

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: HARRAH'S CHESTER DOWNS AND MARINA, LLC

CATEGORY 1 LICENSE RENEWAL

\* \* \* \* \*

PUBLIC HEARING

\* \* \* \* \*

BEFORE: WILLIAM H. RYAN, JR., CHAIRMAN  
Gregory C. Fajt, Commissioner  
Annamarie Kaiser, Commissioner  
Keith R. McCall, Commissioner  
John J. McNally, III, Commissioner  
Anthony C. Moscato, Commissioner  
David W. Woods, Commissioner  
Fred Strathmeyer, Jr., Deputy Secretary of  
Agriculture  
Eileen McNulty, Russell Redding,  
Ex-Officio Members  
Jennifer Langan, Esquire  
Robert Coyne, Esquire  
HEARING: Wednesday, February 25, 2015  
10:00 a.m.  
Reporter: Cynthia Piro Simpson

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LOCATION: Pennsylvania Gaming Control Board  
Strawberry Square Complex, Second Floor  
Harrisburg, Pennsylvania 17101

WITNESSES: Ron Baumann, Melissa Richards,  
Susan Carletta, Eric Hession

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CHAIRMAN:

My name is Bill Ryan. I'm the Chairman of the Pennsylvania Gaming Control Board. To begin, I would ask everyone to please turn off or put on silent cell phones and other electronic devices. Thank you very much. First, I'd like to welcome Deputy Secretary of Agriculture Fred Strathmeyer who is here today representing Russell Redding who is the Acting Secretary for the Department of Agriculture. Frank, welcome.

MR. STRATHMEYER:

Thank you.

CHAIRMAN:

Also with us is Jennifer Langan from the State Treasurer's Office. Jennifer has been here forever. And somebody who has been here even longer than forever, Bob Coyne representing Acting Secretary for the Department of Revenue Eileen McNulty. Thanks for putting --- for being here. Everybody on the Board is present and therefore, I would first of all ask everyone to stand for the Pledge of Allegiance.

PLEDGE OF ALLEGIANCE RECITED

CHAIRMAN:

1                    Thank you very much, ladies and  
2 gentlemen. Today, we will begin with a hearing on  
3 Harrah's Chester Downs and Marina, LLC's Category 1  
4 License Renewal. As a background, let me state that  
5 on June 25th, 2013, a Public Input Hearing was held to  
6 gather evidence, including public comment, on the  
7 renewal of a License of Harrah's Chester Downs and  
8 Marina, LLC, operator of Harrah's Philadelphia located  
9 in Delaware County. This hearing occurred at the  
10 Chester City Hall. I notice everybody who was  
11 involved in this matter is seated at council table. I  
12 would --- I suppose before we begin, ask that those  
13 who are going to present testimony and are not  
14 attorneys be sworn. Counsel, can you do that?

15                    ATTORNEY DOWNEY:

16                    Yes. Yes, Mr. Chairman, please.  
17 Everyone can stand.

18 -----

19 WITNESSES SWORN EN MASSE

20 -----

21                    CHAIRMAN:

22                    All right. And I'm going to ask  
23 everyone to remember before you speak for the first  
24 time, just state your name and your position, spelling  
25 your last name. So with that, Harrah's, you may

1 begin.

2 ATTORNEY DOWNEY:

3 Thank you, Mr. Chairman. Good morning.  
4 Bill Downey, D-O-W-N-E-Y, with the firm of Fox  
5 Rothschild. I'm before you this morning representing  
6 Chester Downs and Marina, LLC, doing businesses as  
7 Harrah's Philadelphia Casino and Racetrack, an  
8 Applicant for Renewal of its Category 1 Slot Machine  
9 License. And Harrah's Chester Downs Management  
10 Company, LLC, Applicant for Renewal of its Management  
11 Company License, as well as the Pennsylvania  
12 affiliates.

13 With me this morning to my right are Ron  
14 Baumann, Senior Vice President and General Manager of  
15 Chester Down's Marina. Behind Ron is sitting Randy  
16 Conroy, Vice President and Assistant General Manager.  
17 To Ron's right is Melissa Richards, director of human  
18 resources and community relations. From corporate, we  
19 have Sue Carletta, Vice President and Deputy Chief  
20 Regulatory and Compliance Officer. And behind Sue and  
21 Melissa is Eric Hession, Chief Financial Officer,  
22 Senior Vice President of Finance and Treasurer of  
23 Caesars Entertainment.

24 Mr. Chairman, just by way of a brief  
25 overview, what we're going to present to you today



1 we'll break down roughly into two buckets. First and  
2 foremost, we will update you on information that was  
3 largely touched on during the course of the public  
4 input hearing that you cited a few months ago. We've  
5 collapsed some of that material and we will be  
6 updating you on most of the primary data points since  
7 the time of our public input hearing.

8           We will then go in to address head on  
9 two areas of concern that we've cited by the Bureau of  
10 Investigation and Enforcement in the course of  
11 preparation of its reports that I know have been  
12 submitted to you for your consideration today. The  
13 first of those areas is the ability of the property  
14 --- the Harrah's Philadelphia property, to drive  
15 revenues. And the second of those areas, I generally  
16 would state is the financial condition of Harrah's  
17 indirect parent --- Harrah's Philadelphia indirect  
18 parent Caesars Entertainment operating company. With  
19 that, I'd like to move to Ron Baumann.

20                           MR. BAUMANN:

21                           Good morning, Chairman Ryan. Good  
22 morning, Commissioners. Happy Wednesday. Before, I  
23 believe you have copies of our ---.

24                           CHAIRMAN:

25                           Mr. Baumann, if I could just ---.

1                   MR. BAUMANN:

2                   I forgot.

3                   CHAIRMAN:

4                   State your position and spell your last  
5 name so the court reporter doesn't have to call up  
6 later and ---

7                   MR. BAUMANN:

8                   And yell at me?

9                   CHAIRMAN:

10                  Yeah. Go ahead.

11                  MR. BAUMANN:

12                  It's Ron Baumann, B-A-U-M-A-N-N. Senior  
13 Vice President and General Manager of Harrah's  
14 Philadelphia. So good morning. I believe you have a  
15 copy of our presentation in front of you. Before we  
16 get into the printed form of that presentation, I'd  
17 like to address an issue spot on.

18                  One is, and to clarify something.  
19 Chester Downs Marina, a/k/a Harrah's Philadelphia, the  
20 licensed entity, is not part of the Chapter 11 filing.  
21 In fact, we are our own separate entity. We have our  
22 own separate capital structure. We have our own debt.  
23 We have our own bond holders. We report quarterly  
24 earnings. We do an annual investor conference. Our  
25 cash on our balance sheet is even kept separate. So,

1 we are not part of the Chapter 11 filing that Eric is  
2 going to walk through in more detail. But I did not  
3 want to let that hang out until Eric spoke later on.  
4 I would like to just address that right up front.

5           Two is, the news that was released on  
6 the filing in January, in mid-January, has had zero,  
7 and I mean zero impact on our business. In fact,  
8 January is probably the best month we've had in quite  
9 some time. So, I'm sure there's a relationship  
10 between the two, but it is --- but it has had zero  
11 impact. We survey thousands of customers every single  
12 month and we've not even seen that mentioned in a  
13 survey. So it's had zero, zero impact on our  
14 business. Again, Eric will dive into much more detail  
15 in his form of the presentation, but I really wanted  
16 to get that out front as we walk through the rest of  
17 the presentations.

18           So, again, eight years ago, Caesars  
19 Entertainment made a \$400 million bet commitment in  
20 promise to develop a vacant parcel of land, 68 acres,  
21 in a distressed city called Chester along the Delaware  
22 River in Delaware County. Today, that abandoned  
23 parcel, that brownfield development is home to a world  
24 class casino, a state of the art harness track and  
25 1,400 family sustaining jobs. It is also the main

1 economic driver for the city of Chester, one of the  
2 main economic drivers for Delaware County and has had  
3 a profound positive impact on the community. And I  
4 believe when we went to our public testimony, you saw  
5 that firsthand, as over 20 various constituents came  
6 up to testify on our behalf on the impact that this  
7 property has had on their personal lives, their  
8 businesses and their professions.

9           Since opening, we've generated a  
10 substantial amount of slot revenues. We've paid over  
11 \$1.4 billion with a B in taxes. And within that,  
12 we've contributed over \$200 million to the city of  
13 Chester and Delaware County, both in taxes and fees.  
14 So, a profound impact I think is somewhat of an  
15 understatement. We've seen approximately 33 million  
16 visitors since we opened, somewhere between three and  
17 a half and four million a year. I'd like to say  
18 that's better than the Philly's even on a good year.  
19 And I think this year coming up will certainly be ---  
20 with that.

21           But again, we've kept our promise to  
22 make an impact. Our harness track, again, is  
23 something that we built, own and operate. We built  
24 that from the ground up. We have a good partnership  
25 with the horseman community and value our racetrack

1 like no other. We've generated, you can see the  
2 numbers here, substantial value to those various  
3 stakeholders. We are proud to say we are the only PA  
4 track with system handle growth. Small, but everybody  
5 else is down in the double digit, we're up. And  
6 again, that's the taxable --- that would be the  
7 taxable handle that we pay taxes on.

8           We also have a very successful online  
9 racing business that we launched in 2014 that is  
10 driving a lot of that growth. So, we are very much  
11 dedicated to this area of our business and we'd like  
12 to see it flourish and grow. 2015 we expect to launch  
13 the season somewhere in mid-March. That's always  
14 dependent on the weather and the track conditions and  
15 freezing and those types of things.

16           We believe this year we actually will  
17 have the biggest Kentucky Derby in our history. We've  
18 dedicated substantial marketing programming efforts to  
19 make this the biggest and best Kentucky Derby we've  
20 ever had. And I have no doubt that it will be so.  
21 Hopefully we'll have a Triple Crown winner or  
22 contender and the next two races will be just as  
23 large. Melissa will now walk us through some of our  
24 community impacts.

