

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: CASINO WEBSITE PLAY FOR FUN GAMES

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PUBLIC HEARING

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BEFORE: William H. Ryan, Jr., Chairman
Gregory C. Fajt, James B. Ginty, Annmarie
Kaiser, Keith R. McCall, John J. McNally,
III, Anthony C. Moscato, Members, Jennifer
Langan, representing Secretary Treasurer
Robert M. McCord, Robert Coyne,
representing Secretary of the Department of
Revenue, Daniel Meuser, Mathew Meals,
representing Secretary of Agriculture,
George Greig

HEARING: Wednesday, May 15, 2013
12:00 p.m.

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Strawberry Square Complex
Second Floor
Harrisburg, PA 17101

Reporter: Cynthia Piro Simpson

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A P P E A R A N C E S (cont.)

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ALSO PRESENT:

MICHAEL D. COHEN, ESQUIRE

Senior Vice President, General Counsel and
Corporate Secretary of Caesars Entertainment

GREG MARGARIS

Director of Gaming Systems and Regulatory for
Caesars Entertainment

MARK PACE

Vice President of Network Gaming Engineering &
Operations at WMS

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NONE OFFERED

P R O C E E D I N G S

CHAIRMAN:

Our next matter will be a presentation made jointly by Harrah's Philadelphia, The Meadows, Presque Isle and Mount Airy pertaining to the proposed use of online Play for Fun, quote, unquote, games that mimic casino play but don't actually involve any exchange of money. It's my understanding that one or more of the casinos here today was planning a roll-out of this program and was asked by the Office of Enforcement Counsel (OEC) to hold off doing that until the Board had an opportunity to benefit from a presentation by the casinos involved. So, with that as a background, I'll turn it over to whoever.

ATTORNEY DOWNEY:

Thank you, Mr. Chairman. Bill Downey, D-O-W-N-E-Y, appearing today on behalf of Harrah's Philadelphia. And we will be presenting on behalf of the three licensees that you see --- the other three licensees that you see referenced here, those being The Meadows Racetrack & Casino, Presque Isle Downs & Casino, and Mount Airy Casino Resort.

Mr. Chairman, in the late fall to early winter of last year, each of these licensees, through

1 varying methodologies, had contact with the OEC
2 regarding either games that they had already put
3 online and were running from their online sites or
4 games that they were proposing to run online. And as
5 a result of those contacts with OEC, wherein OEC
6 expressed concerns regarding the nature and the
7 functionality of some of those free games, in the case
8 of Caesars Entertainment, we disabled certain
9 functionality of games that we were running online.
10 In consultation with OEC, ultimately we agreed to come
11 in and make a presentation. Each of the four casinos
12 has asked us to step up and do that. And as you
13 noted, this presentation is, in fact, just that. It's
14 an informative presentation. We'll come back to this
15 at the end, but we're not seeking any direct action of
16 the Board today.

17 Just very briefly on structure, we're
18 going to present to you what we think we'd fairly
19 characterize as three variations on the theme here.
20 And it's important to note that not all of the
21 licensees that are represented here and some that are
22 not represented are conducting each of these
23 varieties. But those who have presented --- those who
24 have worked in putting together a presentation agree
25 that we have fairly captured the universe that we're

1 interested in pursuing by defining these games in each
2 of these three slots.

3 With me today is Michael Cohen, who is
4 senior vice president with Caesars Entertainment. To
5 Michael's right is Greg Margaris, vice president with
6 Caesars Entertainment, and Mark Pace, vice president
7 with WMS, who is a service provider to Caesars
8 Entertainment. With that, I'm going to hand the
9 presentation over to Michael Cohen.

10 ATTORNEY COHEN:

11 Good morning, Mr. Chairman, members of
12 the Board. Thank you for having us today. We'll walk
13 through the presentation. And please, if you have any
14 questions, please let us know at any time.

15 Just quickly, before we get into the
16 presentation, I wanted to give an overview on
17 responsible gaming, things that you've heard before.
18 Obviously, these things --- all of the things we're
19 talking about does not affect our dedication to
20 responsible gaming. You know, gaming is for people
21 that are responsible. We want the right people to
22 play. We don't want problem gamblers to play. That
23 is not our intent in expanding into online. This is
24 just a different form of entertainment.

25 As Mr. Downey said, there's three

1 different areas that we're going to cover today. I'll
2 cover the play-for-fun games and the social casino
3 games. And Greg and Mark will talk about the player
4 loyalty and play-for-fun games.

5 First category, play-for-fun games. So,
6 quickly, what is a play-for-fun game? These are
7 online versions of casino games that allow players to
8 be comfortable and learn games. These games have been
9 in existence for years and years and years. There's a
10 couple characteristics of them is there's no money in
11 and no money out. These are purely play for fun. You
12 can't put any money in, and you can't win anything.
13 They're variations of slot games or blackjack games
14 and things like that, but they've been around for a
15 very long time on our --- Caesars' websites, lots of
16 companies' websites. They have no connection to the
17 games on the casino's floor at all. Absolutely none.
18 So, that's --- simply stated, that's a game that's,
19 I'm assuming, very familiar. It's been around for a
20 very long time. They've been online for a very long
21 time.

22 Secondly, moving to the next category
23 game, is a --- for lack of a better term, we'll call
24 it social games. This is a new game that's kind of
25 evolved the last five to seven years. The key

1 component to these games is social interaction and
2 competition with your friends. And these games have
3 spread through the reality of social networks like
4 Facebook. A few of the games we listed here,
5 FarmVille, Words with Friends, Angry Birds,
6 Slotomania, these games have really exploded the last
7 few years with Facebook and social media. You know,
8 Facebook, for example, has a billion users throughout
9 the world currently. Six years ago, it had basically
10 none. So, that's how these games have really spread
11 throughout the world and have become very viral.

