

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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

\* \* \* \* \*

PUBLIC INPUT HEARING

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BEFORE: WILLIAM H. RYAN, JR., CHAIRMAN  
Gregory C. Fajt, James B. Ginty, Annmarie  
Kaiser, Keith R. McCall, Anthony C.  
Moscato, Gary Sojka, Members; Christopher  
Craig, Representing Robert M. McCord,  
Robert Coyne, Representing Secretary to  
Department of Revenue Daniel P. Meuser and  
Matthew Meals, Representing Secretary of  
Agriculture George Grieg

HEARING: Tuesday, January 29, 2013  
10:00 a.m.

LOCATION: Strawberry Square Complex  
Second Floor  
Harrisburg, PA 17101

WITNESSES: James Tuthill, Richard Whitby  
Reporter: Jennifer T. Alves

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CHAIRMAN:

Okay. Good morning everyone. My name is Bill Ryan. I'm the Chairman of the Pennsylvania Gaming Control Board. Before we begin I would like to ask everyone to please turn off cell phones, PDAs, other electronic devices. Thank you very much. With us today is Christopher Craig representing State Treasurer, Robert McCord. Bob Coyne representing the Secretary for the Department of Revenue, Dan Meuser and Matthew Meals representing the Secretary of Agriculture George Greig. Thank the three of you gentlemen for being here. We have a quorum. Everyone is present and I will therefore call today's meeting to order. The first thing we will do is the Pledge of Allegiance, so I'll ask everyone to please stand.

PLEADGE OF ALLEGIANCE RECITED

CHAIRMAN:

Thank you. We have two items before the Board today for public hearing. They will take place prior to our public meeting. The first public hearing pertains to the Mount Airy's Petition for Approval of a Casino Floor Reconfiguration. Immediately following that hearing we will move directly into our second

1 hearing, which deals with Presque Isle Downs' Petition  
2 to Reduce the Number of Slot Machines and Table Games.  
3 At the conclusion of these hearings and presentations  
4 we will take a brief recess to conduct quasi judicial  
5 deliberation before returning to conduct our regularly  
6 scheduled meeting.

7                   So, we will begin with Mount Airy.  
8 Prior to presentations I would ask all fact witnesses  
9 presenting evidence today for either Mount Airy or OEC  
10 to please stand and be sworn. Also I'm going to ask  
11 that all persons speaking, including Counsel, state  
12 and spell your name for the benefit of the  
13 stenographer. So, Mount Airy? Okay. Gentlemen,  
14 could you state your name and spell it and then be  
15 sworn?

16                   MR. TUTHILL:

17                   My name is James Tuthill, J-A-M-E-S, T  
18 as in Thomas, U, T as in Thomas, H-I-L-L.

19                   CHAIRMAN:

20                   And you, sir?

21                   MR. WHITBY:

22                   Richard Whitby, R-I-C-H-A-R-D,  
23 W-H-I-T-B-Y.

24 -----

25 WITNESSES SWORN EN MASSE:

1 -----

2 CHAIRMAN:

3 Thank you, gentlemen. You may sit down.  
4 Counselor?

5 ATTORNEY SKLAR:

6 Good morning, Chairman, Commissioners.  
7 Michael Sklar, S-K-L-A-R, on behalf of Mount Airy  
8 Number One, LLC. With me this morning are Jim Tuthill  
9 who's the vice president of gaming at Mount Airy and  
10 Rich Whitby who is the director of slot operations.  
11 This morning the petition before you is a request to  
12 reduce the slot machine count at Mount Airy from 2,075  
13 machines down to 1,875, 200 machine reduction. We'll  
14 go through --- Rich and Jim will go through the  
15 rationale and what Mount Airy believes are the  
16 benefits to the facility if the Board approves the  
17 reduction. And then we'll also --- Rich will go  
18 through the floor plan and explain exactly what is  
19 contemplated.

20 At this point I think the Board's had a  
21 number of these petitions before you to date and I  
22 think the --- I think at this point there is certainly  
23 not necessarily a correlation between a slot reduction  
24 and a reduction in GTR. In fact, we will demonstrate  
25 this morning with the reductions that Mount Airy has

1 done thus far, it's actually been an increase in GTR.  
2 Not to say that there's a correlation in reverse, but  
3 I think most importantly I think for the Board is  
4 there's certainly not --- there hasn't been any  
5 evidence of a decrease in GTR. And before I turn it  
6 over to Rich and Jim, I think everyone has to  
7 understand I think the goal of Mount Airy management  
8 and the Board and the Commonwealth, I think all of our  
9 interests are aligned.

10           The goal is to maximize revenue and  
11 profits and from an operations standpoint these guys  
12 analyze the floor, the number of machines, the mix of  
13 machines constantly and this is what they believe is  
14 in the best interest of Mount Airy and the  
15 Commonwealth. And with that I'll turn it over to Jim.

16           MR. TUTHILL:

17           Good morning. Clearly we believe we  
18 have an excess of product on the floor, assets on the  
19 floor and we base that on utilization, occupancy  
20 reports that we run system generated reports. And our  
21 win per unit are statistics that we look at on a  
22 weekly basis, sometimes daily. There's several  
23 benefits to accomplishing this reduction. One is to  
24 relieve the congestion on the main floor during peak  
25 periods and enhance the traffic flow and gaming



1 experience for the customers that do come into Mount  
2 Airy.

3                   We'll provide a more spacious and  
4 comfortable experience for the players, opening up the  
5 aisles and shortening the aisles, Rich will address,  
6 and creating a better traffic flow on the floor. It  
7 will help us a great deal and introduce a better  
8 customer experience. And again, there's a cost  
9 savings involved with the reduction as well. There  
10 are machines on the floor that should we not have to  
11 replace them we'll be able to use our capital, deploy  
12 our capital more efficiently towards other product and  
13 the experience at Mount Airy.

14                   So I think, as we stated before, slot  
15 machines don't generate revenue, people generate  
16 revenue and we need to create a better experience and  
17 become more efficient. With this model I think we've  
18 accomplished that. The Board has graciously  
19 recognized that the machines don't necessarily  
20 translate into more revenue, as Michael stated. And  
21 there's no anticipated negative impact on the gross  
22 terminal revenue as a result of this reduction.  
23 Otherwise we wouldn't be here. We're incentive and  
24 the plan is for us to increase revenue on a regular  
25 basis, which we've demonstrated. And again, the

1 Commonwealth and Mount Airy are partners in this.

2 MR. WHITBY:

3 Thanks, Jim. If we go to the next slide  
4 it shows our current operating plan, which is OP-8F,  
5 which has just recently been approved. Very minor  
6 changes on here from our --- the plan before that.  
7 What we did in previous operating plans is that we  
8 opened up aisle space, like Jim said, to create a  
9 better traffic flow not only for customers, but for  
10 employees back and forth to the casino cage, the back  
11 of the house areas and we've placed some carousels,  
12 which are a lot more comfortable when people play.  
13 We've had a great result from that, people enjoy it.  
14 We feature some of our lease product on these  
15 carousels and we've had great results.

16 Going to the next slide is what we're  
17 proposing, which would be OP-9 and we're doing some of  
18 the same things that we did in previous OPs. We're  
19 chopping off some of our rows that are 14 and 16 games  
20 long and we're shortening them up to 10 or 12 games  
21 per row creating wider aisle space up and down the  
22 casino floor. If you look at the top left corner we  
23 placed a couple more --- eight game carousels there  
24 and we mirrored that all the way around the floor.  
25 Like I said before, these carousels create more

1 comfort, have a little more elbow room when you're  
2 sitting and playing next to people and we can feature  
3 some of the newer product that would go out. Our  
4 lease product we like to put on the carousels.

