is it something where, you know, two  
4 independent parties sit down and say all right, I  
5 think it's worth \$100 and someone says no, it's \$150.  
6 I think it's quite so securely based on the results of  
7 the appraisal.

8 MR. TRUJILLO:

9 And I understand. As I understand it, is  
10 that the lawyers who lawyered it were trying to ensure  
11 that it passed mostly with the IRS, because ultimately  
12 they're probably more important on this than anybody  
13 around here. So, if the petitions are granted and  
14 three siblings become the management committee, I  
15 understand you said they do not have day-to-day  
16 control, rather they have a Board of Directors type of  
17 role; is that correct?

18 ATTORNEY SKLAR:

19 That's correct.

20 MR. TRUJILLO:

21 So, who then would hire the CEO and the  
22 CFO?

23 ATTORNEY SKLAR:

24 Ultimately, that management committee  
25 would be responsible for hiring, firing, et cetera,

1 all of the senior management.

2 MR. TRUJILLO:

3 Much like what Ms. DeNaples has currently  
4 in an individual capacity; am I accurate?

5 ATTORNEY SKLAR:

6 That's right. And I would ask Lisa to  
7 comment. Since September 2009, when the sale occurred  
8 and Lisa became 100 owner, Lisa makes 100 percent of  
9 the decisions. There is no one who has the ability to  
10 correct her, to do anything. At the end of the day,  
11 all stops with Lisa. She makes the decisions.

12 And if the Board approves the restructuring and  
13 her brother and sister come on it's going to be the  
14 same thing. They're all adult professionals, they're  
15 experienced. Lisa can comment on her brother and  
16 sister, what their background is. But they're all  
17 adults, all professionals, all have a lot of  
18 experience, frankly, running businesses. So, they're  
19 going to be in charge 100 percent. And if Lisa can  
20 state that right now, since September 2009 she makes  
21 the decisions, that's it.

22 MR. TRUJILLO:

23 In the event the Board does not --- well,  
24 strike that.

25 On the dollar-for-dollar reduction of the

1 Note, as I understand it, maybe you can explain it to  
2 me, the dollar-for-dollar reduction on the Note. Can  
3 you explain to me how that's going to work?

4 ATTORNEY SKLAR:

5 Sure. To the extent that there is a  
6 payment that's made on the Lisa Trust Note for  
7 permitted distribution of Mount Airy, then that  
8 distribution will get paid over directly to JP Morgan.  
9 JP Morgan will then give Louis a dollar-for-dollar  
10 credit on his personal loan debt, that balance that he  
11 took on personally and transferred the refinancing.

12 MR. TRUJILLO:

13 And as I understand, there is no current  
14 balloon or other principle payment requirement that  
15 I've seen. Am I accurate?

16 ATTORNEY SKLAR:

17 Correct. Yes, there is no balloon  
18 payment. It's interest only. It's being accumulated  
19 right now.

20 MR. GRANCI:

21 Well, there's certain covenants into this  
22 credit that required us to pay down principle based on  
23 a percentage of excess cash.

24 CHAIRMAN:

25 Which loan? Which loan are you talking



1 about, the Lisa Trust Loan?

2 MR. TRUJILLO:

3 No, no, no. The Louis Note.

4 ATTORNEY SKLAR:

5 The Louis personal?

6 CHAIRMAN:

7 I'm talking about the ---.

8 ATTORNEY SKLAR:

9 He's talking about the first --- Louis's  
10 personal loan. There is a payment schedule that's in  
11 place.

12 MR. TRUJILLO:

13 Correct. That, I'm aware of. But the  
14 Lisa Note, there is no ---.

15 ATTORNEY SKLAR:

16 There's no principle payments, interest  
17 accrues.

18 MR. TRUJILLO:

19 And so at what point in time would there  
20 be any principle payments --- principle paid down?

21 ATTORNEY SKLAR:

22 The Lisa Trust Note balloons in --- it  
23 has a five year term.

24 MR. TRUJILLO:

25 Okay. So, either it'll be paid down in

1 five years or it'll be refinanced, I assume?

2 ATTORNEY SKLAR:

3 Correct.

4 MR. TRUJILLO:

5 All I'm looking at is a refinance, the  
6 likely refinance, or potentially refinanced. I mean,  
7 well, is it expected to be dollar-for-dollar reduction  
8 and would remain in the event of the refinance?