25                           MS. RICHARDS:

1                   Good morning, Mr. Chairman and members  
2 of the Board. My name is Melissa Richards,  
3 R-I-C-H-A-R-D-S. I am the Director of Human Resources  
4 and Community Relations at Harrah's Philadelphia.

5                   The property continues to be a supporter  
6 of giving to our local community. Since 2009, the  
7 property has given over \$1 million in charitable  
8 contributions. However, we do recognize that in the  
9 past reports submitted to Mozelle's office, our  
10 Caesars foundation dollars contributed to the  
11 community were not reported. We are working with  
12 Mozelle's office to provide the appropriate  
13 documentation to correct his matter. And at the  
14 conclusion of this presentation, Mr. Downey will speak  
15 to you regarding this matter.

16                   Not only has our property engaged in  
17 supporting our community, I'm proud to say that our  
18 team members continue to demonstrate their commitment  
19 to giving back. They volunteer their time within the  
20 community through our Hero Program. And in 2014  
21 alone, our employees gave over 7,000 hours of  
22 volunteers into the community. We support, through  
23 our volunteer hours, over 125 organizations in the  
24 local Chester and Delaware County and surrounding  
25 communities. In addition, our team members have

1 contributed over \$30,000 of their own money back to  
2 the community through events like Relay for Life,  
3 Wounded Warriors Project and the ALS Fund.

4           In December of 2014, Harrah's  
5 Philadelphia awarded \$35,000 in charitable  
6 contributions within the local Chester community to  
7 support senior living and community resources by  
8 contributing to the financial success of the Senior  
9 Community Services and CityTeam. The CityTeam  
10 provides work readiness programs, GED services and  
11 food services to the community. In line with our  
12 commitment to the community, we continue to support PA  
13 suppliers and venders, as well as women owned and  
14 minority owned businesses.

15           As a larger employer in the local  
16 community, we have injected \$275 million in payroll  
17 dollars and \$35 million in payroll tax dollars. 78  
18 percent of our team members are full-time, benefit  
19 eligible employees. In addition to the wages and  
20 salaries paid, in 2014 alone, we paid our employees  
21 \$477,000 in service bonuses to reward them for their  
22 exceptional guest service standards that they provide  
23 to our guests while they are visiting our property.  
24 And if I ---.

25                           CHAIRMAN:

1           Excuse me, how many people are --- what  
2 percentage of your employees are eligible for  
3 benefits, did you say?

4           MS. RICHARDS:

5           Seventy (78) percent.

6           CHAIRMAN:

7           Thank you.

8           MS. RICHARDS:

9           And if I may, I am proud to work for a  
10 property that has a sincere and profound interest in  
11 their approach to diversity in the workforce. Our  
12 approach has shown diversity statistics and the pride  
13 to our team members to our property. Our team members  
14 continue to be highly engaged and they have chosen to  
15 rate our property as a top ten top workplace in  
16 Philadelphia two years in a row. Fifty-three (53)  
17 percent of our employees are minorities. And our  
18 commitment to growth enhancement in the benefits of  
19 our diverse workforce is one of the many reasons that  
20 we are a great place to work.

21           Based on the PGCB's current published  
22 diversity stats, as of December 2014, Harrah's  
23 Philadelphia has the largest percent of minority  
24 professionals, management and executive team members  
25 at 39 percent. In addition, we continue to build and



1 drive outstanding relationships within our community  
2 to recruit locally. As of December 2014, 43 percent  
3 of our team members are Delaware County residents and  
4 71 percent of our table games team members are PA  
5 residents, which is higher than our peers within the  
6 Philadelphia region.

7 Thank you so much for your time. And I  
8 would like to turn the presentation over to Sue  
9 Carletta.

10 MS. CARLETTA:

11 Good morning, Mr. Chairman and Board  
12 Members. My name is Sue Carletta, C-A-R-L-E-T-T-A.  
13 And I'm the Vice President of Compliance for Caesars  
14 Entertainment. I'm here to talk to you today about  
15 overall the compliance function for Caesars and  
16 responsible Gaming. Caesars is the industry leader of  
17 the responsible Gaming program. We established our  
18 program before any other casino company in the  
19 country. We implement the program across all of our  
20 properties.

21 Specific here to Pennsylvania, we have a  
22 significant amount of brochures and collateral that we  
23 put on the property for responsible Gaming that is  
24 available to the patrons on property. And we have  
25 several --- you can see from the slide, we have 30

1 management level employees who serve as responsible  
2 Gaming ambassadors at the Harrah's Philadelphia  
3 property. We conduct a robust, responsible Gaming  
4 training program that all of our employees are  
5 required to take and then an annual refresher program  
6 that they take each year.

7           Specific to Harrah's Philadelphia, we've  
8 implemented quite a few responsible Gaming measures.  
9 As you can see from the slide, we have two areas where  
10 patrons come into the facility. And we are able to  
11 verify their identification cards when they come ---  
12 their identification when they come in, so that we can  
13 ensure that they're, you know, above the age of  
14 Gaming. And then you can see we have numbers in here  
15 where we've actually turned away several patrons who  
16 have not met the ID requirement and the age  
17 requirements.

18           And also, one of the things that I'm  
19 proud of and the property is very proud of is in 2014,  
20 we instituted a bonus program for our security guards.  
21 So each quarter, we give a bonus to all the security  
22 guards if there are no instances of underage patrons  
23 gaining access to the floor at the property.

24           I will talk a little bit about our  
25 compliance structure for Caesars overall and then I'd

1 like to get into one of the things that we've focused  
2 on over the last few years is our Anti-Money  
3 Laundering Program. So, for compliance at the  
4 corporate level, all of the compliance functions  
5 within the organization report into one entity in the  
6 corporate organization and they report into me. So,  
7 each of our properties has a compliance officer and a  
8 compliance staff. And all of those individuals report  
9 into this one compliance organization.

10 We previously --- prior to 2012, the  
11 property compliance folks reported on property and we  
12 thought it was a better reporting structure and we  
13 could have more internal controls in place and more  
14 consistency across our properties if they report into  
15 one organization. So, we changed that in 2012 and  
16 it's worked really well. The compliance person here  
17 at Harrah's Philadelphia is Michelle Liero (phonetic)  
18 and I am constantly in communication with her and we  
19 have calls all the time on matters that are going on  
20 specific to the property.

21 CHAIRMAN:

22 Excuse me, ma'am. Are you based in Las  
23 Vegas?

24 MS. CARLETTA:

25 I am in Las Vegas, correct. So, over

1 the last couple of years, we have had a very  
2 significant focus on anti money laundering. And we  
3 --- last year, we revised our Anti-Money Laundering to  
4 make it a much more robust program. Just in January,  
5 we hired an AML, an anti money laundering officer, who  
6 will specifically be focused just on anti money  
7 laundering for the company as a whole. It's a very  
8 senior level position. He's senior vice president and  
9 he reports into the General Counsel. He has direct  
10 access to the audit committee of Caesars Entertainment  
11 and reports --- you know, he'll report quarterly and  
12 any other time that he needs to on any issues relating  
13 to anti money laundering.

14 He has a team currently of 50  
15 professionals who work for him. We are in the process  
16 of sort of looking at how the org structure should  
17 report in, since a lot of the property functions  
18 relate to AML reporting and currency transaction  
19 reports and suspicious activity reports. So, we are  
20 looking at how, you know, that reporting structure  
21 will work. But I'll be very involved and work very  
22 closely with him as we set that up.

23 As I mentioned, each property has a  
24 compliance officer, and that person is also the anti  
25 money laundering officer for the property. So, they

1 do a lot of work around filing our currency  
2 transaction reports and suspicious activity reports.  
3 They are also very involved in our training program  
4 that we significantly revised over the last year.  
5 We've made it much more tailored to specific areas of  
6 the casino and --- including examples of things that,  
7 you know, could be suspicious about a patron's  
8 activities.

9           We've established quite a few policies  
10 under the new program. There's a list on page 13 of  
11 the presentation. One of the ones I want to focus on  
12 most is the Know Your Customer policy because this is  
13 getting obviously a lot of focus in the industry as a  
14 whole. So, we created --- under our Anti-Money  
15 Laundering Program, we created a Know Your Customer  
16 policy. And under this policy, we're reviewing on a  
17 risk basis certain --- certain level of customer or  
18 certain events that trigger a Know Your Customer  
19 review. And what the Know Your Customer review  
20 consists of is we do a background on the player and  
21 then we determine whether or not, you know, they have  
22 their --- a source of funds for them to be able to  
23 continue Gaming at our facility.

24           So, it all revolves really around where  
25 their source of funds is from, is it a legitimate

1 source of funds. It does not come from any illegal  
2 activity. So, we do that based on --- it's a risk  
3 basis. We've set up thresholds at all of our  
4 properties for the level of patron that we're looking  
5 at. But then again, there are also certain events  
6 that could trigger a Know Your Customer. So, it's not  
7 just based on a threshold, but it could also be based  
8 on, you know, if there's --- if we've filed a number  
9 of suspicious activity reports on a patron, then we'll  
10 review them under our Know Your Customer policy as  
11 well.

12 We also have our audit team internally  
13 and there's an external independent audit group that  
14 is reviewing our Know Your Customer policy and our AML  
15 efforts. So that is occurring on an ongoing basis.  
16 We have at least annual reviews at every one of our  
17 properties of the AML efforts at the property --- at  
18 all of our properties. And then they report up to the  
19 audit committee of the company. And we're involved,  
20 you know, we have to respond to those audits. And if  
21 they find any deficiencies, obviously we have to work  
22 on correcting those deficiencies.

23 MR. BAUMANN:

24 Thank you. One of the areas of concern  
25 that BIE laid out was our ability and --- slot

1 performance, ability to drive slot revenues and Gaming  
2 revenues. I'd like to address that in two ways. One,  
3 first off, by contest of the market. And then  
4 secondly talk about how we're approaching that, how  
5 we're going to improve our revenue performance.