5           So it creates a much comfortable, more  
6 comfortable playing environment. In the bottom left  
7 hand corner is our third floor casino, which is a  
8 totally smoke free environment. We have not touched  
9 that third floor. In fact, recently there was a small  
10 smoking area up there on the table game poker side,  
11 which we've made totally non-smoking. There's 150  
12 slot machines up there. Our plan is to leave them as  
13 is. We do have requests from customers to play in a  
14 totally non-smoking environment, so we did not touch  
15 that in this OP.

16           ATTORNEY SKLAR:

17           Rich, before you move on what's the  
18 anticipated --- if the Board approves the  
19 reconfiguration what would be the anticipated time  
20 frame for completion of the reconfiguration?

21           MR. WHITBY:

22           From start to finish it's a pretty  
23 simple OP. We're not reconfiguring a lot. We're  
24 taking games off the end of the rows, so it's pretty  
25 simple. Placing some carousels in. I would

1 anticipate a 90-day plan. If you go to the next slide  
2 this is where we calculate our occupancy and on our  
3 first hearing when we had 2,450 machines.  
4 Unfortunately we didn't have a system generated report  
5 that we could use for occupancy. We simply reported  
6 games in play every hour on the casino floor by a  
7 program from Bally Gaming. It's a slot monitoring  
8 system and it is a live snapshot of the casino floor.  
9 It updates every couple of seconds as to how many  
10 games are in play. Our first reduction we pretty much  
11 used that for occupancy. Since then at the Board's  
12 request we have developed a system generated report  
13 and we've used that report in the last two reductions  
14 and what that report does and how it's calculated is  
15 we capture all of the handle pulls or spins or plays  
16 on a slot machine for every minute on the casino  
17 floor.

18           As a customer's playing the average  
19 handle pulls or spins that they play per minute is  
20 7.8, so we capture the handle pulls and divide it by  
21 7.8 and we divide that by the number of games on the  
22 casino floor. And that gives us our occupancy for  
23 that hour. And that's how we --- that's now how we  
24 calculate our occupancy. So, it's a much more  
25 accurate way of calculating how many people are out

1 there playing on the floor and it is system generated.  
2 It's not something that we go out and look at and  
3 write down and count. So, we continue to use that.  
4 It seems to be very accurate, and as you can see, you  
5 know, every time we reduce the number of game, of  
6 course, the occupancy goes up, mid week and on  
7 weekends.

8                   We would like to see peak occupancy up  
9 towards 75 to 80 percent. We believe that's the  
10 correct occupancy for a casino, so by reducing this we  
11 will get closer to that peak occupancy. During some  
12 of our busiest times we're seeing 1,200 to 1,300  
13 machines in play out of 2,075. We have plenty of  
14 machines available, and going to 1,875 if we're still  
15 seeing 1,200, 1,300 games in play we still have plenty  
16 of assets for people to play.

17                   ATTORNEY SKLAR:

18                   Rich, before you move on. Just so I  
19 think everyone's clear, you're saying that the 1,300  
20 machines in use, that's the absolute maximum that  
21 you've seen at any particular point in time throughout  
22 the year?

23                   MR. WHITBY:

24                   Yeah. 1,300 to 1,400 is the most we've  
25 seem probably over the past year. This past holiday

1 weekend, Martin Luther King weekend, we saw 1,300 on  
2 Sunday afternoon for about two hours. New Year's Eve,  
3 for example, we never had 1,200 machines in play for  
4 the whole day. So we have plenty of machines out  
5 there for the volume of business and the people in the  
6 building that we're seeing at this time.

7           The next slide is a win per unit  
8 statewide for each facility, and as you can see, Mount  
9 Airy is --- we're still at the bottom as far as win  
10 per unit goes, and that's another indicator, I think,  
11 that we have excess supply of slot machines on the  
12 casino floor. As an operator we'd like to see  
13 somewhere in the middle of the pack, in the mid 200 to  
14 high 200 wins per unit, better utilize the assets that  
15 we have and get more out of it. Onto the next slide,  
16 the impact of slot machine reductions at Mount Airy.  
17 This is showing our April to September 2011 when we  
18 had 2,275 slot machines on the floor. Our GTR was  
19 \$77.5 and our win per unit of \$186. We're comparing  
20 that to the same time frame in 2012 when we dropped  
21 the 200 machines. Our gross terminal revenue went up  
22 to about \$80 million and our win per unit went up to  
23 \$211.

24           So, as a result of the 200 game  
25 reduction we did not see a negative impact on GTR, win

1 per unit increased slightly and we believe that this  
2 reduction will have similar results. We don't see a  
3 negative impact on GTR.

4 ATTORNEY SKLAR:

5 And Rich, can you just explain why this  
6 April, September period was selected for the basis of  
7 comparison?

8 MR. WHITBY:

9 We wanted to base it on the same time  
10 frame that we presented --- that we finished the last  
11 reduction in the reconfiguration of the casino floor.  
12 So, we wanted to compare the exact same time frame,  
13 not use different times of the year. Maybe the  
14 slower, wintertime compared to April through  
15 September, which are peak summer months. We wanted to  
16 use the exact same time frame.

17 The next slide is cost savings. Just in  
18 replacement costs of slot machines alone last year, we  
19 purchased just a little over a hundred machines and  
20 the average cost of a machine is about \$18,000, so to  
21 not replace 200 slot machines right there is savings  
22 of \$3.6 million in capital replacement costs. The  
23 annual operating costs to power the machines, to  
24 maintain the machines, to buy parts for them, et  
25 cetera is another \$25,000 in savings. By not having

1 to replace this equipment and maintain it it's a  
2 considerable cost savings to us.

3 ATTORNEY SKLAR:

4 And Rich, if the Board approves this  
5 reduction what will you do with the 200 machines that  
6 are removed from the floor?

7 MR. WHITBY:

8 In the past what we've done with the  
9 machines is we've done a few things. We've used them  
10 to --- we've traded in. Sometimes we purchase new  
11 machines, the manufacturer will offer you a trade in  
12 if you give them a machine. That will reduce the cost  
13 of a new machine by \$1,000 to \$1,500 depending on what  
14 we're trading in. We've done that when we've  
15 purchased new machines. We've also sold them outright  
16 to other authorized vendors and we keep some --- we  
17 keep some in storage. We use them for --- we use a  
18 lot of them for parts. Parts are very expensive, so I  
19 think right now we have about 85 to 90 slot machines  
20 in storage that we pretty much use the parts for to  
21 keep the games on the floor up and running instead of  
22 buying new parts.

23 ATTORNEY SKLAR:

24 Okay. That concludes our presentation.  
25 I just want to say in summation, I think based on the



1 data that we presented I think that it clearly  
2 demonstrates an excess amount of supply of machines at  
3 Mount Airy currently. And based on the history I  
4 don't think that there is a likelihood of any decrease  
5 in GTR. And again, I come back to where I started, I  
6 think the management's overriding goal here is to  
7 maximize revenue. If there is any indication, if the  
8 Board approves this reduction, that for some reason  
9 there's not enough demand --- or enough supply I  
10 should say, then we'll be back here requesting an  
11 increase in supply. So, we're absolutely motivated to  
12 have that right amount. And again, I think it was  
13 Commissioner Sojka. We went back and forth, art  
14 versus science with some of this stuff.