9 ATTORNEY SKLAR:

10 The answer is to the extent that if  
11 Louis' personal loan is still outstanding, there would  
12 be. But the likelihood is that Louis' loan is going  
13 to be gone --- personal loan will be gone around the  
14 time that the Lisa Trust Note matures.

15 MR. TRUJILLO:

16 And how would it be gone?

17 ATTORNEY SKLAR:

18 One way or another either it's --- either  
19 he's going to have --- he's going to pay it off or  
20 he's going to refinance that personal loan.

21 MR. TRUJILLO:

22 Okay. That's all I have. Thank you.

23 CHAIRMAN:

24 Greg?

25 MR. FAJT:

1           Thank you, Mr. Chairman. Mr. Sklar,  
2 since you raised the issue I will ask Ms. DeNaples and  
3 also Mr. Granci ---.

4           MR. GRANCI:

5           Granci (corrects pronunciation),  
6 G-R-A-N-C-I.

7           MR. FAJT:

8           Thank you. Question. Ms. DeNaples, does  
9 your father, since the Board Order of September of  
10 2009, has he called you to offer advice on casino  
11 operations?

12          MS. DENAPLES:

13          My father has never had day-to-day  
14 operations since day one --- or involvement.

15          MR. FAJT:

16          And has he called you to offer advice ---

17          MS. DENAPLES:

18          No.

19          MR. FAJT:

20          --- on casino operations?

21          MS. DENAPLES:

22          No.

23          MR. FAJT:

24          Has he ever directed you to do anything  
25 within the casino vis à vis management issues?

1                   MS. DENAPLES:

2                   No.

3                   MR. FAJT:

4                   Mr. Granci?

5                   MR. GRANCI:

6                   I haven't seen him.

7                   MR. FAJT:

8                   Same questions. Has Mr. DeNaples called  
9 you to offer his advice on casino operations?

10                  MR. GRANCI:

11                  No, he hasn't.

12                  MR. FAJT:

13                  Has he ever directed you to do anything  
14 related to the management of the Mount Airy Casino?

15                  MR. GRANCI:

16                  No, he has not.

17                  MR. FAJT:

18                  Thank you. Cyrus, a couple questions for  
19 you. If I understand your position, OEC's position,  
20 you're okay with the restructuring of the debt as  
21 outlined by Mr. Sklar here today, but you do not agree  
22 --- I don't want to put words in your mouth, but tell  
23 me if I'm wrong, you do not agree to modify the  
24 September, I believe, 2009 Board Order or to amend the  
25 Audit Committee Charter; is that correct?

1                   ATTORNEY PITRE:

2                   Well, with regard to the Board Order, no,  
3 we don't think they should --- the restrictions should  
4 be lifted.

5                   MR. FAJT:

6                   Okay.

7                   ATTORNEY PITRE:

8                   As it relates to the Audit Committee  
9 Charter, we did provide, and we gave it to Mr. Cook,  
10 an amended charter that we drafted jointly with Mr.  
11 Sklar that follows the joint stipulation and will be  
12 amenable to. But that would obviously take the Board  
13 to approve that. So, if the Board chooses to amend  
14 the charter, we've given an amended charter to Mr.  
15 Cook to provide to the Board. If the Board chooses  
16 not to amend the charter, then the charter that's in  
17 place right now will remain in effect.

18                   And I didn't want to interrupt while  
19 Commissioner Trujillo was questioning Mr. Sklar, but  
20 with regard to the note, there was some discussion  
21 amongst staff, there was some disagreement with regard  
22 as to whether the note would require the licensure of  
23 Mr. DeNaples because of the dollar-for-dollar benefit.  
24 I ultimately disagree and think that it offers no  
25 benefit to him. Mr. DeNaples is walking away with a

1 significant amount of debt as based on this  
2 restructuring.

3           That was something that we were adamant  
4 about, that Mount Airy had to have --- carry only so  
5 much debt in order for it to remain viable. That was  
6 done with us acquiescing to the fact that if the debt  
7 was reduced to a certain level where we felt it would  
8 be operated viably without the personal guarantee of  
9 Ms. DeNaples, then that would be one reason that we  
10 could see that he would no longer be needed. If you  
11 remember when we lifted the suspension --- the  
12 suspension was lifted, one of the main reasons we  
13 wanted him to remain, because he was the financial  
14 guarantor. That is no longer the case.