6           One, so from a contest standpoint, as  
7 the Board fully is aware, this is a --- I like to call  
8 this uberly (phonetic) competitive market. When we  
9 first opened our doors in 2007, there were --- a  
10 little bit over 5,400 slot machines. There are now  
11 over 8,500 slot units in the market. So, the supply  
12 has increased dramatically.

13           Two is, I'd like to remind the Board  
14 that we have one more competitor than most. And that  
15 competitor is to our south in Delaware Park. We all  
16 like to look at Pennsylvania Gaming numbers, but  
17 Delaware Park is our second most noted competitor.  
18 So, when we look at customer research and say where  
19 else do you play, Delaware Park is number two. And  
20 most other competitors would say they have three  
21 competitors. We have four.

22           It's a locals market. Eighty (80)  
23 percent, almost 90 percent of our business resides in  
24 equal distance or closer to somebody else. We have a  
25 very, very small backyard. About ten percent of our

1 database lives in our backyard. And by backyard, I  
2 mean, they're close to us than anywhere else, so think  
3 of that as a five to seven mile radius. So, very  
4 small. And if you looked up MSA data, you'll also see  
5 that the average household income, not surprising, is  
6 smaller as you get closer to where Harrah's Chester  
7 resides. The wealth and the density in the population  
8 is to the north and to the west. And you'll find that  
9 in any MSA data that you pull.

10                   Consumer behavior, since the recession,  
11 has changed dramatically. And I think, as you look at  
12 regional performance across Pennsylvania and the rest  
13 of the U.S., you will see that. Most regional markets  
14 are down or flat from the same sales perspective. No  
15 different for us. Additionally, this market is now  
16 about a \$1.1 billion market. It was a \$1.1 billion  
17 market in 2012 before the new competitor entered. So,  
18 it's the same amount of revenue with one more slice of  
19 the pie going somewhere. So, again, it is highly,  
20 highly competitive market.

21                   So, despite those challenges, this  
22 property, Harrah's Philadelphia, is an extremely  
23 successful casino. We are number four in the state.  
24 We are number six from the Tri-State perspective. We  
25 are one of the top ranking revenue producers in the



1 Caesars Entertainment portfolio. And there's a lot of  
2 people who would like to say they do over \$300 million  
3 a year in net revenues.

4           So, how are we approaching --- how are  
5 we thinking about driving our performance to a  
6 different level in the future? Really three ways.  
7 One is continuing to focus in and enhance our core  
8 Gaming experience. Making the slot for more relevant  
9 than it is today and enhancing that experience. Two  
10 is really focusing in on creating more compelling  
11 reasons outside Gaming to visit the property. So,  
12 investing in enhancing those nine Gaming type  
13 experiences, from restaurants to retail to  
14 entertainment to give other reasons to visit the  
15 property besides just to game, whether it's slots or  
16 tables. And then, lastly, we will continue to iterate  
17 and evolve our marketing efforts.

18           So, in terms of our core Gaming  
19 experience, over the past three years, we've refreshed  
20 65 percent of our slot profit. That's a heck of a  
21 number and it's a big investment on our part. So, no  
22 doubt that when you come to Harrah's Philadelphia,  
23 you're going to find the newest and freshest slot  
24 products. That also includes refreshing 100 percent  
25 of our video poker product. So a very heavy

1 investment in our core slot product.

2 About a year ago, we spent a \$1 million,  
3 opened up a brand new high limit area. That area  
4 houses Asian Gaming, High Limit Blackjack and our slot  
5 products. You know, I will proudly say it is the best  
6 high limit experience in market bar none. We also  
7 recently opened up in the past quarter the first Asian  
8 themed Gaming area. This area is deemed with various  
9 Asian accents and it also is host to the most popular  
10 slots that are featured in the McHale (phonetic)  
11 market. And then lastly, we just put the final  
12 touches on our --- what we call our \$1 million pit.  
13 And that is a pit where, for a \$5 wager, you have a  
14 chance to win \$1 million. So, a life changing bet for  
15 \$5.

16 From a Non-Gaming perspective, earlier  
17 this year, we spent just under a million dollars to  
18 renovate our Diamond Club. The Diamond Club, it's our  
19 private restaurant for Diamond members. It's the  
20 number one benefit of being a Diamond member. Bar  
21 none, this is by far the best experience in the  
22 market. And I'd put this up against any club  
23 throughout the U.S.

24 Last Thursday, we did a ribbon cutting  
25 for our brand new Cove Steakhouse and Raw Bar and

1 Level Lounge. It's a re-imagination of our existing  
2 space where we now have what we believe is a market  
3 best Steakhouse, Raw Bar featuring the freshest  
4 seafood, fresh fish from right off the boats in Cape  
5 May. And a Lounge that will now feature live  
6 entertainment three days a week. So, going out there  
7 and creating more compelling reasons --- different  
8 reasons to visit, outside of that core Gaming  
9 experience or to accent that core Gaming experience.

10 We are also looking to take a different  
11 approach to entertainment and speak to a slightly  
12 younger demographic. And by younger, I mean 30 to 50,  
13 not 21. But 30 to 50. It's a market that we have not  
14 done well with or a demographic that we have not done  
15 well with and we believe is an opportunity for growth.  
16 We'll be opening up a new events center in the summer.  
17 The events center is known as The Block. It's a  
18 multi-purpose space that can house up to a thousand  
19 people.

20 So we'll be doing difference concerts,  
21 events and dance parties back there. We're also going  
22 to be going out on our patio and activating that space  
23 with entertainment. Entertainment will be featured at  
24 night and also during the day to help accent our  
25 racing performance and give a different reason to come

1 to enjoy the races. And then we recently last month  
2 opened up a new Center Bar experience that features a  
3 video wall and a music DJ and kind of a party pit on  
4 the floor, if you will. So, a very different approach  
5 to entertainment versus the traditional headliner-type  
6 act that we've done in the past. And we believe a  
7 much better path forward, more relevant, and will  
8 generate much more traffic revenue and taxes for the  
9 Commonwealth.

10 We are also constantly learning and  
11 iterating from a marketing perspective. In Q4, we  
12 actually rolled out a new approach to our --- what we  
13 call our direct mail or our core reinvestment. And we  
14 rolled out a program called Return Rewards, which is a  
15 proprietary program from the property perspective. We  
16 like what we see. Our slot share, since we've rolled  
17 out that program, has increased over 50 basis points.  
18 We saw growth in December and in January, from --- in  
19 slots. So, more to come as we fully roll out that  
20 program. The program right now has rolled about ---  
21 throughout about 50 percent of our database. And as  
22 we go out through the year, we'll roll out even more  
23 and we're very, very encouraged by what we see there.

24 We're also out there announcing new  
25 additions to our Total Rewards program. You know,

1 Total Rewards is the industry's leading loyalty  
2 program. We're adding actually local benefits, which  
3 is something we've not done before. So, we're out  
4 there signing up local restaurants, restaurants in  
5 Philadelphia where they'll be able to participate and  
6 partner with us. They can earn Total Reward credits  
7 as they pay and visit those establishments.

8                   And then lastly, we're also out there  
9 investing in not only slot product, but the technology  
10 that generates the offers. We put a Prism system in  
11 during the last relicensing period. Prism is  
12 basically a new system that allows the customer to  
13 engage and interact right at the machine. And three  
14 years ago, you had to have a piece of paper and insert  
15 it for your slot dollars. Now it's all on your card.  
16 It's electronic. It allows the customers to engage in  
17 a seamless level.

18                   And again, lastly, we believe the  
19 entertainment approach that we're taking, the  
20 investment will generate significant traffic revenues,  
21 both Non-Gaming and Gaming to the property. So, I'd  
22 now like to bring up Mr. Hession to talk about the  
23 second area of concern.

24                   MR. HESSION:

25                   Thanks, Ron. Chairman Ryan and Board

1 members, thanks for allowing us the opportunity to  
2 talk to you today. My name is Eric Hession,  
3 H-E-S-S-I-O-N, and I'm the Chief Financial Officer for  
4 Caesars Entertainment Company.

5           As Bill noted earlier, when the BIE was  
6 conducting their investigation, they correctly noted  
7 that the CEOC entity, Caesars Entertainment Operating  
8 Company entity, was financially challenged. And  
9 subsequent to their investigation, that entity has  
10 filed for reorganization under the Code of Chapter 11,  
11 Bankruptcy Protection.

12           What I wanted to do today was to give  
13 you some background on how that situation was  
14 manifested, talk to you about the actions that were  
15 taken to address the financial condition and then  
16 present to you what we believe will be the ultimate  
17 resolution and ending structure of the entity itself.  
18 It's important to note, as Ron highlighted earlier,  
19 that the property, Harrah's Philadelphia, is not in  
20 the bankruptcy itself. It has a separate capital  
21 structure. And so it's the parent of that entity that  
22 is subject to the restructuring.

23           Back in 2007, the company was taken over  
24 through a leveraged buyout by two private equity  
25 firms, Apollo and TPG. The leveraged buyout firm ---

1 firms took approximately a year to move the  
2 transaction through and we closed in early 2008. It  
3 was spectacularly poor timing as right after the  
4 closing of the LBO, the credit market ceased and the  
5 country entered into the recession that we're all  
6 familiar with. The industry itself and our company in  
7 particular experienced great challenges over the  
8 following years and still do in certain markets.

9           Our particular exposure to Atlantic City  
10 has been very challenging. As you're aware, that's  
11 one of the most significantly impacted markets,  
12 primarily driven through competition, but also through  
13 the overall economy and the pull back in consumer  
14 spending towards Gaming activities.