15 MR. SOJKA:

16 And we will do that again today.

17 ATTORNEY SKLAR:

18 I think that the number of machines, the  
19 200 that's been selected today, I think that is more  
20 on the scientific side because it's based on the data.  
21 I think the art comes into it more, and these guys are  
22 certainly much more expert than I am, is in the mix in  
23 which particular machines to remove, that may be more  
24 of an art, but I think the science part of it, I think  
25 the 200 should be 190 versus 210, I think we could

1 quibble, in that range, but I think the 200 is based  
2 on the data that these guys have analyzed. So, with  
3 that we are available to answer any questions that OEC  
4 or the Board might have.

5 CHAIRMAN:

6 Thank you, Mr. Sklar. Does the Office  
7 of Enforcement Counsel (OEC) have any questions of  
8 Mount Airy?

9 ATTORNEY DAVENPORT:

10 Of course. Nan Davenport, Deputy Chief  
11 Enforcement Counsel for the Office of Enforcement  
12 Counsel (OEC). Good morning, Commissioners and  
13 Chairman. As Attorney Sklar just pointed out and  
14 during the prior slot reduction hearings they pointed  
15 out that it was more art than science. A review of  
16 Mount Airy's GTR in 2011 and 2012 show that, but for  
17 July and November of 2012, the prior 200 slot  
18 reduction did have a positive impact on GTR. But if  
19 the prior slot reduction resulted in increased GTR  
20 what assurances does the Board have that this 200 slot  
21 reduction is going to result in another increase of  
22 GTR?

23 CHAIRMAN:

24 That's an interesting question.

25 MR. TUTHILL:

1                   Quite candidly my career depends on it.  
2 You know, we've watched these as closely as anyone  
3 watches anything, table games, slots. We're totally  
4 focused on these numbers on a daily basis, on a weekly  
5 basis, we meet on a regular basis. We see what  
6 promotions are working for us, we see what games are  
7 producing for us. A hundred percent assurance? I  
8 don't know that there is such a thing in the industry,  
9 but certainly based upon the 40 years I have in the  
10 business and the 30 years Rich has in the business  
11 it's our informed and educated opinion that we can  
12 certainly decide which assets do not perform.

13                   We are committed to placing new product  
14 on the floor, we're committed to capital expenditures,  
15 we're committed to lease product so that we can  
16 compete with our nearest competitors in terms of  
17 getting the best product on the floor that people do  
18 want to play. Nothing's a certainty. You can't  
19 predict weather, you can't predict economy, you can't  
20 predict so many things, but based on what we know and  
21 what we believe certainly we would expect that we  
22 would have a similar result going forward from the  
23 prior reductions.

24                   ATTORNEY DAVENPORT:

25                   Is there a tipping point where further

1 slot reductions are going to result in a negative  
2 impact to GTR and how do you make that determination?

3 MR. TUTHILL:

4 You know, occupancy is what we key in on  
5 most and you can look at win per unit but --- to be  
6 candid again, you know, you can use win per unit and  
7 argue it either way. Certainly if you take enough  
8 machines off the floor your win per unit is going to  
9 be very high. You know, that's not the end all in  
10 terms of doing that and that's not what's driving us.  
11 Certainly what's driving us is gross terminal revenue.

12 So, you know, based upon occupancy and  
13 based upon calculations that we do, we feel that 80 to  
14 85 percent of maximum occupancy during peak times and  
15 peak promotions is where we need to be with these  
16 games. Just coincidentally 200 takes us to 1,875 and  
17 based upon the 1,300 and 1,400 maximum games in play,  
18 that we see during our peak periods, that takes us to  
19 the 80 percent range, where we feel we need to be.

20 ATTORNEY DAVENPORT:

21 Pursuant to the Gaming Act a Category 2  
22 facility must make available for play a minimum of  
23 1,500 slot machines. This proposed 9.6 percent  
24 reduction would decrease the number of slots to 1,875.  
25 In the last two years since December of 2010 Mount

1 Airy has been before the Board on three occasions  
2 requesting major slot reductions. I just want to  
3 point out OEC's concern that Mount Airy is getting  
4 precariously close to this 1,500 limit. Do you have  
5 any comment on that?

6 MR. TUTHILL:

7 We don't foresee a return for another  
8 reduction based upon current demand at this time.

9 ATTORNEY DAVENPORT:

10 Through a success of slot reduction  
11 Mount Airy now has 448 less slot machines than when it  
12 first opened to the public, and if the Board approves  
13 this current petition they'll have a total 648 fewer  
14 slot machines than in October of 2007. Although this  
15 petition, the prior 200 slot reduction petition,  
16 stated that the slot reductions will not result in any  
17 layoffs. I don't understand how these reductions  
18 could not have resulted in layoffs for the need for  
19 less slot attendants, slot technicians and  
20 supervisors. So are you just not --- is this through  
21 attrition, or how is this not going to result in  
22 layoffs?

23 MR. WHITBY:

24 We've maintained the same staffing  
25 levels over the last three to four years. When we

1 opened up in the very beginning we employed, I  
2 believe, right around 60 slot attendants, which was  
3 too many based on --- through attrition. We're in the  
4 26 to 27 range for attendants. We have nine slot  
5 technicians, shift managers, four of them cover around  
6 the clock.

7                   As a matter of fact, I just requested  
8 that in 2013 that we add a few positions to the slot  
9 department. That's been approved, so we will be  
10 adding a slot technician, slot technician supervisor  
11 and a few what we call --- we've requested for a lead  
12 slot attendant position to help with the shift  
13 managers, the supervisors on the floor. So, we  
14 actually will be increasing our staff by a few bodies  
15 in 2013.

16                   ATTORNEY DAVENPORT:

17                   According to the petition the proposed  
18 slot removal will result in cost savings due to not  
19 having to maintain those machines, I believe, as well  
20 as electricity savings. Are these 200 slot machines  
21 that you plan to remove, will there be additional cost  
22 savings because they're leased machines or are those  
23 200 slot machines owned by Mount Airy?

24                   MR. WHITBY:

25                   All 200 machines are owned by Mount

1 Airy. They are day one slot machines. They've been  
2 on the casino floor since we opened. We will not  
3 reduce our lease count. We currently lease right  
4 around 180 slot machines, 178 to 180 slot machines  
5 give or take a few each month when we move them in and  
6 out, but we plan to maintain that level. So, our  
7 percentage of the floor will actually increase with  
8 the reduction. It'll be about 10 percent of the floor  
9 will be leased product.

10 We've been very aggressive over the past  
11 couple years with our leased product. We try to be  
12 one of the first in the Commonwealth to offer the new  
13 products on the market. Michael Jackson machine was  
14 the first --- we were first in the state on the casino  
15 floor. We did an OP change just for that, to feature  
16 that right when you walk in our main entrance. So, we  
17 continue that. We will definitely continue on that  
18 path.

19 ATTORNEY DAVENPORT:

20 During the 2011 slot reduction hearing  
21 when OEC asked what Mount Airy intended to do with the  
22 space formally occupied by the slots that were  
23 removed, Mount Airy stated that because there were  
24 major pinch points on the game floor it intended to  
25 open up those spaces, I believe that's what you

1 testified today, that those spaces were opened and  
2 that you're also going to --- with this slot reduction  
3 if it's approved you're going to be replacing some  
4 banks with carousels and also removing some from the  
5 ends of the rows. At some point isn't the gaming  
6 floor going to look a little empty if you keep making  
7 these reductions?

8 MR. WHITBY:

9 I don't think so. I mean, from the very  
10 beginning in my personal opinion the floor was a mouse  
11 maze more or less. There's just long rows and rows  
12 and rows. You can get lost in the middle of it. It's  
13 much more comfortable now. It's much more open. If  
14 you visit some of the other properties in Pennsylvania  
15 they have, you know, 10, 12, 15 feet behind these  
16 carousels in these rows. So, the way that we  
17 configured the floor there is no big open area, it's  
18 simply just widen the aisles and create a better  
19 traffic flow with the carousels.