15           Now, as it relates to the note. Those  
16 are monies that Mr. DeNaples lent to Lisa Trust while  
17 he was licensed by this Board. Those loans were  
18 approved by this Board. BIE investigated, traced the  
19 source of those funds. They all came from legitimate  
20 sources, so we feel comfortable with the money that  
21 was lent. Now, going forward, any payment that Lisa  
22 Trust makes on that --- if the Board allows Mr.  
23 DeNaples to withdraw, it's our position that the date  
24 of that withdrawal, any interest that accumulates  
25 after that Withdrawal should not be paid over until

1 he's licensed.

2                   So basically, if the note exists as it  
3 exists today --- exists at \$100 on the day that he's  
4 allowed to withdraw, then that's the amount that can  
5 be paid until he is licensed. We do know how much  
6 exists as of April 19th. I've asked Mr. Sklar to  
7 provide us a figure if the Board so inclines to allow  
8 Mr. DeNaples to withdraw, and that figure would be ---  
9 we'd look into that, and that figure would be the  
10 cutoff for the amount of payments that could be made  
11 under that note without any licensure by the holder of  
12 that note.

13                   Now, as Mr. Sklar said, and he's correct,  
14 that that note has been assigned to JP Morgan. JP  
15 Morgan is the holder of that note, and Holdco is  
16 required to pay over to JP Morgan any distributions  
17 that would normally go to the trust to pay off --- to  
18 pay that note. We don't see any problem with that.  
19 JP Morgan, we've been dealing with them for a long  
20 time. We had some going back and forth with them.  
21 They agreed to allow the limited recourse provisions  
22 to remain in there so that no one outside the trust  
23 holds an equity interest or can grab an equity  
24 interest in Mount Airy.

25                   That limited recourse was specifically

1 put in place to protect Mount Airy and to ensure that  
2 it would remain operationally viable, not only for the  
3 benefit of the trust, but also the benefit of the  
4 Commonwealth. Because as we all know, when we've had  
5 the renewal hearings a lot of questions surrounded the  
6 significant debt that Mount Airy was carrying and  
7 stability of the payment. We feel comfortable now  
8 that those problems have been eliminated.

9 MR. FAJT:

10 Last question for Ms. Davenport. You had  
11 mentioned that you would proffer that there are  
12 additional conditions put on the trust, as I  
13 understood it, an annual list of receipts and  
14 disbursements, any transfers of assets, and things of  
15 that nature. Correct me if I'm wrong, but I thought I  
16 remembered that there are other casinos in  
17 Pennsylvania that also have trusts involved, and Neil  
18 Bluhm comes to mind at the Rivers Casino; am I  
19 correct, as far as ---

20 ATTORNEY DAVENPORT:

21 Correct.

22 MR. FAJT:

23 --- that there are trusts involved there?  
24 Are these same types of conditions placed on those  
25 trusts that Mr. Bluhm has in the Rivers Casino?



1                   ATTORNEY DAVENPORT:

2                   I'll defer that to Cyrus, since it's  
3 outside my realm.

4                   ATTORNEY PITRE:

5                   No, those same conditions are not placed  
6 on those trusts.

7                   MR. FAJT:

8                   Thank you.

9                   CHAIRMAN:

10                  Ken?

11                  MR. TRUJILLO:

12                  Just a little bit of follow up on that.

13                  CHAIRMAN:

14                  Sure.

15                  MR. TRUJILLO:

16                  Since Mr. DeNaples' original licensure in  
17 2006 or '07, we had the intervening Dauphin County  
18 indictment and that was, as I understand it, that is  
19 no longer. Has there been anything since 2006 to the  
20 present that creates any issues with respect to --- I  
21 guess what I'm trying to understand is had what  
22 happened with Dauphin County, had that not happened  
23 would we have had all these conditions? Would we have  
24 had everything going on that's been going on with Mr.  
25 DeNaples over the last five years?

1                   ATTORNEY PITRE:

2                   Probably not. I mean, that was the  
3 suspension. Our suspension was the starting point to  
4 a lot of things.