12 Moving into the next slide, there are
13 currently 750 million people currently playing
14 worldwide social games, this category. And experts
15 expect that number to double by 2015, as social
16 media --- social networks and social games become more
17 prevalent in more countries.

18 A little bit on the evolution of where
19 we are today in social games. The game sector has
20 kind of evolved, I'd say, in four general categories
21 over the last, say, 60 to 70 years. First you had the
22 pinball games from the '40s and the '50s. Then you
23 moved to the arcade games in the '70s and '80s,
24 Pac-Man, things like that. People went to arcades,
25 they put coins in, played their games. You put in

1 another coin if you wanted to keep playing, sometimes
2 get more players, things like that. Those games kind
3 of morphed into the --- what I'll call the
4 in-home/online games, the Xbox, the PlayStation,
5 things like that, very robust, very deep-graphic games
6 that have a very dedicated core user base. You can
7 play them at home. Originally they started at home.
8 Now there are mostly online versions that you can play
9 with other people, other games. They're mostly skill
10 games and for fun, and most of them don't have money
11 in or money out, though some do.

12 That kind of has evolved to the social
13 games. And how does that differ in this last
14 evolution. The key to these social games is they're
15 just much simpler games. And unlike the robust
16 graphics and dedication it takes in some of these Xbox
17 games, they're very quick games. You can learn to
18 play them very quickly. You can play them only for a
19 few minutes. You can play them anywhere. You can
20 play them on a social --- on your social network, on
21 your phone, on your computer, things like that.

22 Moving to the next slide, some of the
23 common characteristics of these social games, as I
24 said, they're played for entertainment. As I said
25 also, the game play is typically very simple, very

1 easy to learn these games. And you can learn how to
2 play them very quickly. They're played through social
3 networks, which is a key factor to these games.
4 That's what makes these games very different than most
5 games. So, what often is, you're playing the game,
6 but you're also on the side of the game. You're
7 either competing or chatting with your friends and
8 playing the game with them at the same time or
9 competing with them. And most of the games have very
10 little or no cost. Actually, statistics are different
11 for different games, but 90 to 95 percent of players
12 never spend any money on these games. It's a --- but
13 there is a small percentage that buy into the games to
14 do a variety of things, get more points to compete
15 with their friends, move faster through the game
16 because they don't want to take the time to do it, but
17 different games, different models. The key, as I
18 said, is social interaction and competition, and as I
19 alluded to earlier, FarmVille, Sims, and Words with
20 Friends are some of these popular games.

21 There are several varieties of the
22 business model behind these social games. I'm going
23 to break it into two categories. These are the most
24 prominent ones. Originally, most of these games were
25 you buy the application and then you play it forever.

1 A lot of them were relatively inexpensive, 99 cents,
2 \$1.99, and then you get to play the game forever. And
3 you'd often get free updates to the game. Then they'd
4 come up with a new version, and you'd buy the new
5 version of the game. Well, the people in this
6 business have realized that the one-time purchase,
7 even though that's for everyone, is not as profitable
8 or produces more revenue as giving away the game for
9 free and having only a small percentage of the
10 population actually buying more things in the game.
11 It's called the freemium model, is what the term in
12 the industry is. You give the game away for free, and
13 most players, 90 to 95 percent, never spend a dollar.
14 They play the game. They play it as long as they
15 want. And they can compete. And then a small
16 percentage of people actually buy to get further in
17 the game. So, FarmVille, for example, you can earn
18 land or you can buy land and buy more tractors to get
19 further into the game.

20 The last two to three years, there's
21 been a subculture of the social games, the social
22 casino-style games. So, these games are slots, poker,
23 blackjack games. And they are slightly different than
24 a play-for-fun game that I talked about earlier. Some
25 of the differences are these are about competing with

1 your friends and social interaction. The play-for-fun
2 games, it's you against the computer. Some of these
3 other games, you either --- you might compete against
4 the computer, for example, like a slot game you're
5 playing --- that you're playing the slot machine, but
6 you're accumulating points and competing against your
7 friends. There's leader boards and things like that.
8 Some of the other games, like blackjack, for example,
9 you are playing with your friends at the same time on
10 the games.

11 These are --- you know, as I said
12 earlier, these are revenue-producing businesses that
13 are stand-alone businesses. The play-for-fun games
14 were never intended nor revenue producing because
15 there was no money in or no money out in the games.

16 And the third thing is that these games
17 are still --- very simple games, easy to play, but the
18 graphics have gotten a lot better. So, the
19 play-for-fun games that have been around for a long
20 time are very --- are simple games but had very simple
21 graphics. With the technology the last few years, you
22 can get very robust graphics, even on a mobile phone
23 and your computer. The problem in the past was it
24 took so long to download these things. Now, with
25 internet speed, you can move these things a lot

1 faster.

2 A lot of companies have gotten into the
3 social casino gaming business, including Caesars. We
4 have a subsidiary called Playtika based in Israel.
5 But other non-gaming companies, including Zynga, and
6 Electronic Arts, are also in this business. And
7 again, like play-for-fun games, these have no
8 connection to the casino floor. They have no
9 interaction with what happens at a casino game.

10 Moving on to the why is this not
11 gambling question, it's the obvious question, because
12 there is money in that goes into some of these games,
13 though, some players, only a small percentage that do.
14 To bore you with the legalities a little bit for a few
15 minutes, there's three elements that are necessary for
16 --- in most places, including Pennsylvania, for it to
17 have something to be a gambling game. The first is
18 consideration, which is the payment of something of
19 value is required to play the game. The second is
20 chance, that the outcome is not based on skill. And
21 the third is prize, money's worth or something of
22 real-world or tangible value you can win at the end of
23 the game.

24 Well, these social casino games do not
25 have two of those three elements. It does have

1 chance, but it doesn't have consideration of prize.
2 And let me explain that. There is no --- as I said
3 earlier, there is no requirement to pay to play these
4 games. In fact, 95 percent of people play the games,
5 play them for as long as they'd like, and never spend
6 a dollar, never spend a penny. They don't --- there
7 is no requirement to spend any money to play these
8 games.