20 People really like sitting with some  
21 elbow room next to each other while they play. It's  
22 much more comfortable for them. So, I don't think  
23 we're at that point though that we've created big,  
24 open areas on the casino floor. If you look at the OP  
25 I think we just created wider aisles, better traffic



1 flow.

2 ATTORNEY DAVENPORT:

3 Does Mount Airy anticipate having to  
4 come back to the Board at some future point and  
5 request a reduction of the size of the gaming floor?

6 MR. WHITBY:

7 I would not anticipate that, no. We  
8 think the floor is --- it's a good sized floor. We  
9 have our amenities around the perimeter with the  
10 restaurants, the hotel lobby, the nightclub. We think  
11 everything is pretty good the way it is.

12 ATTORNEY DAVENPORT:

13 Does Mount Airy currently have enough  
14 space in the two off-site storage areas to store these  
15 200 slot machines if the Board approves this  
16 reduction? I believe you said you currently have  
17 about 85 or 90 in storage.

18 MR. WHITBY:

19 Yes, we have plenty of room. We had  
20 almost 300 machines in storage at one time. We have  
21 an on-site storage room in the garage at the casino  
22 property. Then we have an off-site storage at the  
23 Strickland's building. There's plenty of room for all  
24 of the machines.

25 ATTORNEY PITRE:

1                   Mr. Tuthill, I believe I heard you say  
2 that with this reduction that will put you at 80  
3 percent occupancy based upon the numbers you're seeing  
4 right now?

5                   MR. TUTHILL:

6                   Based upon our peak periods we should  
7 obtain 80 percent or near 80 percent.

8                   ATTORNEY PITRE:

9                   Okay. So any further reduction would be  
10 based on a lower peak period; correct?

11                  MR. TUTHILL:

12                  Well, we would only use our ultimate  
13 peak period --- and that's how you calculate it. We  
14 wouldn't try and change data ---

15                  ATTORNEY PITRE:

16                  Right.

17                  MR. TUTHILL:

18                  --- or change the model. We've got a  
19 model that we believe works well for us and we have a  
20 model that's proved --- has been proven to increase  
21 our gross terminal revenue and we're not going to  
22 change the model.

23                  ATTORNEY PITRE:

24                  Okay. Well, I guess what I'm asking is  
25 does that ultimate peak period that you're talking

1 about, does that fluctuate?

2 MR. TUTHILL:

3 It does fluctuate based upon the  
4 promotion that's taking place, if it's an extended  
5 jackpot promotion with an automobile giveaway,  
6 something like that. So, I guess the best way to  
7 answer the question would be that we'll take the most  
8 --- or the highest peak at any given time during the  
9 course of the period we're looking as the benchmark.

10 ATTORNEY PITRE:

11 Okay. So, if your ultimate peak period  
12 changes in the future to, let's say, between 1,100 and  
13 1,200 machines, okay --- as Ms. Davenport explained,  
14 the Act calls for 1,500. I can tell you right now,  
15 and I'll tell you in front of the Board, that any  
16 further reductions of slot machines are going to be  
17 met with an objection. I think that when you start to  
18 look at the ultimate peak period changing that has  
19 more to do with getting people through the door. As  
20 you said, people generate revenue. So, I guess my  
21 next question is, what is Mount Airy doing to get more  
22 people through their doors in order to raise that  
23 occupancy rate?

24 MR. TUTHILL:

25 Mike, do you want to ---?

1                   ATTORNEY SKLAR:

2                   I mean, I think that Jim might be able  
3 to touch on a little bit --- he's certainly involved  
4 with some of the marketing and promotional activities  
5 related to gaming. But I think, Cyrus, at the last  
6 summer I guess at Mount Airy's renewal --- license  
7 renewal hearing John Culetsu, general manager, went  
8 through a pretty detailed explanation as to the  
9 marketing initiatives that he was going to implement I  
10 guess starting in the fall and then through this year  
11 to increase traffic.

12                   And that has been implemented and I  
13 think that the numbers --- certainly through the first  
14 half of this fiscal year I think that gross revenue  
15 has increased at Mount Airy. So, I think they're  
16 moving in the right direction and with anything I  
17 think they're constantly evaluating, tweaking, coming  
18 up with new initiatives to continue to drive people  
19 into the facility.

20                   MR. TUTHILL:

21                   I can give you a couple of examples.  
22 Every Saturday throughout the course of the year we  
23 offer a play and earn reward system where people come  
24 in and they can redeem their points for a gift when  
25 they qualify. And during the course of any Saturday

1 we give away \$1,500 to \$2,500. This week it might be  
2 Starbucks coffee and a mug set, and people line up for  
3 this that come in and they play. Sunday occasionally  
4 we'll do an extended jackpot scenario, car giveaways.

5           Currently we have two complete kitchens  
6 set up in the bus entrance coming in the building and  
7 we're going to be giving away six complete sets of  
8 appliances for kitchens. So, you know, there's a fine  
9 balance in terms of creating revenue and controlling  
10 expenses at the same time. And you know, I'd like to  
11 assure you and the Board that, you know, we cast a  
12 very keen eye on the expense side of the equation also  
13 with the free play, with the giveaways, with the  
14 promotional aspects and at the same time creating  
15 coin-in.

16           ATTORNEY PITRE:

17           The swimming pool project, when is that  
18 slated to be completed, Michael? Do you know?

19           ATTORNEY SKLAR:

20           In the summer of this year.

21           ATTORNEY PITRE:

22           Okay. As OEC stated in its Answer,  
23 while we don't have any objection we do have several  
24 conditions that we'd like to be put in place that  
25 we'll read into the record at the appropriate time at

1 the Board's pleasure, but we are willing to allow  
2 Mount Airy to move forward, obviously with the Board's  
3 permission, in the direction that they want to move at  
4 this time. So, I'd like to open up for Board  
5 questions unless the Board would like OEC to read its  
6 conditions into the record.

7 CHAIRMAN:

8 I don't think that's necessary. Does  
9 anybody on the Board, any Ex Officio members want the  
10 conditions read? I think we're all aware of what they  
11 are.

12 ATTORNEY PITRE:

13 Okay.

14 CHAIRMAN:

15 Okay. Questions, comments from the  
16 Board? Got a few.

17 MR. SOJKA:

18 Here we go, art and science, but I want  
19 to make one very easy question. I want to make sure  
20 I'm understanding this. If you leave your non-smoking  
21 area absolutely alone and you reduce the size of the  
22 number of machines in your smoking area, your  
23 percentage of non-smoking is determined by non-smoking  
24 being the numerator and total being the denominator,  
25 you're reducing the denominator without touching the

1 numerator, so your percentage of non-smoking is going  
2 to go up significantly; right?

3 MR. WHITBY:

4 Well, in the floor plan out of the 200  
5 machines that are being reduced I believe my count was  
6 90 of them come out of the smoking area on the first  
7 floor.

8 MR. SOJKA:

9 So ten of them --- ten percent do come  
10 out of ---? So you are doing something up on that  
11 second floor?

12 MR. WHITBY:

13 No. We have smoking ---.

14 MR. SOJKA:

15 You have smoking on the other as well?

16 MR. WHITBY:

17 Yes, the first floor is divided evenly.

18 MR. SOJKA:

19 But then the simple question is, are you  
20 increasing the percentage of non-smoking area?

21 MR. WHITBY:

22 It may increase slightly, yes, if my  
23 count ---.

24 MR. SOJKA:

25 You're certainly not going in the other

1 direction?