5                   MR. TRUJILLO:

6                   Okay.

7                   CHAIRMAN:

8                   Gary.

9                   MR. SOJKA:

10                  I do have just a question or two, and  
11 mine are going to be of a different sort, particularly  
12 of Mr. Trujillo's, because I don't have that level of  
13 granularity. Let's go back to where --- and please  
14 treat me like I was nine years old, because that's the  
15 level which I can remember this. I do see all of the  
16 discussion agglomerating around this refinancing.  
17 There was a large amount owed. Now, for the reasons  
18 you've clearly stated, a smaller amount is owed by  
19 Mount Airy, the difference is absorbed by Mr. DeNaples  
20 personally. And I understand that no recourse is  
21 scheduled for him, for whatever reason, unimaginable  
22 as it may be, Mr. DeNaples defaulted on that part,  
23 Mount Airy would be unaffected; is that correct?

24                  ATTORNEY PITRE:

25                  That's correct.

1                   MR. SOJKA:

2                   That's the step that gets Mr. DeNaples  
3 out of the situation. But now I'm troubled because I  
4 just don't understand the word credit. When he gets  
5 credit dollar-for-dollar by payments made by Holdco,  
6 what does that mean? Is his debt reduced?

7                   ATTORNEY SKLAR:

8                   Yes.

9                   MR. SOJKA:

10                  So it's conceivable then, that if things  
11 move at the pace that I think people are proposing,  
12 when we say how does Mr. DeNaples go away and you say  
13 well, he might pay it down, can we assume that this is  
14 really set up so that proceeds coming from Mount Airy  
15 will first pay down Mr. DeNaples's debt and cause him  
16 to be out of this picture before they pay down the  
17 Mount Airy debt?

18                  ATTORNEY PITRE:

19                  Absolutely not.

20                  ATTORNEY SKLAR:

21                  No.

22                  MR. SOJKA:

23                  Okay. What does that credit mean?  
24 That's proceeds above the debt service that Mount Airy  
25 owes JP Morgan, could then be also applied to Mr.

1 DeNaples' debt?

2 ATTORNEY SKLAR:

3 Think about it this way. The first and  
4 foremost under the existing credit agreement that  
5 Mount Airy entered into on April 19th, they have to  
6 pay their debt service period, to the extent that  
7 under the credit agreement any distribution can be  
8 made from --- that there's excess cash flow. There's  
9 certain parameters for when distributions could be  
10 made. So put aside anything with Louis, the personal  
11 loan. There's certain circumstances where excess cash  
12 flow could be distributed by Mount Airy to Holdco, and  
13 then it would flow to the Lisa Trust.

14 MR. SOJKA:

15 So Lisa Trust, and if we go through the  
16 restructuring, the other six trusts in addition?

17 ATTORNEY SKLAR:

18 Correct.

19 MR. SOJKA:

20 So to the extent that that occurs, that  
21 happens and that permitted, rather than Holdco  
22 distributing it to Lisa Trust because of the  
23 collateral assignment of the note, payments for those  
24 distributions will get paid from Holdco to JP Morgan  
25 on account of the Lisa Trust note?

1                   ATTORNEY SKLAR:

2                   Yes.

3                   MR. SOJKA:

4                   Okay. Now, tell me about the credit.

5                   ATTORNEY SKLAR:

6                   The credit is essentially a deal that  
7 Louis negotiated with JP Morgan on his personal loan,  
8 where the two parties came to an agreement and said  
9 okay to the extent a dollar is paid on the Lisa Trust  
10 note we'll give you credit on your personal loan.

11                   MR. SOJKA:

12                   Tell me what that word credit means.

13                   ATTORNEY SKLAR:

14                   It means that if --- let's put on  
15 hypothetical numbers. If the Lisa Trust note gets \$10  
16 and Louis' personal loan is \$100, if there's excess  
17 cash flow from Mount Airy of a dollar, it gets  
18 distributed to Holdco. Holdco pays that dollar to JP  
19 Morgan. That \$10 principle gets reduced down to \$9,  
20 and because of the agreement with Louis and JP Morgan  
21 on the personal loan, that \$100 gets reduced to \$99.

22                   MR. SOJKA:

23                   Okay. So if there is anyone that's ---  
24 it truly is at the --- that JP Morgan offered to make  
25 this thing happen. Essentially, it sounds like a

1 two-for-one paydown.