15           Throughout that time and in an effort to  
16 deal with the leverage situation at CEOC and in the  
17 other structures as well, we conducted over 40 capital  
18 market transactions. We were very active in trying to  
19 accomplish three main goals. One is to ensure that we  
20 had sufficient cash availability to meet all of our  
21 obligations, including paying our employees, paying  
22 our customers their rewards, paying our vendors and  
23 paying our debt and principal when it occurred. We  
24 also strived to push out our maturities as much as  
25 possible so that we didn't end up in a situation where

1 a maturity came up and we didn't have sufficient  
2 capital to repay that maturity.

3           And then finally, we had operating  
4 covenants that the credit agreements require that we  
5 adhere to. And so as part of those 40 capital market  
6 transactions, we ensured that we remained in  
7 compliance with those transactions. We also listed  
8 our company shares on the NASDAQ. CZR is the ticker.  
9 We did that with the purpose of creating a currency  
10 with which we could then sell shares in the public  
11 market and use that for operating purposes or to  
12 retire debt. We subsequently did two follow on  
13 offers, each in excess of \$100 million. And although  
14 we deluded the equity owners of the company, we did  
15 take in valuable cash that could be used to help  
16 operate the business.

17           Following that, we also enacted a rights  
18 offering, where we gave our existing CZR shareholders  
19 an opportunity to invest additionally in a new venture  
20 called Caesars Acquisition Company. That venture  
21 raised \$1.1 billion of new cash also needed to further  
22 develop the heavily capital intensive nature of our  
23 business. The sponsors, TPG and Apollo, contributed  
24 \$500 million of that \$1.1 billion. So, they invested  
25 additional capital into the venture.



1           Throughout that time, we continued to have a  
2 long-term perspective. We invested in our businesses.  
3 When we continued to provide growth opportunities for  
4 our employees, we highlighted the service culture and  
5 we made sure that we providing and meeting and  
6 exceeding all of the expectations of our customers.  
7 Unfortunately, through all of those efforts, the  
8 recovery in our industry did not manifest itself to  
9 the significance that we needed to facilitate the  
10 deleveraging of the Caesars Entertainment operating  
11 company entity. And as a result, we recognized that a  
12 restructuring was needed. And that's what we started  
13 to work on towards the end of 2014. And I'll get into  
14 the specifics.

15                       There are two important transactions  
16 associated with our overall restructuring. First is  
17 the comprehensive restructuring of the balance sheet  
18 of CEOC. We want to come up with a plan that will  
19 result in a long-term stable entity that enables us to  
20 generate cash, reinvest in the business and continue  
21 to move forward without running into leverage  
22 problems. And also, as a --- as part of the plan that  
23 we've proposed, we will merge the two publicly listed  
24 companies back together to simplify the capital  
25 structure and to consolidate our cash, such that we

1 can help facilitate the restructuring of the CEOC  
2 venture. And I'll get into more details of each of  
3 those components later in the presentation.

4           We believe that the result of the  
5 transactions will be that we will resolve all of the  
6 financial and legal issues that we have at Caesars  
7 Entertainment Operating Company. We'll simplify the  
8 capital structure, making it much easier for investors  
9 to elect to decide which type of security and which  
10 investment they'd like to take and also save expenses  
11 from eliminating some duplicate, corporate and  
12 registration expenses. And we'll also allow  
13 management and our employees to continue to focus on  
14 the business and look towards long-term growth.

15           There will be no change of control at  
16 the parent entities. As I mentioned, TPG and Apollo  
17 invested in the rights offering. And so after the  
18 merger, they will continue to own or control slightly  
19 over 60 percent of the equity shares. And finally, we  
20 believe that the plan that we've proposed is in the  
21 best interest for all of our constituents, including  
22 the Gaming Regulators, our properties, our employees,  
23 our suppliers and the lenders themselves.

24           Just as a refresher on our capital  
25 structure as it stands today, you'll see in the middle

1 box, Caesars Entertainment Corporation, that's the  
2 primary parent company. It's listed on the NASDAQ as  
3 I mentioned. Ticker is CZR. And it holds three  
4 primary ownership stakes and subsidiaries.

5           The first on the right is Caesars Growth  
6 Partners, which it owns a 58 percent stake. Caesars  
7 Growth Partners consists of Caesars Interactive  
8 Entertainment, which is our online division. It also  
9 consists of six properties listed here, primarily in  
10 Las Vegas but viewed throughout the rest of the United  
11 States. It also importantly has approximately \$1  
12 billion worth of cash. And that's important when ---  
13 I'll get to later with respect to the merger because  
14 that cash is planned to be used to help facilitate the  
15 restructuring of the operating unit.

16           The Caesars Entertainment Company also  
17 owns a hundred percent of CERP, which is Caesars  
18 Entertainment Resort Properties. That's primarily Las  
19 Vegas Centric Credit that was originally a structure  
20 that was put in place at the time of the leveraged  
21 buyout and has since been refinanced and now has  
22 stable capital structure with long-term maturity  
23 profile.

24           And finally, CEC owns 89 percent of  
25 Caesars Entertainment Operating Company, which is the

1 subject of the discussion today. Caesars  
2 Entertainment Operating Company has 37 properties,  
3 including as one of its subsidiaries, Harrah's  
4 Philadelphia. And as I noted, that --- although it's  
5 included in the Caesars Entertainment Operating  
6 Company structure because its parent is the operating  
7 company, it is a separate capital structure with a  
8 separate cash position and separate debt. And it also  
9 is not wholly owned from a parent perspective. And  
10 thus, it's not included in the bankruptcy filing of  
11 CEOC and a number of its subsidiaries.

12 CHAIRMAN:

13 Are any of the other 37 properties in a  
14 similar situation?

15 MR. HESSION:

16 No. No, we have some management  
17 companies that are part of JVs that are not included  
18 in the bankruptcy. But Harrah's Philadelphia is the  
19 only one that has its own property specific debt.

20 CHAIRMAN:

21 Thank you.

22 MR. HESSION:

23 So, as I mentioned earlier, we pursued a  
24 number of transactions to push out the maturities,  
25 raise cash and ensure that we satisfied our covenants

1 in anticipation of a recovery that would enable us to  
2 then successfully refinance the debt. As you can see,  
3 we have approximately \$18 billion worth of debt within  
4 CEOC. And the EBITDA in relation to the interest  
5 payments causes us to have negative cash flow. As  
6 you're all aware, in addition to simply that  
7 calculation, we operate in a capital intensive  
8 environment and sustained negative cash flows over  
9 time will cause us to be unable to continue to  
10 reinvest in the properties.

11 As I mentioned earlier, we raised debt  
12 and maintained our cash flow in the past few years to  
13 ensure that we could invest sufficiently. However, we  
14 recognize that at this point, we need a comprehensive  
15 restructuring plan to enable that to continue.  
16 Otherwise, we'll risk falling behind on the  
17 competitors. And again, as Ron pointed out, this is  
18 broadly speaking, not related to Harrah's here because  
19 it has its own cash balances and capital structures.  
20 So, it's not involved with the same needs of the  
21 Caesars Entertainment Operating Company.

22 With few exceptions, there are very good  
23 businesses. They all generate significant cash flows.  
24 They are very well run. They are very well perceived  
25 by our customers. And it's not a problem with the

1 properties, it's a problem with the capital structure.  
2 And that's very important because as we have moved  
3 through the restructuring process, our company is  
4 taking great care to ensure that the general managers,  
5 the heads of finance, the employees working at the  
6 properties are not distracted and are not impacted by  
7 the bankruptcy filing.

8           As Ron mentioned, the customers also  
9 from our surveys don't appear to be perceiving this  
10 negatively in terms of their decisions on which casino  
11 to visit. The plan that we have in place is a ---  
12 what we believe to be a permanent fix. And it will  
13 allow us to move forward and completely restructure  
14 the capital structure of CEOC.

15           To do that, on December 19th, we  
16 announced that we had reached an agreement with a  
17 subset of our lenders --- what's called a RSA, which  
18 is a Restructuring Support Agreement, that they have  
19 signed which indicates their support for the plan.  
20 Under the terms of the plan, we would modify our  
21 corporate structure, the CEOC corporate structure, to  
22 split into two entities. One would be a PropCo and  
23 one would be an OpCo. And you're familiar with that  
24 from other casino companies that have either done that  
25 or are announcing that they're intending to. But it's

1 essentially a restructure for the PropCo and then an  
2 OpCo which would continue to manage the properties,  
3 have all of the Gaming Licenses and retain all of the  
4 Gaming assets.

5           In addition, as I mentioned earlier,  
6 CEC, the parent company, will invest significantly in  
7 the restructuring to help facilitate that. The amount  
8 that was negotiated was \$1.45 billion. \$1 billion in  
9 the form of purchases of the equity, which would be  
10 first given to the lenders. And then up to \$450  
11 million to help facilitate the balance of the  
12 restructuring. The plan would reduce CEOC's annual  
13 interest expense by approximately \$1.2 billion and it  
14 would reduce the debt by about \$10 billion, going from  
15 \$18 billion down to \$8 billion.

16           So, how will all of this look? On the  
17 left-hand side of the page, you can see the existing  
18 structure, with CEC and the 89 percent ownership of  
19 CEOC. On the right-hand side of the page, you can see  
20 the two boxes, one in the blue and one in the red.  
21 The blue is the PropCo structure. That will be the  
22 entity that owns the assets and leases them to the  
23 OpCo. The creditors, under our proposed plan, will  
24 own the vast majority of the equity in the PropCo,  
25 which would be structured as a REIT.

1                   On the OpCo side, Caesars Entertainment  
2 Corporation would continue to own the majority of the  
3 equity. And would also own the minority interest in  
4 the PropCo to ensure, as the creditors have requested,  
5 that the incentives are all aligned in terms of the  
6 balance between the two. Harrah's Philadelphia would  
7 remain within the OpCo side and it would continue to  
8 have its own capital structure as it does today.