2 MR. WHITBY:

3 No, we're not going in the other  
4 direction, no.

5 MR. SOJKA:

6 Because we get a lot of complaints about  
7 smoke in casinos, and obviously, if you're moving  
8 toward more non-smoking, that's good. One of the  
9 issues that if you really get down to the fine grain  
10 stuff, you talk about we're on the same side of the  
11 table, and you know, what you want to do is increase  
12 the gross terminal revenue, the GTR. And there's no  
13 question about that for us because one of our roles is  
14 --- our principle role is to serve the citizens of  
15 Pennsylvania and the revenues that come to the state  
16 from slots are based on the GTR.

17 But that's not really the number that  
18 drives you; is it? You're really more worried about  
19 the net operating income, the NOI, which that's just  
20 --- the GTR's just part of it. And that gets me into  
21 this next question, which really has to do with  
22 customer service because I've been wandering around.  
23 As I travel the country I wander into various casinos.  
24 I don't gamble. I'm not a gamer. I watch what the  
25 people do. You tell me if what I'm seeing is what you



1 see. One, I watch the people at the machines and they  
2 seem to always want to play the maximum that you can  
3 play on a given machine because the display up here  
4 shows the payout favors the max. So, let's assume  
5 that people are generally playing the max.

6           And then I notice an odd distribution of  
7 people, they pile up around machines that have a  
8 relatively low max bet and the higher the max bet the  
9 lower the number of people lined up to see the  
10 machine. So, when you give us these peak numbers we  
11 can't assume that that's an evenly distributed number  
12 of people spread 70 percent across the machines. Is  
13 it not that true that you have people lined up  
14 waiting, jumping into a chair when it gets empty and  
15 whatnot on certain machines? Not based on whether  
16 it's Michael Jackson, or Jungle Princess, or the  
17 Pyramid game or whatever these things are, but frankly  
18 on the denominations of play. And that there are  
19 other machines that have less play, but the maximum  
20 bet is larger and the GTR may, in fact, be better on  
21 the machine that's getting less play because the  
22 denominations are higher.

23           If you take all that into account I'm  
24 wondering how useful is all of this to us when we're  
25 talking about 70 percent, 40 percent and whatnot. And

1 is the real issue --- and what is your mix of  
2 denominations on the floor? And when you do this are  
3 you going to get a maximum GTR, but possibly have a  
4 poor mix in terms of customer service? That's a long  
5 question, but is that ---?

6 MR. TUTHILL:

7 That is a long question.

8 MR. SOJKA:

9 You see what I'm getting to though?

10 MR. TUTHILL:

11 I do. Do you want to start with that?

12 MR. WHITBY:

13 You go ahead.

14 MR. TUTHILL:

15 I'm not sure where to begin.

16 MR. SOJKA:

17 I guess I want to know, the GTR is what  
18 we're interested in. You say it's mostly what you're  
19 interested in and we won't argue on that. What would  
20 the customer feel about that? Because GTR isn't just  
21 driven exclusively by the number of people that are in  
22 there. It's also the mix of games and which games are  
23 being played.

24 MR. TUTHILL:

25 Well, you're correct in your

1 observations on the number of aspects and clearly the  
2 hottest games typically get the most attention, the  
3 new favorite, whatever it happens to be. The flavor  
4 of the week is typically what gets the most attention  
5 and that's accurate across the board. I don't care  
6 what country you're in.

7 MR. SOJKA:

8 It affects that a lot by the  
9 denomination of play? Let's say you put Michael  
10 Jackson in and he's really --- everybody wants to play  
11 Michael Jackson, but it's 27 lines and it's a buck  
12 machine. Is it going to be that hot if somebody has  
13 to put in \$27 every time they punch the button to get  
14 the maximum payout?

15 MR. WHITBY:

16 Most of the leased product and the hot  
17 product that's coming out is in penny denomination.  
18 They're lower denomination machines and you can play  
19 \$.15, \$.20, \$.30, \$.40 up to \$3 or \$4.

20 MR. SOJKA:

21 Uh-huh (yes).

22 MR. WHITBY:

23 Some of them are progressive and you do  
24 need to make a certain amount of bet to win that  
25 progressive jackpot, but not all of them. And the

1 manufacturers realize that and the operators, we  
2 realize that, that, you know, not everybody wants to  
3 sit there and play \$2 or \$3 whether it says it's a  
4 penny machine or not. So, there is bonus rounds.  
5 There are smaller progressive jackpots that can be won  
6 with a lesser bet. So, you know, off the top of my  
7 head I --- the average bet on our penny machines is  
8 probably, you know, \$.75 to \$.80.

9 MR. SOJKA:

10 I guess to really cut to the chase, I'm  
11 quite willing to believe that if you reduce the number  
12 of machines your win per unit will go up, of course.  
13 I'm willing to go along with the answer I think you  
14 gave to Enforcement Counsel about your estimation  
15 about what will happen with the GTR. What I'm curious  
16 about is as --- if we allow this to happen and those  
17 things occur what's your guess as to how people are  
18 actually going to distribute on the floor? Are you  
19 going to have more pile ups on popular machines where  
20 even though you may only be 50 percent full a given  
21 customer says, yeah, but I can't get on the machine  
22 I'm interested in?

23 MR. TUTHILL:

24 Let me make this statement and this is  
25 absolutely true across the board. Customers

1 regardless of who they are will play whatever they're  
2 comfortable playing and there are some customers, many  
3 customers, who are not comfortable sitting down at a  
4 machine with a forced \$.45 bet with a maximum bet of  
5 \$4 and will find another machine to play at. That  
6 person will never play the flavor of the week or that  
7 machine.

8                   And there will be a normal distribution  
9 throughout the casino. There are games on the floor  
10 that have been around, Wheel of Fortune, forever, that  
11 people still will play even though they have some  
12 miles on them, they have some age on them. So, people  
13 will play whatever they're comfortable playing and  
14 some people are just not comfortable with the  
15 structure of some of the newer product that comes on  
16 the floor. They'll go find another product that  
17 they're comfortable playing. So, I would expect the  
18 distribution to remain similar to what it is now. I  
19 don't know if that ---.

20                   MR. SOJKA:

21                   I guess it does. I had a worse case  
22 worry. We could see win per unit go up a little bit,  
23 GTR go up, but --- and we'd look happy and you'd look  
24 happy because the net operating revenue would go up,  
25 but in the long haul you'd start to see customer

1 dissatisfaction because of the mix of games. And I'm  
2 thinking that the way people distribute is not  
3 necessarily picked up when you say we're 70 percent  
4 full, or we're 50 percent or we're 40 percent full  
5 because some of the machines are going to be 100  
6 percent plus full. There's going to be people  
7 waiting.

8 MR. TUTHILL:

9 I understand that. We're very  
10 sensitive, we listen very carefully to the customers,  
11 we listen very carefully to the marketing department.  
12 The marketing department --- at our revenue meetings  
13 and our operation meetings we'll offer suggestions  
14 that we hear from customers in terms of product that  
15 they'd like to see on the floor. And when we can,  
16 which is almost all the time, we respond.

17 MR. MCCALL:

18 Just a point of clarification for me.  
19 On slide nine you have a \$25,000 annual operating  
20 cost. Is that per machine? How's that translate?  
21 What's the ---?

22 MR. WHITBY:

23 That's for the whole reduction of the  
24 200 units, electricity, maintenance, spare parts.

25 MR. MCCALL:

1                   Very good. I just wanted a ---  
2 clarification on that. And I just want to make a  
3 statement really. You know, we look at these numbers  
4 as a Board, and you know, certainly the numbers are in  
5 your favor. Every time groups come before us or  
6 operators come before us when they want to reduce the  
7 number of machines it seems that the gross terminal  
8 revenues go up. And that's a good thing, but this is  
9 a leap of faith for this Board.