9 And then, secondly, the games do not
10 actually --- you can never win anything of real value.
11 In the social casino games, they have a virtual
12 currency, so you can --- in a slot game, for example,
13 you can win virtual coins. What can you do with those
14 virtual coins? Nothing. They sit on the computer and
15 they sit in your game and you can tell your friends
16 that you got a billion virtual coins, but you can't
17 transfer them or they turn into nothing in real value.
18 They just --- they're just like points in a Pac-Man
19 game. Same thing.

20 So, I'm going to move on to the player
21 loyalty program if there aren't any questions at this
22 time, and I'll turn it over to Greg.

23 MR. MARGARIS:

24 Good afternoon, Mr. Chairman, members of
25 the Board. One of the things, at the risk of probably

1 upsetting some slots players in the world, the fact of
2 the matter is the video slot machine hasn't changed
3 that much over the course of time from the standpoint
4 of the user experience. So, we, as operators, always
5 wanted to encourage our friends in the manufacturing
6 industry, hey, come up with something that allows us
7 the opportunity to give our player a different type of
8 experience because it's sort of getting --- I wouldn't
9 say old, but the slot experience is not being uniquely
10 sort of enhanced. And so, in the recent past, WMS was
11 one of the manufacturers on the front line of this
12 interaction with the guest that said, hey, we think we
13 have this idea that would be helpful to you and to
14 other operators across the country, and essentially
15 they developed a unique slot machine experience that
16 was designed to enable us to drive patrons back into
17 the actual casino for play. And so, what they
18 essentially invented was an opportunity where a patron
19 could save their state on a game --- and think of it
20 as you're watching your DVR at home, and something's
21 burning on the stove, and you hit the pause button,
22 and then you come back later and finish it. These
23 games, what they essentially did was they progressed
24 through a series of artwork. And what it allowed you
25 to do was, okay, I'm done playing here. I'm going to

1 go home. When I come back in and use my Player
2 Loyalty Card, I'm going to be able to start from where
3 I stopped. And that was their first advent. The
4 first title they did was Star Trek. And a little bit
5 later I'm going to go ahead and introduce Mr. Mark
6 Pace from WMS, who will kind of walk you through a
7 little bit of a visual as to how this interaction
8 works with the guest.

9 They then evolved to something that was
10 beyond that. So, that was sort of called persistent
11 state, the idea that you could save your state and
12 then move on. And then the opportunity to then unlock
13 graphics was then called adaptive gaming. And so what
14 we mean by this is that you would have the ability, as
15 a Player Loyalty member of that casino, to have a
16 potentially unique experience with the game itself. I
17 just want to make one thing clear, though. If you
18 look, it's point three on this particular slide. And
19 you'll find it to be consistent as we move through the
20 rest of the application. There is no game map that is
21 impacted by this. This is literally just because
22 you're a Player Loyalty Card member and you have the
23 opportunity to play in our casino, there will be a
24 unique experience visually for you, but it doesn't
25 enhance your ability to do anything from a standpoint

1 of have a better chance at winning, win more, win
2 less. No impact on that whatsoever. This is all
3 about just providing an enhancement to the guest that
4 we hope drives him back in to continue playing at our
5 casino.

6 If we move on to slide 12, this goes
7 into a little bit more detail with regard to what that
8 platform was called. And it was developed under the
9 name Player's Life. And down at the bottom of this
10 slide you see a graphic that sort of gave you an idea
11 of the advertisement that would be given to the guests
12 to give them an understanding of, hey, come on in and
13 learn about this. This is an opportunity for you to
14 come to our casino and then continue to come back so
15 that you can progress through your game and experience
16 all that, you know, we hope that you will find will
17 enhance your play within the casino. If you notice
18 some of the titles --- and I'll touch on this a little
19 bit later --- the titles are very, very, quote,
20 unquote, fan boy oriented. They generally have a
21 passionate fan base that was, you know, somewhat of a
22 reason why people would want to come in and play. So,
23 if you notice it was Star Trek. Lord of the Rings
24 will be another one. And then, believe it or not, one
25 of them was for Clue, the board game, because it was

1 pretty popular among its passionate players. And they
2 found great interest in these particular games because
3 there was a continuous feel to them as they came back
4 into the casino.

5 On slide 13, this is just a generalized
6 understanding as to how it would be advertised, say,
7 on the operator's website. So when Play --- when Lord
8 of the Rings was a newer game, this is the type of
9 artwork we would have when somebody would go into our
10 website and say, hey, what is this. And as they
11 clicked through, they had an understanding as to how
12 you could come on in and do it and the types of things
13 that would be available to you as, in our case, a
14 Total Rewards member.

15 And again, slide 14 just goes ahead and
16 explains it again. No game map is affected by any of
17 these online games. So, it's the same exact chance
18 for somebody who has a Loyalty Card and somebody who
19 doesn't. Important to note that these types of
20 experiences are not available to people who do not
21 have a Loyalty Card. And the reason being, obviously,
22 is because we need something to capture on the guest
23 to be able to give them that information if it's
24 unique to them. If they're not playing with a Loyalty
25 Card, I don't necessarily know systematically who that

1 person is.

2 MR. GINTY:

3 Can I ask a question, Mr. Chairman?

4 CHAIRMAN:

5 Sure.

6 MR. GINTY:

7 I was following you for a while. Can
8 you explain what you mean when you say progress
9 through the game in terms of betting?