9                   From a lender perspective, when we  
10 talked to the lenders and tried to negotiate a deal  
11 that's beneficial to everyone, we measured it in terms  
12 of the recovery that they'll receive. As I mentioned,  
13 we had an agreement and a signed Restructuring Support  
14 Agreement with one class of lenders. And that's the  
15 first lien secured bonds that you see in the page.  
16 They are, in terms of claim, equal to the bank term  
17 loan piece. However, they are technically junior for  
18 some structural reasons.

19                   We're offering the bank debt a 100  
20 percent recovery, which would come in the form of cash  
21 and new debt in the various subsidiaries. The first  
22 lien in bonds would not get a 100 percent recovery.  
23 And they would receive 61 cents in cash and bonds and  
24 they would also receive 31 cents of value in the form  
25 of equity ownership in the OpCo and the PropCo.



1                   Now, you'll note on the page that it  
2 says that they're going to receive 100 percent  
3 ownership of the OpCo. And that's really an  
4 instantaneous ownership, which they then have agreed  
5 to sell to us, being Caesars, in the form of the cash  
6 that Caesars is contributing, such that we would  
7 ultimately own at a minimum 51 percent of the OpCo and  
8 likely closer to 100 percent because we believe that  
9 all of the lenders will elect to sell their OpCo  
10 shares to us as part of their restructuring. Again,  
11 it's important to note that this first lien bond group  
12 that is agreeing to not receive 100 cents on the  
13 dollar is the group that has agreed to support the  
14 restructuring that we have in place.

15                   We also have second lien debt, which is  
16 junior to both of the other tranches, as well as  
17 unsecured creditors. And the proposal has them  
18 getting 30 percent of the PropCo equity, with an  
19 option to buy additional PropCo equity from the first  
20 lien bond holders if they'd like from a valuation  
21 perspective. As I mentioned before, we believe that  
22 is --- this proposal is in the best interest of all of  
23 the classes of lenders, as well as the properties and  
24 the various constituents.

25                   From a process perspective, CEOC elected

1 to file Chapter 11 bankruptcy in January to help  
2 facilitate this restructuring plan. The bankruptcy  
3 will be held in the court of Chicago. And one of the  
4 benefits from an in-court restructuring process versus  
5 an out-of-court restructuring process is that the in  
6 court process has the benefit of being able to bind  
7 all of the creditors to the solution. So, once an  
8 agreement is reached between all of the constituents,  
9 every constituent is bound to that agreement and the  
10 end result is that the entity comes out in a clean  
11 capital structure without lingering liabilities.

12           CEOC and all of its subsidiaries will  
13 continue to operate as they are today. And as Ron  
14 mentioned, not only at Harrah's Philadelphia, but  
15 throughout the enterprise. We haven't seen an impact  
16 from the customer perception in terms of the ---  
17 associated with the bankruptcy.

18           I mentioned earlier that our plan  
19 contemplates significant changes to the capital  
20 structure that will result in a much more stable  
21 entity. In particular, the CEOC debt will be reduced  
22 from \$18.4 billion down to approximately \$8.6 billion.  
23 The interest expense will be reduced as well, from  
24 \$1.7 to \$.5 billion. And although a lease payment of  
25 \$635 million is included from the OpCo to PropCo, the

1 net effect for the two entities is that there will be  
2 a significant positive cash flow resulting after the  
3 transaction, compared to the negative 1.1 that we are  
4 currently experiencing.

5           So, also as I mentioned earlier, part of  
6 the facilitation of the restructuring is the large  
7 contribution of cash from the parent, Caesars  
8 Entertainment Corporation. Caesars Entertainment  
9 Corporation's parent does have a significant amount of  
10 cash balance, but it's lower than the required amount  
11 under the RSA that was negotiated with the first lien  
12 lenders of approximately \$1.4 billion. Thus, a merger  
13 was contemplated between CAC and CEC to consolidate  
14 that cash into a single entity and to use it to help  
15 facilitate the restructuring, which again we believe  
16 is in the benefit of everyone, including the parent  
17 entities and the equity lists that they have.

18           These CEC shareholders will receive 62  
19 percent of the company and CAC will have 38 percent.  
20 The transaction was negotiated entirely by independent  
21 special committees of the boards and they were each  
22 advised by preeminent financial and legal advisors on  
23 their teams. And we would expect the merger to close  
24 concurrently with the restructuring of CEOC.

25           So, from a pro forma perspective, the

1 company will look like what we've shown on the slide  
2 on page 31. We'll have a single listed entity,  
3 Caesars Entertainment Corporation, continue to be  
4 listed on the NASDAQ under the CZR ticker. It would  
5 own 100 percent of the CGP and CERP entities. It  
6 would also own the majority of the CEOC OpCo and it  
7 would have a minority interest in the PropCo. The  
8 REIT would also be listed and that would be owned  
9 entirely by the lenders, who would then sell out to  
10 logical REIT buyers who would be interested in owning  
11 that type of security.

12           So, I know we presented a lot of  
13 materials. It is a confusing capital structure with a  
14 lot of moving parts. But, you know, I'd like to in  
15 summary just restate that we believe that this plan is  
16 in the best interests of all the constituencies. It  
17 will eliminate the uncertainty and overhang that we've  
18 had from the entity's perspective and that it will  
19 also ensure that all of our entities will have greater  
20 access to capital in the future. So, I will pause  
21 there and I think that's the end of our presentation.

22           ATTORNEY DOWNEY:

23           Thank you, Eric. Mr. Chairman, during  
24 the course of Melissa Richards' testimony, she made  
25 reference to the fact that we have reported to you

1 today a charitable contribution number that we have  
2 confirmed is not supported by the materials that we  
3 have provided historically to the Office of Diversity.  
4 That problem was flagged by OEC and the Office of  
5 Diversity in connection with their review of an  
6 earlier version of this presentation that we provided  
7 to them at the end of last week.

8           We did some leg work and confirmed that  
9 in fact we have a problem. The problem, very simply  
10 stated, is that we've got two available avenues for  
11 contribution. One generated at the property level and  
12 the other generated by a foundation --- capital  
13 foundation established that's generically referred to  
14 as Harrah's Foundation. And while the folks at the  
15 property level were certainly aware that the  
16 foundation was in fact supporting various charitable  
17 efforts that were occurring at the property, for  
18 reasons that are not entirely clear at this point,  
19 those efforts were not being communicating for  
20 reporting purposes.

21           In speaking with the Office of Diversity  
22 and the Office of Enforcement Council (OEC), what  
23 we've agreed to do this morning is put the materials  
24 that are supportive of the margin, if you will,  
25 between what has been reported and what we have

1 actually contributed into the record today. And to do  
2 that, I'd like to take a couple of minutes, if you  
3 will grant me the time, to discuss these documents  
4 with Ms. Richards, create a proper foundation for  
5 them, and then without objection, we'd like to move  
6 those into the record.

7 CHAIRMAN:

8 Cyrus?

9 ATTORNEY PITRE:

10 I have no objection, as long as the  
11 documents are moving into the record are subject to  
12 the verification by the Office of Diversity and OEC.  
13 There appears to be somewhere in the neighborhood of  
14 \$700,000 to \$750,000 that have not been previously  
15 reported. The information on record that we have  
16 during this particular time period accounts for  
17 \$450,658 in charitable contributions. As a result, as  
18 long as the movement into the record is subject to  
19 subsequent verification, I would have no objection.

20 CHAIRMAN:

21 Mr. Downey, go ahead.

22 ATTORNEY DOWNEY:

23 Thank you.

24 -----

25 MELISSA RICHARDS, HAVING BEEN PREVIOUSLY SWORN,

1 TESTIFIED AS FOLLOWS:

2 -----

3 DIRECT EXAMINATION

4 BY ATTORNEY DOWNEY:

5 Q. Melissa, would you please remind us of your  
6 title?

7 A. My title is Director of Human Resources and  
8 Community Relations of Harrah's Philadelphia.

9 Q. And in your capacity as Director of Human  
10 Resources and Community Relations, do you have  
11 occasion to deal with the Harrah's Foundation?

12 A. Yes. I deal directly with the Caesars Foundation  
13 requests that come to the property. Correct.

14 Q. I'm going to hand you two stacks of documents.

15 A. Okay.

16 Q. Can you take a moment to take a look at those?

17 A. Sure.

18 Q. Are you familiar generally with the form of  
19 document that you're reviewing?

20 A. Yes, I am.

21 Q. Can you identify each of those varieties of  
22 documents that you are reviewing?

23 A. Yes. The first set of documents is the  
24 transmittal letter that accompanies the check when  
25 sent to the property in order to present the check to

1 the charitable organization.

2 Q. And who is that letter coming from?

3 A. It comes from Tom Riley (phonetic), who is the  
4 executive director who represents the Caesars  
5 Foundation.

6 Q. And what is the second --- can you identify the  
7 second ---

8 A. Yes.

9 Q. --- form of documents?

10 A. The second form --- stack of documents is the  
11 transmittal request that goes to the foundation in  
12 order to disperse the funds to the property, in order  
13 to present them to the charitable organizations.

14 Q. In your capacity as the Director of Human  
15 Resources and Community Relations, do you ordinarily  
16 review or at least have access to and see those  
17 documents as they come through the system?

18 A. I do. Yes.

19 Q. Okay. You've already --- and I'm sorry, again,  
20 you've identified that as these requests come in, they  
21 are processed internally and then the checks are cut  
22 to the property; do I have that correct?

23 A. That is correct.

24 ATTORNEY DOWNEY:

25 Mr. Chairman, without objection, I ask



1 that these two varieties of documents evidencing a  
2 series of contributions be moved into the record.

3 CHAIRMAN:

4 Cyrus?

5 ATTORNEY PITRE:

6 Again, no objection subsequent to the  
7 --- subject to the verification.

8 CHAIRMAN:

9 You understand that; right, Mr. Downey?

10 ATTORNEY DOWNEY:

11 Yes, sir.

12 CHAIRMAN:

13 All right. It will be admitted.

14 ATTORNEY DOWNEY:

15 I think at this point, Mr. Chairman,  
16 we're ready to close our direct presentation and  
17 entertain any questions the Board may have or if  
18 you ---.