10                   You know, we look at these numbers, and  
11 you know, we have to rely on you. We understand, like  
12 you say, we are partners in this, the Commonwealth and  
13 yourself. We're partners in all of this. You know,  
14 your bottom line is to increase the bottom line and  
15 our bottom line is to increase the bottom line so we  
16 can offer tax relief to the citizens of this  
17 Commonwealth.

18                   So, we want you to be successful and  
19 your job is on the line to be successful. So, I guess  
20 the only thing that, you know, I can say for myself  
21 and maybe for the entire Board is that it is a leap of  
22 faith for us. We trust that you know your job and  
23 that you're going to increase revenues and that you  
24 will be successful, but we'll just continue to monitor  
25 that to make sure.

1                   MR. TUTHILL:

2                   I would much rather be here asking to  
3 add 200 games.

4                   MR. MCCALL:

5                   I understand. Sure. Thank you.

6                   MR. FAJT:

7                   Thank you, Mr. Chairman. The  
8 Pennsylvania lottery has come out recently with a  
9 proposal to add Keno statewide. What is, if any,  
10 going to be the impact on your casino?

11                   MR. TUTHILL:

12                   I have limited experience with Keno.  
13 That is in Nevada. Keno for us in Nevada was an  
14 amenity and it really wasn't much of a factor in terms  
15 of table games, slot machines or any other amenity  
16 that we offer.

17                   MR. FAJT:

18                   Okay. Thank you.

19                   MR. WHITBY:

20                   We did have it in Atlantic City, too.  
21 We did have it for a period of time and I believe it  
22 went away.

23                   MR. TUTHILL:

24                   It was almost a non-factor.

25                   MR. FAJT:



1                   Okay. Thank you. My next question is  
2 on this whole issue of owning machines versus leasing  
3 machines and I've asked you about this just about  
4 every time you've been before us. You are one of the  
5 few casinos, you're probably the only one, that owns  
6 90 percent of your slot machines, which is what you  
7 just testified to, that your lease machines now will  
8 be about ten percent. Do you think that's an issue  
9 with your low win per slot per day? In fact, do you  
10 have a more difficult time swapping out for the flavor  
11 of the week because you have to buy them as opposed to  
12 lease them and is there any internal discussions going  
13 on about moving more to a lease based inventory of  
14 slot machines versus an owned base inventory?

15                   MR. WHITBY:

16                   I think there's two factors here. In  
17 today's world, in the slot world, you can lease just  
18 about anything. In other words, some casinos go out  
19 and purchase machines with capital dollars, but the  
20 manufacturers will offer to lease those machines as  
21 well. So, I'm not sure what the other percentages are  
22 for casinos, but for the premium product that is lease  
23 only I believe we offer as much as some of the other  
24 properties.

25                   I don't know that for a fact. I don't

1 go around and count, but we get comments all the time  
2 that our lease product is more up to date than some of  
3 the other properties around. So, some of the product  
4 you can only lease it. The other product that is for  
5 sale, they will give you a lease on that as well. So,  
6 I don't know where that breakdown comes from. There's  
7 another property saying we lease 30 percent of our  
8 product, but is that a purchased product that we would  
9 go out and buy? I'm not sure how that breakdown for  
10 these other properties.

11 MR. FAJT:

12 My recollection is that most of the  
13 other properties the owned piece is actually somewhere  
14 around 30 percent and the lease piece is somewhere  
15 around 70 percent.

16 MR. WHITBY:

17 I would not think so, but that's very  
18 unusual.

19 MR. TUTHILL:

20 I would think at the best the reverse  
21 would be true. And remember each property is unique  
22 and each property that I've worked at has had a  
23 different scenario. And it's through continual  
24 observation, and tracking and fine tuning that you can  
25 come to a mix that works for the property. And to

1 answer part of your question, Commissioner, there are  
2 constant discussions going on with ourselves, the  
3 finance department, the general manager in terms of  
4 discussing greater lease product.

5                   You know, we have a formula that I won't  
6 disclose in public, but certainly we use in terms of  
7 measuring the success of a leased product and whether  
8 or not we're going to retain the leased product for  
9 future play on the floor or whether we're going to  
10 replace it with another lease product. But we are  
11 committed to purchase and lease and updating the  
12 equipment on a regular basis and staying current.

13                   In fact, quite honestly that's the only  
14 way you can survive in this business because when  
15 you're no longer current with your competitors, the  
16 customers will go to the competitor and play the new  
17 product that they find most fun and enticing. So, you  
18 have to --- there is pressure to stay current.

19                   MR. FAJT:

20                   Well, let me just --- two more  
21 questions. One is on that point, so, in --- I'm  
22 looking at your Mount Airy slot machine occupancy.  
23 And you started with --- what was your all time high  
24 number of slot machines, 2,450? Nan?

25                   ATTORNEY DAVENPORT:

1                   2,523 when they opened.

2                   MR. FAJT:

3                   2,523. And you have to come to us every  
4 time you reduce slot machines, so if you're now at  
5 2,075 you in essence --- and you own 90 percent of  
6 those machines, I mean, in your six years of  
7 operation, five years of operation, whatever you've  
8 been in operation, you've only changed 500 of those  
9 machines. Is that an accurate statement? And again,  
10 I'm not trying to manage your business, but I do ---  
11 my gut tells me your significant high percentage of  
12 ownership vis-à-vis the other casinos is part of the  
13 issue, that you don't have the ability to swap out  
14 those machines on a lease basis the way other casinos  
15 do. And I just, you know --- you guys know your  
16 business better than I, but that is something that I  
17 think might be part of the problem here.

18                   MR. WHITBY:

19                   There's other ways to offer new games on  
20 the floor. What we do quite frequently in the slot  
21 business is we modify or convert machines. You can  
22 get a new machine and it may only be popular for six  
23 or eight months. It's still a new cabinet, but maybe  
24 people don't like playing that model. Normally when  
25 you purchase a machine you have performance guarantees

1 on them with the manufacturer that says during the  
2 first 16 months, 18 months, whatever you negotiate,  
3 you can --- we'll give you a conversion kit for that  
4 game to convert it one, two, three, four times,  
5 whatever it may be. So, if we look at that cabinet it  
6 may be three or four years old, but that doesn't mean  
7 that we cannot upgrade that machine to a new model.  
8 So, you don't necessarily have to replace the whole  
9 machine to get a new version out there. The lab is  
10 constantly approving new programs.

11 MR. FAJT:

12 Does the game change when you do that,  
13 or is it just an updated version of the same game?

14 MR. WHITBY:

15 No, you can change the game.

16 MR. FAJT:

17 So, I Love Lucy can become Michael  
18 Jackson?

19 MR. WHITBY:

20 Yes.

21 MR. FAJT:

22 Okay. One last question.

23 ATTORNEY SKLAR:

24 Commissioner. I'm sorry. I'm sorry to  
25 cut you off. My recollection was at a prior hearing

1 with the lease versus owned --- and it wasn't Mount  
2 Airy. It was another facility. It was close to the  
3 90 percent owned and 10 percent lease.

4 MR. FAJT:

5 We'll ask Presque Isle coming up, and I  
6 will stand corrected if that is the case. My last  
7 question on your peak occupancy. Did I hear you  
8 correctly to say that your peak occupancy in the last  
9 year or two was 1,300 machine usage at the peak time?  
10 In other words, you have 2,000 machines and you've  
11 never been above 1,300? Did I hear that correctly?