10 MR. MARGARIS:

11 Okay. So, there is nothing in terms of
12 betting. What I mean by progressing through the game
13 is, based off of your continuous play, there would be
14 things that were unlocked that were different
15 visually. But it can't be perpetually forever, so the
16 manufacturer gives you, say --- the first set of
17 software that they release gives you maybe ten events
18 that will happen. Those ten events visually will only
19 happen if you're a member of the Loyalty Card program
20 and in the casino. And it might be like Stars Wars
21 offered --- Star Trek, I apologize, offered a clip
22 from the original show. If you were not a member of
23 that Loyalty Reward program, you still progressed
24 through the game, betting-wise, the same way anybody
25 else did. The only difference was you didn't get to

1 see the Star Trek play.

2 MR. GINTY:

3 But to progress, you have to bet?

4 MR. MARGARIS:

5 I'm sorry, I ---.

6 MR. GINTY:

7 To progress through the game, you have
8 to bet?

9 MR. MARGARIS:

10 Correct.

11 MR. GINTY:

12 Okay.

13 MR. MARGARIS:

14 Same as somebody who doesn't ---
15 meaning, yes, there is no progression for sitting
16 there.

17 MR. PACE:

18 Maybe if I could ---. This is Mark Pace
19 from WMS. To give you a better sort of visual, mental
20 picture of what's going on, let me go back to Star
21 Trek, which was the first game that we rolled out,
22 which was episodic, and this idea of your state would
23 persist. So you'd walk up to this game, and much like
24 with a book, when you're reading a book you're going
25 through chapters, you put a bookmark there so that

1 when you come back, you don't read the first couple of
2 chapters all over again, you just start from where you
3 left off.

4 The idea was that, as you were playing
5 these games --- and you're playing these games as a
6 normal slot machine, you're wagering as a player,
7 events would occur. You might get into a bonus. You
8 might win a certain award. Something might happen in
9 the game. And along that continuum we would give you
10 a medal. Now, the medal has no monetary value
11 whatsoever. It really was a bookmark. It was a way
12 for us to know, oh, Greg has progressed through this
13 game and has achieved, you know, this piece. When
14 Greg comes back and logs onto Star Trek at any of
15 Caesars' facilities, again, using their Player Royalty
16 Card, it would recognize Greg and it would show him
17 the medals that he had achieved during the prior
18 visit. And now he would continue from that point on.

19 To also sort of highlight the bragging
20 rights capability of this thing, which is really what
21 all the social stuff is about, the Star Trek cabinet
22 had a light box up above that typically was blue.
23 When you earned enough medals to unlock the next game,
24 which, as Greg said, had no monetary value to the
25 player, it was the same expected outcome and all that

1 stuff, the light box changed yellow. So, imagine as a
2 player, walking up to a bank of games, they're all
3 blue, you put your card in, it changes yellow, he
4 looks at me and goes, how come. Okay. I'm more
5 advanced than you. I already beat game one. I'm on
6 to game two. That's really what this stuff is, and
7 that's sort of the piece of episodic and how you
8 progress through the game sort of, you know, came
9 together.

10 MR. GINTY:

11 It's sort of like emotional winning or
12 emotional income or whatever that term might be, not
13 real but ---.

14 MS. KAISER:

15 Mr. Chairman, can I ask a question?

16 CHAIRMAN:

17 Sure.

18 MS. KAISER:

19 You need the Loyalty Card. How is that
20 inputted into the system so you can play?

21 MR. MARGARIS:

22 It's inputted in the same way. You ---
23 in all games they obviously have card readers so that
24 you can earn play all over your casino floor. So, the
25 game goes ahead and identifies you by ---.

1 MS. KAISER:

2 You can play this game at home; right?
3 I mean, we're talking about these online games are at
4 home, so ---.

5 MR. MARGARIS:

6 Yeah. And we'll get to the online
7 games ---

8 MS. KAISER:

9 Okay.

10 MR. MARGARIS:

11 --- and a couple of things. I think
12 that will be clearer. The other important thing with
13 regard to the disclosure that we make to the patrons
14 are, if you notice on slide 14 we do have a very
15 explicit statement that gives them an understanding
16 that, listen, they do not affect odds at all. This is
17 all for your player enjoyment. And you know, we hope
18 that you find it enjoyable.

19 So, on slide 15, some people always ask
20 the question why --- why are these games important to
21 the operator and the operating community out there
22 across the country. And a lot of it is the ability
23 --- as I stated at the front end of the presentation
24 was slots haven't changed all that much from the
25 experience. So, this gave us an opportunity to

1 enhance the experience for both slot players today.
2 And in addition, hopefully draw some slot players who
3 may not have thought about playing slots, either your
4 traditional game players, the gaming console players
5 that may find this interesting, and as I've described
6 before, sort of the passionate fans of the theme. WMS
7 is pretty selective about which particular themes they
8 tie a player's life to in that they want to make sure
9 it will be successful with the passion of wanting to
10 play that game.

11 The gaming experience has been very,
12 very well received by the user base pretty much in all
13 markets across the country where we have the games.
14 We have it deployed in over 30 properties just in our
15 enterprise alone, and we're obviously, you know, one
16 of the companies that buys these types of games from
17 WMS.

18 And I'm going to go ahead and have Mark
19 come over and show you sort of the online piece of
20 this, I think, Commissioner, to get past your
21 questions with regard to it.

22 MR. PACE:

23 So Mr. Margaris to my right continues to
24 say that slots have not evolved over time. I'll have
25 to have a conversation with you in private after this

1 meeting.

2 A couple of things. So, what you've
3 heard so far is all about the social aspect; right?
4 You heard me describe a little bit about the visual
5 and the emotional winning and bragging rights, which
6 is what all this stuff is. The website itself that
7 I'm going to take you to is a website called
8 playerslife.com. You can log onto it. You can create
9 a log-in. You can take a look at this. Before I
10 actually get into the animation, a video of the real
11 website, I wanted to point a couple of things out here
12 just so that it will further expand your understanding
13 of what we're going to see.