19 CHAIRMAN:

20 Okay. Thank you, Mr. Downey. Cyrus,  
21 does OEC have any questions of Caesars?

22 ATTORNEY PITRE:

23 Yes. I'm going to turn over the ---  
24 initial questioning over to Assistant Enforcement  
25 Counsel Cassandra Fenstermaker.

1                   ATTORNEY FENSTERMAKER:

2                   Good morning, Chairman Ryan, members of  
3 the Board. I'm Cassandra Fenstermaker,  
4 F-E-N-S-T-E-R-M-A-K-E-R. I have a few questions. And  
5 the first, I'll start with the bankruptcy. You've  
6 stated that Harrah's Philadelphia did not file for  
7 bankruptcy, but its management company, Harrah's  
8 Chester Management --- Harrah's Chester Downs  
9 Management Company and its direct parent, Harrah's  
10 Chester Downs Investment Company, both did file for  
11 bankruptcy. And they're both licensees today. Can  
12 you explain how those bankruptcies impact Harrah's  
13 Chester, if at all?

14                   MR. HESSION:

15                   Yeah. So, as I stated, the impact of  
16 the bankruptcy will not --- Harrah's Chester will not  
17 have any impact on the --- on its operations from the  
18 bankruptcy. The entity that controls --- or the  
19 entity that owns the property as well as the cash  
20 that's in the property and is obligated to pay the  
21 debt is excluded from the bankruptcy. We have less  
22 than 100 percent ownership of the entity and that was  
23 a driver as well in terms of not including it in the  
24 bankruptcy. But from a management perspective and  
25 from an operational perspective and a capital

1 deployment perspective, there's no impact.

2 ATTORNEY FENSTERMAKER:

3 So, the bankruptcy by Harrah's Chester  
4 Downs Management Company won't have any impact on the  
5 management fees or any impact on the management  
6 agreement that's in place with Harrah's Philadelphia?

7 MR. HESSION:

8 No. No impact.

9 ATTORNEY DOWNEY:

10 Basically, I would just add that in  
11 connection with the first day Motions, as they're  
12 called, that occur in the context of the Chapter 11,  
13 these companies have all been put into positions that  
14 conduct business in the ordinary course and we fully  
15 anticipate that that would continue.

16 ATTORNEY FENSTERMAKER:

17 You spoke about the reorganization of  
18 the company generally and I just want to confirm, that  
19 is not --- that has not been confirmed by the  
20 bankruptcy court or even confirmed by all of the  
21 lenders that are required at this point; is that  
22 correct?

23 MR. HESSION:

24 Yeah. That's a very good clarification.  
25 I tried to throughout the presentation make sure that

1 it was clear that it's our proposal or our plan. We  
2 haven't officially submitted our plan as is required  
3 in bankruptcy. But we do intend to do that. And we  
4 have the support of one of the significant groups of  
5 lenders. But to your point, the other lender groups  
6 have not yet signed on in terms of the support.

7 ATTORNEY FENSTERMAKER:

8 And so the reorganization plan that was  
9 described today is subject to change then in the  
10 future?

11 MR. HESSION:

12 Yes. That is correct. It will --- we  
13 believe that we've proposed a very good plan that  
14 provides value to all of the constituents, but that  
15 will likely change to some degree, based on further  
16 negotiations and further discussions with the lenders.

17 ATTORNEY FENSTERMAKER:

18 And it's our understanding that the  
19 merger is based solely on whether or not the  
20 particular plans that have been proposed is in fact  
21 adopted and approved; is that ---?

22 MR. HESSION:

23 Yes. However, again, I think that the  
24 benefit of the merger could also validate other slight  
25 modifications to be planned. But the existing RSA,

1 Restructuring Support Agreement, that we have with the  
2 lenders contemplates us completing the merger. And we  
3 would expect that to happen if the proposal as it  
4 stands is confirmed.

5 ATTORNEY FENSTERMAKER:

6 And the proposal as it stands, do you  
7 anticipate any impact on Harrah's Philadelphia based  
8 on the reorganization and the merger as is proposed  
9 today?

10 MR. BAUMANN:

11 No. Again, there should be no impact  
12 --- in fact, I think the ultimate resolution of the  
13 CEOC leverage concerns, you know, as were identified  
14 by the BIE, will be a benefit for the overall entity.  
15 And as a result, they'll likely be some positive  
16 impact on the property and its operations, but  
17 certainly --- certainly nothing negative.

18 ATTORNEY FENSTERMAKER:

19 Okay. I'll now move on to racing, which  
20 is a component of this particular license --- the  
21 Category 1 License. Last year, the race dates had to  
22 be adjusted due to inclement weather. Does Harrah's  
23 have a plan which will allow for the incorporation of  
24 additional race dates if the weather presents a  
25 problem this year to ensure that the number of

1 required race dates are met?

2 MR. BAUMANN:

3 Yes. Similar to last year, if the  
4 weather prevents us from opening up as planned, we  
5 would go back to the Racing Commission and propose  
6 alternative dates later in the season. And that's  
7 exactly what we did last year and end up racing 150  
8 days.

9 ATTORNEY FENSTERMAKER:

10 As you described a little bit about the  
11 Kentucky Derby program and that's one way to bring  
12 people out to racing, and also opening up the patio.  
13 Are there any other planned events for racing for this  
14 season?

15 MR. BAUMANN:

16 I mean, we have a full marketing  
17 calendar of events that envisions the entire year. We  
18 try to focus in on those days where we believe the  
19 largest opportunity to move the population is. The  
20 Kentucky Derby is the equivalent of the church on  
21 Easter Sunday, I think. And we believe the biggest  
22 opportunity we have to get others back. But we would  
23 have --- we would have similar, if not --- not to this  
24 full extent, but similar efforts on Preakness and on  
25 Belmont and a lot of that depending on whether there's

1 a viable Triple Crown winner. We do also have a  
2 Sunday family day program coming up this year where  
3 we'll be doing things out on the patios that feature  
4 --- that are skewed towards families so the families  
5 can come out and enjoy racing and other festivities.

6 ATTORNEY FENSTERMAKER:

7 Okay. And now if I could take you  
8 through the PowerPoint and look at page four on the  
9 PowerPoint. This goes back to the Harness Racing. It  
10 says racing operations, 70 plus jobs, including  
11 affiliated vendors. Are any of the 70 plus jobs  
12 included in the employee totals, which are later  
13 quoted in the PowerPoint?

14 MR. BAUMANN:

15 No, they are not.

16 ATTORNEY FENSTERMAKER:

17 And are any of these jobs employees of  
18 --- I'm sorry. You just answered my question. Now if  
19 I could have you turn to page eight of the PowerPoint.  
20 And the number of the employees, it says, has grown to  
21 1,442 employees. Is that the current number of  
22 employees at Harrah's Philadelphia?

23 MS. RICHARDS:

24 That is the number that represents the  
25 current count of employees as of December 31st, 2014.

1 ATTORNEY FENSTERMAKER:

2 Now, in June 2013, at the public hearing  
3 in Chester, the number of employees presented was  
4 1,692. Can you explain the decrease in the number of  
5 employees?

6 MS. RICHARDS:

7 I did not work for the organization at  
8 that time. I joined in March of 2014. However, I  
9 would suggest that employment numbers change every  
10 payroll and ---.

11 MR. BAUMANN:

12 There's been some consolidation of  
13 positions that have occurred since June of 2013 as we  
14 are constantly rightsizing the amount of employees to  
15 the amount of revenues that we receive in the  
16 property. So, there's been some minor adjustments all  
17 through attrition that occurred at the property level.

18 ATTORNEY FENSTERMAKER:

19 And can you tell us whether they were  
20 full-time employees, par- time employment positions  
21 that were lost?

22 MR. BAUMANN:

23 No, I don't have that information with  
24 me.

25 ATTORNEY FENSTERMAKER:



1                   Okay. If I can have you turn to page  
2 14. Ms. Carletta discussed the AML training program.  
3 Has this been implemented at Harrah's Philadelphia?

4                   MS. CARLETTA:

5                   Yes, it has.

6                   ATTORNEY FENSTERMAKER:

7                   And have all of the employees received  
8 the AML training at this point?

9                   MS. CARLETTA:

10                  Yes. All employees who interact with  
11 customers receive the training.

12                  ATTORNEY FENSTERMAKER:

13                  And is this going to be a one-time  
14 training? Is it an annual training? How often ---?

15                  MS. CARLETTA:

16                  It will be an annual training and new  
17 employees will receive the training when they are  
18 hired and before they start working in their job.

19                  ATTORNEY FENSTERMAKER:

20                  Now, if I can have you turn to page 15,  
21 at the bottom, it says, each Caesars licensee has been  
22 registered under FinCEN's 314(b) information sharing  
23 provisions since July 2014. Was that voluntary or was  
24 that mandated?

25                  MS. CARLETTA:

1                   That's a voluntary program with FinCEN  
2 which is the Financial Crimes Network. It's the  
3 entity that regulates Anti-Money Laundering Program.  
4 And the purpose for being a 314(b) filer is that ---  
5 is that you can share information across your  
6 affiliated entities and with other financial  
7 institutions so you can identify if there is an  
8 individual that's involved in money laundering and  
9 share information with other companies on that  
10 individual. So, we voluntarily filed for that, all of  
11 our entities.

12                   ATTORNEY FENSTERMAKER:

13                   On page 17 and 18 --- pages 17 and 18,  
14 you discussed some of the investments that have been  
15 made at the property. And I just wanted to confirm,  
16 all of these investments have been completed; is that  
17 correct?