12 MR. WHITBY:

13 We saw 1,300 on Martin Luther King  
14 weekend. Over the past year or so we may have been a  
15 little over 1,400 if I remember correctly, you know,  
16 an hour or two here or there, but normally on Saturday  
17 afternoons and evenings we're at the 1,100, 1,200  
18 range ---

19 MR. FAJT:

20 Okay.

21 MR. WHITBY:

22 --- games in play.

23 MR. FAJT:

24 Thank you.

25 MR. WHITBY:

1                   You're welcome.

2                   MR. FAJT:

3                   Thank you, Mr. Chairman.

4                   CHAIRMAN:

5                   Tony?

6                   MR. MOSCATO:

7                   No.

8                   CHAIRMAN RYAN:

9                   I guess, if I can, to sum this up for my  
10 benefit. What you're doing here then is making the  
11 best efforts you can at efficiency. That is having a  
12 more --- in your view, more efficient number of  
13 machines and in your view the number of machines  
14 definitely will not cause your revenue to go down.  
15 That you don't want. Otherwise the impact on revenue  
16 is too nebulous; correct? Your revenue may go up, it  
17 may not, but what you're trying to do is just be more  
18 efficient with the product you have; correct?

19                   MR. TUTHILL:

20                   That's correct.

21                   CHAIRMAN:

22                   How often do you replace these machines?

23 Is there an average?

24                   MR. WHITBY:

25                   No. No, not really. It depends on the

1 availability of capital to replace machines, and  
2 obviously, the coin-in and the win per unit, you know,  
3 you have to go around the floor and say, we'll replace  
4 ten percent of the floor every year I think is really  
5 difficult in this day and age and this market and the  
6 cost of doing so.

7 CHAIRMAN:

8 So, again, it's just another decision  
9 based on business, based on how you can best be  
10 efficient; right?

11 MR. TUTHILL:

12 It varies and I venture to say in the  
13 very best days of Atlantic City in the '80s, and early  
14 '90s casinos like to flip the floor or change the  
15 floor out every six years or so. So, one sixth of the  
16 games would be replaced every year. I think that in  
17 today's world, in today's market you're seeing an 8 to  
18 12 year cycle.

19 CHAIRMAN:

20 Okay. Questions from Ex Officio  
21 members?

22 MR. CRAIG:

23 Thank you, Mr. Chairman. I just have a  
24 couple of quick questions. And to kind of give you  
25 context, I represent the State Treasurer and part of



1 his job is he is the sole fiduciary of all gaming  
2 funds for the various public policy purposes in the  
3 Commonwealth. We safeguard the funds, we invest them  
4 for short term cash and we make the payment, so we're  
5 always very, very concerned and focused on the health  
6 of the funds and primarily the financial viability and  
7 health of each of the facilities that support the  
8 funds. I was hoping maybe you can educate me a little  
9 bit about how occupancy is measured as a matrix.  
10 This, if I understand correctly, is occupancy of the  
11 particular slot machines; is that correct?

12 MR. WHITBY:

13 Yes. That's the number of units in play  
14 at any given time.

15 MR. CRAIG:

16 How is that measured, through like the  
17 central control computer system or somebody walking  
18 through with a ---?

19 MR. WHITBY:

20 No, it's measured by the --- it's a  
21 system generated report IT department has put  
22 together. We have the Bally ACSC slot system and  
23 every time someone pulls the handle, or spins the  
24 wheel or plays a hand of poker it's recorded as a  
25 handle pull in the system. So, every hour we capture

1 those handle pulls, those physical plays on the slot  
2 machine.

3 MR. CRAIG:

4 How do you distinguish the difference  
5 between, let's say you were pulling the handle or I  
6 was?

7 MR. WHITBY:

8 Well, you know, through some research  
9 and through the industry it's determined that the  
10 average handle pull per minute per customer is 7.8  
11 handle pulls per minute. So, we use that calculation  
12 and we capture the hourly handle pulls, divide that  
13 down to the minutes, then divide that by 7.8 compared  
14 to your number of units on the floor and you get a  
15 calculation of how many --- percentage of games that  
16 are in play at any given time.

17 MR. CRAIG:

18 You describe average peak weekday. What  
19 is a peak? Is peak measured as a particular hour, or  
20 day or period?

21 MR. WHITBY:

22 Peak is the hour of the day that we hit  
23 the maximum amount of games occupied.

24 MR. CRAIG:

25 So it's the very highest throughout ---

1 for example, when you say average peak weekend that's  
2 the very highest that that ever got during the weekend  
3 of like Friday afternoon until a Sunday night?

4 MR. TUTHILL:

5 The number of games in play during that  
6 period.

7 MR. CRAIG:

8 And then your last chart here is really  
9 a projection. You're saying that by having the  
10 ability to move down to approximately 2,075 machines  
11 you're projecting average peak weekend to be 54.9 and  
12 weekday occupancy 41.3?

13 MR. WHITBY:

14 That is our current --- we currently  
15 have 2,075 units.

16 MR. CRAIG:

17 So, what is your projection? I mean, I  
18 assume it's a projection that underlines why you  
19 picked, let's say, a reduction of 200 machines as  
20 opposed to 150 or 15.

21 MR. TUTHILL:

22 The projection is essentially the  
23 highest number of games obtained during the peak  
24 period during the week will get us to 80 percent  
25 occupancy.

1                   MR. CRAIG:

2                   Okay. So, you're expecting a fairly  
3 dramatic jump then from 41 and 54 to approximately 80?

4                   MR. TUTHILL:

5                   That's what the calculation states.

6                   MR. CRAIG:

7                   Okay. And so that's a good barometer or  
8 benchmark, for example, for this Board to take a look  
9 at six months from now or something like that to see  
10 if this is --- I mean, is that a fair ---?

11                   MR. TUTHILL:

12                   That's very fair, yes.

13                   MR. CRAIG:

14                   The way that I look at this and I think  
15 you described it as this is a situation of excess  
16 supply versus demand.

17                   MR. TUTHILL:

18                   Correct.

19                   MR. CRAIG:

20                   And you know, that certainly makes  
21 sense. I guess I'd like to follow up on some of the  
22 questions that were asked by Enforcement Counsel  
23 because I'm particularly troubled by the fact that  
24 there's been comparatively little discussion today  
25 about how demand is going to be addressed in this

1 equation.

2                   When you deal with occupancy of the  
3 machines what matrix are you typically looking at to  
4 take a look at customer flow through your facility,  
5 for example, hotel occupancy rates or is there people  
6 walking through the floor or restaurant usage, or  
7 other things that you can look at as metrics saying,  
8 you know what, compared to this time last year we're  
9 bringing in more people? Does that exist and can you  
10 give me some idea as to whether or not this period  
11 today compared to last year you've seen an improvement  
12 or not?

13                   MR. TUTHILL:

14                   We have an analysis group that reports  
15 to the marketing department and they essentially  
16 handle that with the marketing department. I don't  
17 have any analysis for you today. I don't have any  
18 matrix, but they're consistently reviewing new card  
19 sign ups, they're reviewing current play, they're  
20 reviewing all the metrics that they gather on a daily  
21 and weekly basis.

22                   MR. CRAIG:

23                   And obviously, it's not necessary for  
24 today's decision, but I think having some of those  
25 matrix decisions --- I mean, measurements and have it

1 compared between, let's say, currently to last fiscal  
2 year, et cetera, provided to the Board would be  
3 particularly helpful so that we can have a good idea  
4 as to how effective the efforts on the demand side of  
5 the equation is being addressed. I mean, I get  
6 reducing supply, reducing cost, creating greater  
7 efficiency makes eminent sense, but it's not going to  
8 address GTR unless there is a concerted focus, as you  
9 know, on demand.