14 This is the main page, the Super Team
15 game is an advertisement that changes. We've talked
16 about Star Trek. We talked about Lord of the Rings.
17 Greg mentioned Clue. That will change as I'm going
18 through the video because it shows the players and the
19 people on the website, the games that have the
20 Player's Life capability. Obviously, not all of our
21 games have this capability. It adds more work for us
22 to be able to have this tie-in.

23 You'll see there's a section there that
24 describes to the player what is Player's Life. It
25 really is about three things, about playing themed

1 games, games that are themed to real casino slot
2 machines. The play here, again, is very simple. And
3 you'll see that momentarily. You can browse all the
4 games that WMS has. You can look at screen shots from
5 the games. So, if you're interested in, you know ---
6 oh, I saw this game in a casino, I'm not really sure
7 what it was, you can go here, you can take a look at
8 it, and you can say, oh, ah, now I know what that game
9 was. Maybe next time I'll go I'll play it. And
10 there's an interaction piece. And the interaction
11 piece is twofold. One, it's players with players.
12 There are blogs. There are ways you can post. You
13 can tweet. You can post stuff on Facebook, on your
14 Facebook. And there's also interaction with our
15 producers. So the game producers themselves, back in
16 Chicago, go on here and players will ask them
17 questions. Why did you design the game that way and,
18 you know, how come such and such a character was not
19 in Spider Man, for example? And these guys will
20 answer and give people a little bit of an insight as
21 to why the game was designed this way.

22 You mentioned fan base. These games ---
23 you know, Spider Man is one of our newest games out.
24 They have a very pronounced fan base already. So,
25 people get very much emotionally invested in these

1 games in terms of, oh, Spider Man. When are you going
2 to have this, you know, arch villain or when's that
3 going to happen? So I think that kind of communication
4 with the producers helps them, you know, get into the
5 game, so to speak.

6 All right. One last thing. On the
7 bottom left --- I don't know if you can really see
8 that --- we call that our win stream. So as people
9 are achieving these medals, they're achieving
10 trophies, live, in various different casinos, this win
11 stream is showing what those people are achieving.
12 Again, those trophies, those medals, have zero value.
13 It's all about bragging rights. It's all about being
14 able to tell your buddy, oh, check it out. I am, you
15 know, such and such a medal winner on such a game.

16 All right. So, having said all that,
17 let me get a mouse here, and we'll play through this.
18 So, what you're going to see here is I'm going to log
19 on. You can see that I'm logging on as Spaceman777.
20 That's my nom de plume, so to speak. I'm logging on.
21 You'll see as the system is doing this that the win
22 stream will start to move. I'm going to move us ahead
23 so that we're not sitting here, waiting for the
24 website to log on. Here we go. And moving right
25 along, you'll see the game advertisement just changes.

1 It's now showing My Poker, one of our latest games.
2 So the system is going to log me on. You see the win
3 stream is scrolling, albeit slowly in this case
4 because it's a video. There you go. You see
5 information about Clue, another one of our games, Lord
6 of the Rings. Okay. Now it's going to bump me into
7 the website. And I apologize. This computer is a
8 little slow, so if you do this in --- online it's a
9 little faster.

10 ATTORNEY DOWNEY:

11 Can we assume that, Commissioner McCall,
12 you're online?

13 MR. MCCALL:

14 Yeah, I'm on.

15 MR. PACE:

16 Are you on it? Very good. So, now I'm
17 online. You can see there's a bunch of stuff that you
18 can do. I'm going to click on games. And I'll come
19 back to the screen momentarily and show you what's on
20 there. So, I clicked on games. It's going to take me
21 to a page now that shows all the games. Up top we
22 have our two current games that have mini-games ---
23 these are the mini-games that you would play at home.
24 So, this is the linkage to the home. I'm going to
25 select the mini-game that is titled Lord of the Rings.

1 There are actually multiple of these mini-games, but
2 you have to play them in order. You have to beat one
3 to get to the other one, again, the bragging rights
4 kind of stuff. So, the game I'm going to play is
5 called Gandalf's Rockets. Basically the way this game
6 is played is there are fireflies that are flying
7 about. You get four matches, and you --- you have to
8 spark one off, and it will then spark others off. And
9 if you achieve, in this case, 15 of them, then you can
10 move to the next bonus round. So there's my match,
11 I'm moving it around. I'm going to figure out where
12 am I going --- which one am I going to detonate. I
13 started detonating them. And you can see one is
14 setting off another. And my count is going up, 11,
15 12, blah, blah, blah. Oh, I achieved 15, that's
16 great. So, I beat this round, so to speak. Great
17 job. I got bonus points. Those bonus points mean
18 nothing, other than miles --- and I'll talk about
19 miles with Lord of the Rings --- and kind of what that
20 means. I'm going to play Level II, so on and so
21 forth. Anyway, I don't want to bore you with the rest
22 of this. You can see pretty simple games; right?

23 MR. GINTY:

24 This is my question. Go back to what I
25 was asking before. When you send that satellite out

1 or whatever it is to hit the stars, do you have to
2 bet?

3 MR. PACE:

4 No.

5 MR. MARGARIS:

6 No.

7 MR. PACE:

8 This is all ---.

9 MR. GINTY:

10 No, no, no, not --- I mean, if you're in
11 the casino on this machine.

12 MR. PACE:

13 If you were playing Lord of the
14 Rings ---

15 MR. GINTY:

16 In the casino.

17 MR. PACE:

18 --- in the casino, yes, you'd have to
19 bet.

20 MR. GINTY:

21 So for every shot you would take, you'd
22 have to bet? Okay. I mean ---

23 MR. PACE:

24 Right.

25 MR. GINTY:

1 --- that was just to make it clear to
2 me. Okay.

3 MR. PACE:

4 Yes, except that this is --- what you
5 see here is not the Lord of the Rings game that you
6 would be playing in a casino.