18                   MR. BAUMANN:

19                   On page ---?

20                   ATTORNEY FENSTERMAKER:

21                   On these projects? On 17 and 18?

22                   MR. BAUMANN:

23                   Page 17, yes. Eighteen (18) is in  
24 progress.

25                   ATTORNEY FENSTERMAKER:

1                   Eighteen (18) is in progress. And so  
2 that is the Level Lounge that's in progress?

3                   MR. BAUMANN:

4                   No, I'm sorry. I got the wrong page.  
5 So, yes, on the Gaming experience reinvestments are  
6 all completed. And the Non-Gaming, the Diamond Club,  
7 the Steakhouse and the Level Lounge are completed.  
8 The investments coming up on the subsequent page that  
9 are The Block, the patio, are in progress.

10                  ATTORNEY FENSTERMAKER:

11                  And will any of those projects require  
12 new construction or involve new positions at the  
13 property?

14                  MR. BAUMANN:

15                  If The Block is --- it involves new  
16 construction. And the patio will involve some level  
17 of construction, but substantial constructions to  
18 construct an event center.

19                  ATTORNEY FENSTERMAKER:

20                  And do you have any idea how much will  
21 be invested, the capital investment for these  
22 projects?

23                  MR. BAUMANN:

24                  Right now, The Block is approximately a  
25 \$300,000 investment. The patio probably in the

1 neighborhood of \$50,000. And the Center Bar, which is  
2 in the final stages right now, is about \$200,000.

3 ATTORNEY FENSTERMAKER:

4 And when do you anticipate the Center  
5 Bar opening up?

6 MR. BAUMANN:

7 It is actually opened. We just  
8 completed the video wall, installed last week. We're  
9 still fine tuning it. So, I would say, all told, the  
10 bar renovations in the next week or so and then  
11 depending on the approval of the electronic table game  
12 product in Pennsylvania, we would look to install that  
13 at a future date.

14 ATTORNEY FENSTERMAKER:

15 If I can go back on the PowerPoint,  
16 pages eight and nine. We just wanted to verify that  
17 all of the numbers which are represented on those two  
18 slides have been verified and have been submitted to  
19 the Office of Diversity on a quarterly basis, as is  
20 required.

21 MS. RICHARDS:

22 So, the numbers under the promise kept  
23 for the economic impact, yes. In January, we  
24 submitted our end of 2014 numbers with regards to  
25 employees. I do not believe we put into that report

1 our service bonus payouts. But as far as our  
2 demographic information of our employees, those  
3 numbers have been submitted.

4 ATTORNEY PITRE:

5 And how about page nine, the same thing?

6 MS. RICHARDS:

7 Yes, that is correct.

8 ATTORNEY PITRE:

9 Okay.

10 ATTORNEY FENSTERMAKER:

11 The OEC has no further questions.

12 CHAIRMAN:

13 Is there any presentation that OEC has?

14 ATTORNEY FENSTERMAKER:

15 No. The OEC doesn't have a  
16 presentation, but we do have a brief statement in  
17 addition to additional documents, with which we'd like  
18 to supplement the record and copies have been provided  
19 to the Board staff and to ---.

20 CHAIRMAN:

21 Okay. Why don't you proceed with that,  
22 Cassie?

23 ATTORNEY FENSTERMAKER:

24 I'll start with the supplementation of  
25 the evidentiary record. They include a Letter of Good

1 Standing from the Pennsylvania State Harness Racing  
2 Commission, dated February 11th, 2015, which has been  
3 marked as OEC Exhibit 2A. A letter and corresponding  
4 documentation from the Bureau of Liquor Control  
5 Enforcement, regarding an adjudication and a pending  
6 investigation, which has been marked as Exhibit 4A.  
7 Consent Agreements and Corresponding Board Orders,  
8 which have been marked as Exhibit 5A. Compliance  
9 Conference Memos which have been marked as Exhibit 6A  
10 and warning letters and Harrah's responses to those  
11 warning letters, which have been marked as Exhibit 7A.  
12 And OEC requests that Exhibits 6A and 7A be marked  
13 confidential and that all exhibits be moved into the  
14 record.

15 (OEC Exhibits 2A, 4A through 7A marked  
16 for identification.)

17 CHAIRMAN:

18 Counselor?

19 ATTORNEY DOWNEY::

20 No objection.

21 CHAIRMAN:

22 Okay. That will be admitted.

23 ATTORNEY FENSTERMAKER:

24 Thank you. And our statement is,  
25 Chester Downs and Marina, LLC, its affiliates and

1 principals timely filed applications for the renewal  
2 of its Category 1 Slot Operator License and their  
3 respective licenses, the Bureau of Investigations and  
4 Enforcement (BIE) conducted background investigations  
5 on each applicant and background investigation reports  
6 identifying issues discovered during the course of the  
7 background investigations were submitted to the Board  
8 for review and consideration prior to today's hearing.

9           OEC, FIU and BIE have continuously  
10 monitored events related to Harrah's Philadelphia,  
11 including financial developments at the parent company  
12 level. To that end, the Licensee's representatives  
13 have been cooperative and preemptive, requesting to  
14 meet with Board personnel personally in Harrisburg  
15 several times between April of 2014 and February of  
16 2015, in addition to numerous conference calls as  
17 developments occurred. Additionally, the Licensee's  
18 representatives have provided volumes of  
19 documentation.

20           During the course of the background  
21 investigations, it has become --- it became clear that  
22 CEOC would be filing for Chapter 11 bankruptcy. In  
23 anticipation of CEOC's bankruptcy filing, OEC  
24 recommended and Harrah's Philadelphia voluntarily  
25 agreed to amend its Statement of Conditions for

1 Category 1 Slot Operator License in December of 2014.  
2 The additional conditions require, among other things,  
3 a monthly conference call among representatives of  
4 CEC, CEOC, Harrah's Philadelphia, Apollo, TPG, OEC,  
5 FIU and BIE and require Harrah's Philadelphia to  
6 provide certain documentation related to its finances  
7 as it becomes available.

8           To date, two meetings have been held,  
9 wherein the Licensee's representatives provided  
10 updates regarding the CEOC bankruptcy, pending  
11 litigation and operations at Harrah's Philadelphia.  
12 As CEC stated, the reorganization plan and merger, if  
13 approved as presented here today, would appear to have  
14 a minimal impact on Harrah's Philadelphia, as it would  
15 not be part of the restructure proposed by CEOC.

16           It is the OEC's opinion that based on  
17 OEC, BIE and FIU's ability to carefully monitor CEOC's  
18 financial developments and its impacts, if any, on  
19 Harrah's Philadelphia, through the Amended Statement  
20 of Conditions, and based on the Licensee's continued  
21 cooperation, that the bankruptcy filing should not  
22 have a negative impact on Harrah's Philadelphia's  
23 suitability to hold a Slot Operator License or a Table  
24 Games Certificate and should not have a negative  
25 impact on the suitability of its principals or



1 affiliates. BIE's investigation has not identified  
2 any information that would preclude a finding of  
3 suitability for Harrah's Philadelphia, its affiliates  
4 or its principals.

5 As a result, the OEC recommends that  
6 Harrah's Philadelphia be found suitable for renewal of  
7 its Category 1 Slot Operator License. If you have any  
8 questions, we'd be happy to answer them.

9 CHAIRMAN:

10 Thank you. Any questions from the  
11 Board? Greg?

12 MR. FAJT:

13 Thank you, Mr. Chairman. I have several  
14 questions. Ms. Carletta, first to you. What's the  
15 buzz on the street as to money laundering? Where's  
16 the money coming from? Is it coming from illegal  
17 drugs, is it coming from the sale of weapons, is it  
18 coming from extortion? All of the above? What are  
19 you hearing out there?

20 MS. CARLETTA:

21 I think the main thing that we are  
22 hearing from FinCEN and representatives of the  
23 government is more the drug trafficking piece of it  
24 and that's where it would be coming from mainly.  
25 That's what we hear from the government.

1                   MR. FAJT:

2                   And so your Know Your Customer program,  
3 if I understand it, you have to be a rated player or  
4 registered player to have that data where somebody can  
5 actually look and see that, you know, I'm there every  
6 day and I'm wagering, you know, thousands of dollars  
7 every day. And so my question is, what about somebody  
8 who is under the radar? Somebody who knows that  
9 they're --- what they're doing is illegal, doesn't  
10 register for a Player's Club card and may in fact, you  
11 know, visit several casinos?

12                   You know, it's more prominent probably  
13 in Vegas where you have so many casinos in one area,  
14 but it's not unusual in Philadelphia where, you know,  
15 we have, as Mr. Baumann said, a number of casinos in  
16 your backyard where you can go once a week or, you  
17 know, several times a week to different casinos. What  
18 is available out there to limit money laundering and a  
19 circumstance like that where somebody is not  
20 registered and in fact frequents different casinos in  
21 the same locale?

22                   MS. CARLETTA:

23                   Right. So, we don't just look at  
24 players who are rated or players who have credit. We  
25 also look at cash players at certain thresholds. And

1 while the thresholds may be a little bit larger in Las  
2 Vegas, they're different everywhere, but they're lower  
3 in other jurisdictions.

4                   So, if someone comes in with cash, we  
5 would also do checks around that person at the time  
6 that they come to the facility. We are also looking  
7 at, in addition to cash players, how a player does a  
8 transaction. If they send a wire in advance of coming  
9 there, we check to see if the wire matches, you know,  
10 their bank account or if it's from a third party  
11 source. Is there some sort of relationship? So, it's  
12 more than just looking at rated players.

13                   MR. FAJT:

14                   Well, let me give you a scenario.  
15 Somebody shows up at a, you know, Craps table or  
16 Blackjack table and has cash and that's all they have.  
17 They're unregistered and they play for several hours.  
18 And maybe you get suspicious. What do you do? Do you  
19 say we're suspicious and can we talk to you? And then  
20 you ask them what they do for a living and then do you  
21 ask them ---? I'm sorry, Cyrus, go ahead.