10 MR. TUTHILL:

11 There are many components to this.

12 MR. CRAIG:

13 I wanted to pick up on Mr. Sklar's  
14 comments about how recently, I guess starting early  
15 fall you implemented a new marketing scheme in an  
16 attempt to drive more traffic through the facility; is  
17 that --- did that begin in September?

18 ATTORNEY SKLAR:

19 I believe based on Mr. Culetsu's  
20 testimony I think that was --- some of the new  
21 initiatives began in the fall, and also advertised ---  
22 targeted advertising. I think he had a number of ---  
23 it was a laundry list of things that --- initiatives  
24 that he went through in order to increase and drive  
25 demand at the property.

1                   MR. CRAIG:

2                   The only thing that at least I'm aware  
3 that the Board has to be able to measure, the efficacy  
4 of some of those changes are just gross terminal  
5 revenue and comparing September '12 to September '11  
6 through December, it's in that gain of just --- of  
7 about 200,000 during that four month period of time.  
8 Is that a big net gain from your perspective? Is that  
9 a good one? Are you continuing adjusting? Are there  
10 other metrics that you were looking at that say this  
11 new marketing initiative is working?

12                   ATTORNEY SKLAR:

13                   What period were you looking at?

14                   MR. CRAIG:

15                   Well, to give you an example. On  
16 September '11, and I'm rounding up, the gross terminal  
17 revenue was 12.9. September of last year was 13.2,  
18 which was a gain of approximately \$300,000. On  
19 October of last --- '11 it was 11.9, in October of '12  
20 it was 12, which is about a net gain of about  
21 \$100,000. But November of last year was 11.4,  
22 November of this past year, '12, it was 11, which was  
23 a loss of about \$400,000. And December of '12 versus  
24 December of '11 there was a gain of about \$200,000.  
25 So, over that four month period of time when this new

1 initiative was beginning to be implemented it seen a  
2 net gain of approximately \$200,000. Now, for a  
3 quarter is that a big one? Is that an anomaly? I  
4 mean, I don't have the experience to know whether or  
5 not \$200,000 is a lot of money in this context.

6 ATTORNEY SKLAR:

7 I mean, these guys are the operators. I  
8 think it's a little --- I think you're focusing on too  
9 specific of a --- maybe too short of a period of time.  
10 We had, you know, Hurricane Sandy in that period. A  
11 lot of the patrons who go to Mount Airy are from the  
12 New York, North Jersey area. So, I mean, I think it's  
13 a difficult period to focus in on. I just pulled up  
14 the entire fiscal '11 through '12 --- or 2011, 2012  
15 period. The slot GTR was \$148.5 million. The first  
16 half of fiscal '12 and '13 was \$75.4, so if you  
17 annualize that you'd be up at \$151 versus \$148.5.

18 MR. CRAIG:

19 I don't want to quibble here, but this  
20 is --- that actually is misleading because you said  
21 that the new improvements were beginning in the fall.  
22 And I get it. Four months is a short time. If you  
23 say it's not enough time to gauge it I understand that  
24 as well. That's all I've got in terms of statistics.  
25 I guess what I'm asking the experts are what --- how



1 would you measure success? By seeing a per quarter  
2 increase of \$200,000 or a year, fiscal year, increase  
3 of half a million? I mean, I'm asking you what are  
4 the appropriate measurements for this Board to take a  
5 look at to say, you know what, Mount Airy's really ---  
6 they're marketing program is a real success and  
7 they're clearly addressing the demand side.

8 MR. TUTHILL:

9 I don't know that there's a one or two  
10 sentence answer to that, but I will tell you that  
11 there are quite a few components that go into this and  
12 part of what goes into this is what the competition is  
13 doing also. The first to the mailbox is a big deal in  
14 the business. Free play is a big deal in the  
15 business. So, you know, regardless of what plan we  
16 place in action a lot of it is based upon what other  
17 companies are doing.

18 Sometimes you have to make adjustments  
19 midstream based upon what competitors are doing. I  
20 would say this, that the increase --- there's an  
21 increase in ultimately with the reduction of assets on  
22 the floor. We're able to increase revenue. Now, what  
23 goes into the marketing efforts, again, I don't have  
24 the marketing plan in front of me and it's not  
25 something we typically deal with although you have to

1 --- you don't have to, but you should consider that  
2 what Sands is doing, what Mohegan is doing impacts  
3 upon what we do. What we do impacts upon them and  
4 everyone is constantly making adjustments.

5           So, where we really start to worry and  
6 get in trouble is we see no growth. Would you like  
7 more growth? Absolutely. Every day of the week we  
8 like to see more growth. We like to see optimal  
9 growth. I don't know what optimal growth is except  
10 that we do what we're able to do within the confines  
11 of what we have and based upon that we've been able to  
12 show growth. And the intention is to continue to make  
13 adjustments as necessary in order to continue the  
14 growth.

15           MR. CRAIG:

16           I appreciate that. I guess I would end  
17 --- my questions that I have really would be for just  
18 a general request. The next time we visit this I  
19 would appreciate getting more substantive information  
20 really on how from the business's addressing the  
21 demand side of the equation.

22           MR. TUTHILL:

23           Okay.

24           MR. CRAIG:

25           I mean, I totally understand the

1 efficiencies and the benefits of reducing excess  
2 supply, but a lot of the challenges I'm sure you're  
3 facing on a daily basis is what can we do to increase  
4 demand, face new competition and ensure a viable  
5 facility. I would like it if you get a better  
6 understanding of the metrics that you used, how  
7 they're --- how to benchmark them, how to determine  
8 whether or not things are successful or not, et  
9 cetera. Thank you, Mr. Chairman. That's it.

10 CHAIRMAN:

11 Okay. Thank you.

12 MR. FAJT:

13 Thanks, Mr. Chairman. Just one  
14 follow-up question. I want to correct the record. I  
15 had said earlier, and I think I kind of led you guys  
16 to agree with me, that the peak usage of the machines  
17 on, say, Saturday night was 1,300 machines. And I'm  
18 looking at your confidential Exhibit C, so I won't go  
19 into a whole lot of details, but it appears to me that  
20 it's closer to 1,500 machines, which cuts delta to  
21 between where we're going to --- the 1,800 is not ---  
22 1,800 to 1,300, 500 extra machines, but now we're down  
23 to maybe 300 extra machines during your peak period.  
24 And to Cyrus' point about, you know, any further  
25 reductions will be met with, you know, skepticism on

1 his part, I think that bears noting. But just again,  
2 for the record it looks like on your Exhibit C you  
3 have an occupancy percentage of north of 70 percent  
4 times the 2,000 machines. What's that?

5 UNIDENTIFIED SPEAKER:

6 Exhibit B.

7 MR. FAJT:

8 Exhibit B. I stand corrected. I guess  
9 if you want to confirm that it's really 1,500 machines  
10 in use as opposed to 1,300 that would be fine. If you  
11 want to look at that and get back to us, that's fine,  
12 too.

13 ATTORNEY SKLAR:

14 We'll take a look at it and get back to  
15 you.

16 MR. FAJT:

17 Thank you. Thank you, Mr. Chairman.

18 CHAIRMAN:

19 Any other questions? Thank you,  
20 gentlemen. Thank you. This matter is now closed and  
21 the Board will consider it during executive session.

22

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\* \* \* \* \*

24

MEETING CONCLUDED

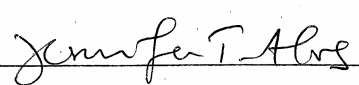
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I hereby certify that the foregoing proceedings,  
meeting held before Chairman Ryan was reported by me  
on 1/29/2013 and that I Jennifer T. Alves read this  
transcript and that I attest that this transcript is a  
true and accurate record of the proceeding.

  
\_\_\_\_\_  
Court Reporter