7 MR. GINTY:

8 Oh, okay.

9 MR. PACE:

10 It's a completely different game. This
11 is a mini-game that is thematically part of Lord of
12 the Rings and uses part of the story. Gandalf was the
13 wizard in Lord of the Rings. I don't know if you're
14 familiar with LOTR. So, he was the wizard. And the
15 wizard, you know, had all these abilities. And one of
16 the things that he did was he actually was in a fair
17 where he lit off all these fireworks. So this is kind
18 of playing off of that, but it has nothing to do with
19 the real casino game.

20 MR. GINTY:

21 Okay.

22 MR. MCNALLY:

23 The points that you get, it's tied to
24 winning as opposed to just playing; correct? You have
25 to win to get the additional points; correct?

1 MR. PACE:

2 Yes. Online, yes.

3 MR. MCNALLY:

4 Online, yes. Now, when you showed that
5 Look Who's Winning Now, if I'm sitting at home and I'm
6 playing, does it differentiate on that who's playing
7 from home versus who's on the gaming floor?

8 MR. PACE:

9 No. So what is --- what you saw in the
10 win stream are actually people who are playing in the
11 casinos, playing the normal slot machine, who are also
12 getting awarded those medals. Remember I talked about
13 Star Trek, where as you played the game you got
14 medals? With Lord of the Rings, you don't get medals,
15 you get trophies.

16 MR. MCNALLY:

17 But it also shows not only people that
18 are on the floor but other people that are playing at
19 home; correct?

20 MR. PACE:

21 It does not show home. It only shows
22 people on the floor.

23 MR. MCNALLY:

24 Okay. So, say, for instance, I know my
25 mother doesn't have a computer.

1 MR. PACE:

2 Right.

3 MR. MCNALLY:

4 But if I know her call name, I'm going
5 to know if my mom's winning on the floor by playing
6 the same game?

7 MR. PACE:

8 If you knew her call name, yes. Now,
9 we, as WMS, and as part of this thing called Player's
10 Life have no idea who the real person is. All we know
11 them as yada, yada 1234, whatever that means.

12 MR. MCNALLY:

13 So if I know my mom's call name, I know
14 she's losing, I can call dad and get her dragged out?

15 MS. KAISER:

16 And I'm sorry, but going back to my
17 earlier question about how someone gets onto the site
18 with a user name and password, can you explain how
19 that works?

20 MR. PACE:

21 Sure. Yes.

22 MR. MARGARIS:

23 There's a mapping between his user name
24 that he put in and the Loyalty Reward Program for each
25 individual operator that would use it. So, we would

1 have one --- if somebody was playing, say at
2 SugarHouse, the same game, they would have one, that
3 sort of thing.

4 MS. KAISER:

5 Okay. But to register, what information
6 do you need to put in to get a user name here?

7 MR. MARGARIS:

8 I can only speak to our Loyalty Reward
9 Program.

10 MS. KAISER:

11 Okay.

12 MR. MARGARIS:

13 I don't want to speak for the other
14 operators. But essentially it's using your TR
15 log-in ---

16 MS. KAISER:

17 Okay.

18 MR. MARGARIS:

19 --- that you would have ---. Once
20 you're issued a card, you have the ability to go home
21 and set up a profile for you for your Total Rewards
22 Card.

23 MS. KAISER:

24 Okay.

25 MR. MARGARIS:

1 It's usually enhanced with like
2 non-gaming amenities. So if you wanted to go ahead
3 and set up a reservation at one of our properties,
4 things of that nature.

5 MS. KAISER:

6 The reason I'm getting to that is trying
7 to ensure that minors aren't using this at home and
8 encourage gambling.

9 ATTORNEY COHEN:

10 You have to have a Total Rewards Card.
11 And we verify identifies at the casinos. You can log
12 on --- you can sign up online, but you can't ever use
13 any of the points until you verify in the casino.

14 MS. KAISER:

15 When you say you can sign up online, do
16 you have to put your Loyalty Rewards information in
17 just to sign up?

18 ATTORNEY COHEN:

19 Yes.

20 MS. KAISER:

21 Okay.

22 MR. FAJT:

23 So, just to follow up on that, I mean,
24 you could --- somebody could play at home, log on, and
25 then leave their computer on and have their

1 16-year-old son or daughter play?

2 MR. MARGARIS:

3 So, in this scenario you couldn't unless
4 the person had the card of the parent and knew the
5 information to get in. They can't play without a
6 physical card.

7 MR. FAJT:

8 I understand that, yes. And again, my
9 point was the parent signs on and then says, you know,
10 Amy have at it, and then they play, the minor. And I
11 understand you can't prevent everything, but that is a
12 possibility.

13 MR. MARGARIS:

14 Yes.

15 ATTORNEY DOWNEY:

16 Commissioner, I want to make one point
17 clear. And I think Mr. Pace said it, but I just want
18 to reiterate. The games --- these mini-games that are
19 being played online are not the game that's played on
20 the floor.

21 MR. FAJT:

22 Yes, I understand.

23 ATTORNEY DOWNEY:

24 So, there's not that connectivity.

25 MR. FAJT:

1 And we understand there's other venues
2 out there that they can play, poker and all that
3 stuff, you know, without any Total Rewards Cards
4 and --- okay. Understood.

5 MR. PACE:

6 So, I wanted to pause here and I wanted
7 to just show you one more thing that is all about the
8 bragging rights. In the upper right-hand corner
9 you'll see My Avatar, my sort of, you know, online
10 persona, and the medals that I've won. So, again,
11 this is the sort of bragging rights aspect. There's
12 no value to any of these things.

13 Now, we do talk about one piece, and
14 that is the points and the miles; right? And Greg
15 talked a little bit about unlocking visual
16 capabilities on the slot floor. So, as I'm earning
17 those points playing that silly game Gandalf's
18 Rockets, I can earn miles. And those miles, when I
19 then go to the casino, go to a Caesars' property, use
20 my Total Rewards Card, put it into the slot machine
21 and log on, then those miles will allow me to unlock
22 those additional kind of visual and graphical contents
23 that I unlocked because I played online. So, that is
24 the only tie-in between the online piece and the
25 in-casino piece. And it really gives Caesars the

1 ability to say, hey, I'm going to give you a different
2 sort of experience because you're a Total Rewards
3 customer and you've got the card and you signed up to
4 do this.