2 ATTORNEY SKLAR:

3 It was a negotiation between the two  
4 parties. Like I said, it could have been we'll give  
5 you for every dollar --- it could have been \$2, could  
6 have been three, could have been five, it could have  
7 been zero.

8 MR. SOJKA:

9 That's their business decision. But the  
10 point is, it's not anymore a zero sum gain. The  
11 amount of debt actually is getting reduced --- the  
12 total amount of debt, including Mr. DeNaples, Sr.'s  
13 personal debt, plus the Mount Airy debt, really starts  
14 to go down faster than you might at first realize  
15 because of this credit.

16 ATTORNEY PITRE:

17 Well, it's not the Mount Airy debt.

18 MR. SOJKA:

19 They have to pay the Mount Airy debt?

20 ATTORNEY PITRE:

21 They have to pay the Mount Airy debt  
22 first, correct.

23 ATTORNEY PITRE:

24 Then I want to know what the credit is.

25 ATTORNEY PITRE:

1 The dollar for dollar?

2 MR. SOJKA:

3 Yeah.

4 ATTORNEY PITRE:

5 Okay. That, as I understand it, is only  
6 with regard to the payment of the note. Now, that's  
7 why I said that if the Board allows Mr. DeNaples to  
8 withdraw, then on that date whatever that number is is  
9 the money he's entitled to. Now, pursuant to Section  
10 1312 of the Act, the Board has the discretion to allow  
11 the divestiture of an applicant and you have a  
12 licensee, the money that they paid over, as long as it  
13 doesn't exceed the amount that is owed, the Board has  
14 discretion to allow that to happen. If the Board  
15 allows these loans, grants it, said it was okay, loans  
16 were made, it's an obligation that the trust owed to  
17 whoever is the holder of that note. Regardless if  
18 it's Mr. DeNaples or JP Morgan or anyone else, the  
19 holder of that note is entitled to the monies that are  
20 owed on that note. But if money was paid over, that  
21 obligation was on the books by the trust. Not on the  
22 books of Mount Airy, but on the books of the trust.

23 If for some reason there is a  
24 disbursement and the trust received that disbursement,  
25 that disbursement automatically goes to JP Morgan to

1 pay down that note that is owed by the trust. And  
2 then JP Morgan says okay, Mr. DeNaples, because the  
3 note is being paid down, we're going to reduce your  
4 debt dollar-for-dollar on the payment of this note  
5 that you assigned to us. So as Mr. Sklar said, it's  
6 an agreement between Louis and JP Morgan. I don't  
7 know how he got him to agree to it, but God bless him.

8 MR. SOJKA:

9 That's the kind of problem I was having.  
10 But Mr. Pitre, I will say you do have the potential of  
11 another career. You can talk to nine year olds.

12 ATTORNEY PITRE:

13 Considering I have one.

14 MR. SOJKA:

15 Mr. Chairman, all the questions I've had  
16 have been asked and have been answered. Thank you.

17 CHAIRMAN:

18 Jim?

19 MR. GINTY:

20 I have a couple. Mr. Sklar, first of  
21 all, I must compliment you on your presentation. It's  
22 a very difficult transaction --- even for a nine year  
23 old. I have three questions.

24 One is how would you characterize the  
25 nature of the transaction with Mr. DeNaples assuming



1 the debt of the Lisa Trust? What is the nature of  
2 that transaction?

3 ATTORNEY SKLAR:

4 I'm not following your question.

5 MR. GINTY:

6 If Mr. DeNaples assumed that \$100-some  
7 million --- a million dollars in debt that the Lisa  
8 Trust owed to JP Morgan?

9 ATTORNEY SKLAR:

10 No. Before the refinancing, Mount Airy's  
11 debt was approximately \$271 million, which was reduced  
12 to \$165 million. That differential, Louis took on by  
13 himself.

14 MR. GINTY:

15 And what is the nature of that  
16 transaction?

17 ATTORNEY SKLAR:

18 It's not an investment. Most of the time  
19 no payments.

20 MR. SOJKA:

21 Wouldn't it be a gift?

22 ATTORNEY SKLAR:

23 It's a gift in the sense that Mr.  
24 DeNaples I think went above and beyond, stepped up to  
25 the plate. I don't know how many other people in his

1 position ---.