5 MR. FAJT:

6 But again, those additional miles do not
7 correlate to any additional prizes or dinners or
8 anything of that sort, doesn't get you different
9 coupons a week later that are mailed to your house?
10 There's no correlation to that?

11 MR. PACE:

12 No correlation to anything of any value,
13 money or otherwise.

14 MR. FAJT:

15 Thank you.

16 MS. KAISER:

17 It's just an increased visual
18 experience?

19 MR. PACE:

20 Yes. Just, you know, again, bragging
21 rights. Just like the Star Trek top box changed from,
22 you know, yellow to red to green to blue, that kind of
23 stuff.

24 The application itself is currently
25 approved as player tracking components, because that's

1 really what it is, an extension of player tracking, in
2 over 20 different states. We have over 70 casinos
3 that are using the system. Currently have north of
4 900 games connected, again, Clue, Lord of the Rings,
5 so on and so forth. And we have over 1.2 million
6 people that are interacting with the system. So it's
7 pretty popular. It really has provided a bit of fun
8 or extended fun for Caesars customers and others.

9 In terms of Pennsylvania --- and I saw
10 Mr. Cruz back there --- we have submitted a number of
11 game themes to Pennsylvania, and they've been
12 approved. The system itself, the Technical Division
13 evaluated and basically said this is player tracking.
14 It is not within our purview to approve the system.
15 But the games that you see here are all the games that
16 have the Player's Life capability, and you can see
17 when they were submitted and when they were approved.

18 ATTORNEY DOWNEY:

19 Mr. Chairman, before we turn it over,
20 Cyrus is here, and I'm sure he'll speak to this, but I
21 think I can fairly say that we've reached an
22 understanding with OEC that no action of the Board is
23 implied at this point, but particularly within the
24 parameters of what we've presented to you today. We
25 have, however, also agreed that currently, and then on

1 a rolling basis, to the extent that we bring these
2 games forward, to the extent that they're already
3 online and then to the extent that we bring new games
4 forward, we will submit a written notice to the Office
5 of the Executive Director and a copy to OEC advising
6 them that we're doing so and giving reasonable detail
7 of the game that we're putting up online. Obviously,
8 to the extent there are issues, at that point we'd be
9 hauled in to talk.

10 And then, finally, we recognize that, to
11 the extent that we stay within these parameters, we're
12 good. To the extent that we want to talk about having
13 a real-world impact, we're back in to have a
14 discussion. With that, that will conclude our
15 presentation.

16 CHAIRMAN:

17 Okay. Cyrus?

18 ATTORNEY PITRE:

19 Just as a bit of background, I want to
20 say that I don't think the games are illegal as far as
21 breaking the law. But as far as the websites, how we
22 got involved in this, we issued four Cease and Desist
23 Requests and one Informational Request to five
24 different licensees. Four of those licensees had
25 games up and running. Some had controls where

1 underage --- where you had to just put your date of
2 birth in. Some had no controls. They had casino
3 games that they were able to go onto and play virtual
4 slots, virtual blackjack, virtual poker, whatever.

5 The purpose of sending those letters was
6 to get --- we requested that the particular licensees
7 file a petition with the Board to get Board approval
8 for those offerings. The industry proposed and we
9 agreed that, at the very minimum, a presentation
10 should be made before the Board so the Board could be
11 aware of what was going on. This is a process that
12 started back in November of 2012, and I'm happy that
13 we're finally here for the presentation. But as we
14 all know, the primary objective of the Act is to
15 protect the public through regulated gaming. And
16 anything that involves our licensees I think has a
17 direct impact upon the way the public views the
18 integrity of gaming operations in the Commonwealth.
19 Those entrusted by the Commonwealth with licenses to
20 operate Category 1, 2 and 3 Slot-Licensed Facilities
21 are held to the highest and strictest standards and
22 levels of suitability. Now, while the games are not
23 offered in an illegal manner, some are games that are
24 similar to games that are on the casino floor. There
25 are virtually no controls that keep children from

1 playing some of these games, which is why we issued
2 those letters on various websites. Therefore, I
3 wanted the Board to be aware that this was occurring
4 and why we issued those letters.

5 I still believe that the licensees
6 should petition the Board to get approval to offer
7 these games on their websites and that the play of
8 those games should be limited to individuals that
9 receive membership or reward cards from the casinos
10 and not the general public. But at the very least, I
11 think that each casino should seek at least written
12 approval from the Executive Director before offering
13 such games on their websites to ensure that there's a
14 full description of the game and there are controls to
15 keep children from getting onto those various websites
16 and playing those games. And that's all I have to
17 offer for the Board today on that.

18 CHAIRMAN:

19 Thank you, Cyrus. Any questions from
20 the Board?

21 MR. GINTY:

22 Can you respond to what Cyrus said, Mr.
23 Downey, where you agree and disagree?

24 ATTORNEY DOWNEY:

25 Yeah. Taking us back in time, when we

1 received the Cease and Desist Notice and the demand
2 that we make a presentation, at that point we engaged
3 in a conversation about where the jurisdictional lines
4 should be drawn. And you know, one of the things we
5 don't do is we don't come in here pounding the table,
6 telling you, you don't have any business talking to us
7 about this. Because, of course, we're your licensees,
8 and we're here to talk to you about whatever you want
9 to talk to us about, frankly.

10 But we do think that, given the nature
11 of the --- I guess, just the commonality of the game
12 and the offering of the games and the various
13 alternatives to play these games in multiple contexts,
14 including contexts that have nothing to do with your
15 licensees, there really is no basis --- sticking
16 strictly to the parameters that we've outlined here,
17 there really is no basis to ramp this up to that kind
18 of a consideration. I don't --- I can respond to
19 specific questions, but I don't know that you want me
20 to go much deeper into the discussion.

21 MR. GINTY:

22 If I may? So, your position is we do
23 not have jurisdiction over at least the games you
24 presented to us today?

25 ATTORNEY DOWNEY:

1 I think it presents an interesting
2 question, yeah. Would I go so far as to say you don't
3 have jurisdiction over the games? I question whether
4 you have jurisdiction over our operation of the games
5 in the sense that that is, in some instances, an
6 entirely distinct entity and enterprise. I'm not
7 prepared to tell you I've come to, you know, a formal
8 conclusion on that, but I do think that there is a
9 real issue.

10 MR. GINTY:

11 I mean, the one thing that distinguishes
12 your situation from if I went onto Facebook or some of
13 the others is there is a tie-in to the casino with the
14 Player's Card. Does that have any significance?

15 ATTORNEY DOWNEY:

16 That's a fair point. Let me
17 distinguish. The first varieties, which, in fairness
18 to the rest of the parties participating here, the
19 first two varieties of games, there's no connectivity.
20 And in those instances I think the case is clear.
21 Where I think it gets a little murky is in the last
22 case. That is unique to us at this point. That is
23 unique to the Caesars enterprise at this point. And I
24 do recognize there that there is a murkier issue. We
25 do, for example, recognize and bring to --- through

1 WMS, bring to the lab the game for confirmation that,
2 that does not represent an area that has impact on
3 game play, and therefore, from our perspective,
4 wouldn't be something ordinarily that we would be
5 talking to the Board about. But I do recognize that
6 in that last category it's a murkier issue.

7 MR. PACE:

8 And again, if I might, from a WMS
9 perspective, we did submit all of these games. And in
10 order for the Technical Division to actually test
11 these games and approve them for use, they had to have
12 the system present because of that tie-in that was
13 being discussed. And again, they did not feel the
14 need to approve that system because it is player
15 tracking. It is not really impacting the game's
16 operation from a mathematical or, you know, payment
17 perspective, if you will.

18 ATTORNEY PITRE:

19 I'm sorry, Commissioner Ginty.

20 MR. GINTY:

21 I'm just trying to think some of this
22 through. You know, to a degree, this is
23 advertisement. I know that you --- do we approve your
24 advertising or is that just submitted for --- how do
25 we treat ---? I know that you're required to show us

1 what your advertisement is going to be.

2 ATTORNEY DOWNEY:

3 We have mandates on our content, for
4 example, the ---

5 MR. GINTY:

6 Problem gaming.

7 ATTORNEY DOWNEY:

8 --- responsible gaming and, you know,
9 those types of ads. And we, I think in general terms,
10 although I'm not able to speak to the specifics, but I
11 think in general terms we would provide notice on
12 roll-outs of issues or products that we felt were
13 creeping up to a line where there'd be interest. I
14 can think of some specific examples where we're
15 running promotionals that we would come in and
16 typically speak with the Executive Director on.

17 MS. KAISER:

18 I have another question. I understand
19 that if you play the game online, when you go into the
20 casino that you might get enhanced visibility on the
21 game. What about if you play in the casino, does that
22 enhance your experience at all online?

23 MR. PACE:

24 No. No, it does not go backwards. It's
25 only online ---.

1 MS. KAISER:

2 It's only playing online changes maybe
3 what you see in a casino based upon how you do?

4 MR. PACE:

5 That's correct.

6 MS. KAISER:

7 Okay.

8 CHAIRMAN:

9 Tony?

10 MR. MOSCATO:

11 I have nothing, Bill.

12 CHAIRMAN:

13 Quickly, it would seem to me, as a
14 layperson, that the only reason the casinos would
15 be --- well, there would be two reasons casinos would
16 be interested in doing stuff like this, one, to
17 attract younger, probably male players of these games
18 at home to slots by making slots more interesting to
19 them, and also getting geared up for internet gaming
20 down the line. Would I be off base in guessing those
21 two things?

22 ATTORNEY DOWNEY:

23 I think, as to the latter, you would be
24 off base, yes. This was well leading internet ---
25 consideration of internet gaming.

1 As far as the attraction, I mean, yeah,
2 I think the answer is sure. It's an avarice --- as
3 Commissioner Ginty pointed out, it is effectively ---
4 it could be characterized as a marketing tool.

5 CHAIRMAN:

6 Anything else from anybody? Ex-officio
7 members? I want to thank you all for coming in. At
8 this point, I think what I would like to do is just
9 take this matter under advisement, mull it over.
10 There are some issues here. But at this point I think
11 all that's necessary for us to say is thank you to you
12 gentlemen for coming in and making the presentation.
13 Okay?

14 ATTORNEY DOWNEY:

15 Thank you.

16 CHAIRMAN:

17 All right, ladies and gentlemen. The
18 Board is going to take a brief recess. It's a few
19 minutes before quarter of 1:00. Let's say until ten
20 after 1:00. Thank you all. We'll reconvene at ten
21 after 1:00.

22 * * * * *

23 HEARING CONCLUDED AT 12:43 P.M.

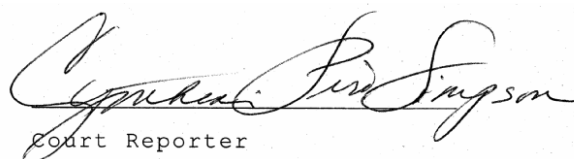
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CERTIFICATE

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I hereby certify that the foregoing proceedings,
hearing held before Chairman Ryan was reported by me
on 5/15/2013 and that I Cynthia Piro Simpson read this
transcript and that I attest that this transcript is a
true and accurate record of the proceeding.



Cynthia Piro Simpson
Court Reporter