2 MR. GINTY:

3 No, no. I'm not suggesting it otherwise.

4 ATTORNEY SKLAR:

5 But essentially, he took it upon himself  
6 for the benefit of Mount Airy to assume to make this  
7 work.

8 MR. GINTY:

9 I don't want to get you in trouble with  
10 the IRS, but I mean, it's an unusual transaction.

11 ATTORNEY SKLAR:

12 Essentially, he assumed --- someone had  
13 to assume that portion of the debt in order for JP  
14 Morgan as the original lender ---.

15 MR. GINTY:

16 I understand all that. And by the way,  
17 I'm very comfortable if it is a gift.

18 ATTORNEY PITRE:

19 We feel it's a gift for us.

20 MR. GINTY:

21 And that's fine. I mean, I've just been  
22 struggling here trying to understand the nature.  
23 Secondly, a small point. Now, when you were talking  
24 about amending the Audit Committee's Charter you're  
25 requesting that the Board --- internal control. I

1 guess you're talking in those terms of gaming type of  
2 control, not the traditional financial accounting  
3 controls that audit committees are responsible for; am  
4 I correct?

5 ATTORNEY PITRE:

6 Correct. I'm talking about specifically  
7 the gaming.

8 MR. GINTY:

9 One last point. In responding to a  
10 question by Mr. Trujillo concerning our discretion  
11 under the Act in determining who shouldn't be  
12 licensed. You aren't suggesting that our discretion  
13 is unfettered?

14 ATTORNEY SKLAR:

15 Absolutely not.

16 MR. GINTY:

17 I have no further questions.

18 CHAIRMAN:

19 Any other questions?

20 MR. TRUJILLO:

21 Yes. Thank you, Mr. Chairman. Cyrus,  
22 I'll confess, I originally looked at the reduction of  
23 Mr. DeNaples' debt as a benefit to him. Therefore, my  
24 initial inclination was he's a beneficiary of that  
25 transaction, that perhaps there is something that

1 almost required not the licensure, not something that  
2 --- so I believe how I'm understanding it now is that  
3 that benefit to him is a benefit that is secondary or  
4 tertiary from anything that's going on at Mount Airy.  
5 In other words, the relationship is Mount Airy to JP  
6 Morgan, there is a pay down. It's coincidental to  
7 that pay down. In other words, there's no contractual  
8 relationship between Mount Airy and Mr. DeNaples that  
9 reduces his debt. The contractual relationship is  
10 between Mr. DeNaples and JP Morgan; correct?

11 ATTORNEY PITRE:

12 That's correct.

13 MR. TRUJILLO:

14 Okay. Because that was troubling me  
15 substantially, and I thought that might almost get us  
16 to where he needed to be licensed. But you also said  
17 earlier that you struggled kind of with the same  
18 notion --- or maybe it wasn't relating to that  
19 reduction, but if he's not a guarantor, he's not an  
20 owner, not any of the required bases for a principal  
21 licensure, how did you, I guess, resolve in your own  
22 mind, or you know, at OEC that he was not, quote,  
23 unquote, required to be licensed as a principal?

24 ATTORNEY PITRE:

25 He doesn't have any control. He doesn't

1 own anything. Aside from that, he doesn't benefit in  
2 any fashion other than the note that he currently  
3 holds that was assigned to JP Morgan.

4 MR. TRUJILLO:

5 What we just discussed; right?

6 ATTORNEY PITRE:

7 What we just discussed.

8 MR. TRUJILLO:

9 That's all I have, Mr. Chairman. Thank  
10 you.

11 CHAIRMAN:

12 Any other questions from the Board?  
13 Questions from Ex-Officio members? Okay. Ladies and  
14 gentlemen, that will conclude this public hearing.  
15 And at this time, the Board will take a five minute  
16 recess, and coming back we will begin our public  
17 meeting. So we'll be back in about five minutes, at  
18 11:25.

19 \* \* \* \* \*

20 HEARING CONCLUDED AT 11:22 A.M.

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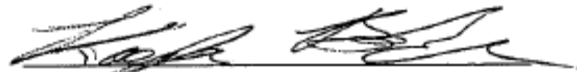
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I hereby certify that the foregoing proceedings, hearing held before Chairman Ryan, was reported by me on 05/23/2012 and that I Kayla Bolze read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

  
Court Reporter