22                   ATTORNEY PITRE:

23                   What normally happens at the property  
24 level is that your dealers, your surveillance  
25 officers, your security officers and our casino

1 compliance representatives here in Pennsylvania and  
2 State Police are trained to keep an eye on high cash  
3 players, players that will go in and drop a load of  
4 money into a slot machine, play a couple of times,  
5 then cash out. Players who buy in large, play a  
6 couple of rounds, then cash out.

7           The casinos are required to fill out and  
8 submit suspicious activity reports, which are  
9 submitted to BIE, BCC, OEC, that come through the  
10 office. State Police also has access to those  
11 reports. We've had several individuals that State  
12 Police have arrested. After they've done their side  
13 of the investigation, we've had individuals that we  
14 gather information on and attempt to exclude when we  
15 gather enough information on them. So, there is  
16 several things that go on at the property level. And  
17 currency transaction reports are also submitted to try  
18 to fare it out, individuals who might be trying to  
19 launder money and ---.

20           MR. FAJT:

21           Okay. Back to my --- and I don't want  
22 to beat a dead horse here, but back to my point. So,  
23 I get the --- you know, if you have over \$10,000 and  
24 that's a reportable transaction, but what if somebody  
25 comes in, you know, five to Harrah's and goes to Sugar

1 House and drops seven and goes to Valley Forge and  
2 drops two, maybe goes to AC and plays over there. I  
3 mean, is there anything that --- I mean, if they're  
4 sophisticated enough, I mean, that's their game plan?

5 ATTORNEY PITRE:

6 Aside from the suspicious activity  
7 report, I mean you would have to --- you would have to  
8 pay attention to that individual's play.

9 MR. FAJT:

10 Okay.

11 ATTORNEY PITRE:

12 And aside from that, no, is it full  
13 safe, 100 percent? Not at all. Are there ways around  
14 it? Yes.

15 MR. FAJT:

16 Okay. Thank you. Ms. Carletta, do you  
17 have anything to add there?

18 MS. CARLETTA:

19 I would just add, players that are at  
20 least going to our properties in different  
21 jurisdictions, that 314(b) filing registration allows  
22 us to be able to look at a player across all of our  
23 properties and see if there's suspicious activity at  
24 different properties. For example, if we're filing a  
25 suspicious activity report for them here at Harrah's

1 Philadelphia and we're filing them in Atlantic City,  
2 then we know we need to address that and talk to the  
3 player, find out more about the player, do a  
4 background on the player. So, the 314(b) filing  
5 allows us to share that information even among  
6 affiliates.

7 MR. FAJT:

8 Thank you. Mr. --- I'm sorry, go ahead.

9 ATTORNEY PITRE:

10 The players that need --- that want  
11 credit, that have a Player's Club card, those are  
12 pretty easy.

13 MR. FAJT:

14 Right.

15 ATTORNEY PITRE:

16 It's the ones that just walk in off the  
17 street, come in and come out that usually we have a  
18 hard time tracking.

19 MR. FAJT:

20 Okay. Thank you. Mr. Baumann, a couple  
21 questions for you. On slide 17, you talked about  
22 refreshing 65 percent of your slot units. What does  
23 that mean? Does that just mean you changed the face,  
24 do you change the internal dynamics of the random  
25 number generator? What does refresh mean?

1                   MR. BAUMANN:

2                   Refresh would refer to either we  
3 purchase a new slot, put a new slot on the floor.  
4 Enacted a conversion kit, so actually went inside and  
5 changed the theme of the game. Or did it via our  
6 relationship with a leased product. So it's  
7 physically --- there's physically a new game on the  
8 floor.

9                   MR. FAJT:

10                   I see.

11                   MR. BAUMANN:

12                   By one of those three channels.

13                   MR. FAJT:

14                   And then I assume obviously if it's a  
15 new machine, but let's talk about if you just change  
16 the guts of the machine. Does that have to go to our  
17 lab for a blessing, if it's a refresh?

18                   MR. BAUMANN:

19                   If we're using an improved program, no.

20                   MR. FAJT:

21                   Okay.

22                   MR. BAUMANN:

23                   The programs come out of the lab, so we  
24 would only install an approved program or a theme.

25                   MR. FAJT:

1                   Okay.

2                   MR. BAUMANN:

3                   And those are already been approved by  
4 the lab at some point.

5                   MR. FAJT:

6                   Got you. Okay. What is your position  
7 or Harrah's position, if you don't feel comfortable  
8 about answering this, that's fine, but on offsite  
9 internet Gaming that's being discussed in Harrisburg  
10 right now, do you guys have a position on that?

11                   MR. BAUMANN:

12                   Yeah. I think our position is we  
13 believe that it could certainly enhance the overall  
14 revenues. We are, as you know, a proponent of  
15 offering iGaming ---

16                   MR. FAJT:

17                   Right.

18                   MR. BAUMANN:

19                   --- in its fullest form.

20                   MR. FAJT:

21                   I'm talking about offsite. That's why I  
22 said offsite internet games, somebody playing from  
23 home. Your guys are in favor of that.

24                   MR. BAUMANN:

25                   Via bricks and mortar.



1                   MR. FAJT:

2                   Yeah. How about video poker at bars,  
3 what's your position on that?

4                   MR. BAUMANN:

5                   Absolutely not.

6                   MR. BAUMANN:

7                   Absolutely not. Should I clarify that a  
8 little bit?

9                   MR. FAJT:

10                  I had to ask. Mr. Hession, a couple of  
11 questions for you. Ms. Fenstermaker asked a couple of  
12 questions I wanted to ask, so I think I know the  
13 answer to those. But I don't know that I heard you  
14 say how long you thought you would be in Chapter 11  
15 --- CEOC would be in Chapter 11. Do you have a feel  
16 for that? I mean, obviously, you have a hearing  
17 coming up in Chicago. As I understand it, the  
18 creditors have not signed off on your agreement yet.  
19 Although, you have one creditor I guess. One major  
20 creditor who has. Do you have any anticipation on how  
21 long this process would take?

22                  MR. HESSION:

23                  Yeah. It's a very good question.  
24 Unfortunately, we --- because it's a process and  
25 because it is somewhat out of our control, I can't

1 give you a specific date. I do believe that  
2 ultimately the interests of the lenders and of the  
3 company are aligned in the sense that the longer it  
4 takes, the worse off we all are. So, I think there's  
5 an effort to accelerate that.

6 But in terms of coming to an agreement  
7 and actually having a date, I would hesitate to give  
8 you one at this point because I just don't know and  
9 it's not entirely in our control. What I can tell you  
10 is that we are making every effort we can to negotiate  
11 agreements with the lenders and we anticipate that  
12 through those efforts, we'll be able to get agreements  
13 and that'll help accelerate the process.

14 MR. FAJT:

15 Okay. Thank you. And last question.  
16 Cyrus, assuming as Cassandra said, that, you know,  
17 there's going to be changes to the Restructuring  
18 Agreement as has been presented here today, would  
19 there be any further action required of this Board  
20 after that transaction is finally approved? And  
21 again, understanding that Harrah's Philadelphia is not  
22 part of that bankruptcy. I get that. But is there  
23 any further action that you can anticipate that we  
24 would have to be involved in if the transaction as  
25 related here today would be changed?

1                   ATTORNEY PITRE:

2                   Not that I can see from what's proposed.  
3 Like Cassandra said, we are constantly speaking with  
4 them. They have been very forth right about  
5 everything. Depending upon what happens in the future  
6 with certain --- their brand and how they plan to ---  
7 I know we had some talks about following certain  
8 Petitions. Those fell by the way side because they  
9 weren't needed because they changed things around to  
10 eliminate those. But in the future, there may be  
11 Petitions coming forward. But that would not be until  
12 they exit bankruptcy court.

13                   Presently as they sit, we're monitoring  
14 them. It's no impact on Chester, so we feel  
15 comfortable with their position and position of our  
16 Licensee. Unless something changes, we anticipate  
17 them coming out of bankruptcy a healthier company.  
18 So, if something changes, we would be filing something  
19 with the Board in order for the Board to make --- take  
20 necessary steps. But as of right now, I do not  
21 anticipate anything any --- having to file anything or  
22 the Board having to do anything further the way things  
23 stand.

24                   MR. FAJT:

25                   Thank you. Thank you, Mr. Chairman.

1                   CHAIRMAN:

2                   Dave?

3                   MR. WOODS:

4                   Just a couple brief questions.

5 Oftentimes, we lose sight of the fact that the act was  
6 passed, aside from property tax relief for  
7 Pennsylvania citizens, save live horse racing. And  
8 oftentimes when we travel around to the Category 1  
9 Facilities, we ask the question about the live handle  
10 and your handle went up. And I'm just wondering if  
11 you could attribute that --- attribute that growth to  
12 anything in particular that you're doing?

13                   MR. BAUMANN:

14                   It's primarily due to the launch of  
15 account wagering or online Gaming. Most of our growth  
16 is through that channel. The traditional handle is  
17 still down a little bit, but it's offset more so by  
18 the online Gaming wagering. So that has really been  
19 the savior of the handle.

20                   MR. WOODS:

21                   That's the big impact.

22                   MR. BAUMANN:

23                   Absolutely.

24                   MR. WOODS:

25                   And on page 25 on your restructuring

1 summary, you're shedding about \$1.2 billion in annual  
2 interest and \$10.1 billion in debt. Can you elaborate  
3 a little bit on what comprises that \$10.1 billion in  
4 debt?

5 MR. HESSION:

6 Yeah, I'm happy to. As I mentioned and  
7 contained in the materials, we have roughly \$18  
8 billion worth of debt currently. Because this is an  
9 in-court restructuring, what we contemplate is  
10 effectively modifying all of that debt. So, as I  
11 mentioned, each class of lenders would get a package  
12 of cash, debt and equity equal to a certain recovery  
13 amount. So, the more senior lenders would get more  
14 cash and more senior debt and the less senior lenders  
15 would get less cash, more equity and some less senior  
16 debt. So, the ultimate structure would have the OpCo  
17 and the PropCo. They'll be first lien and second lien  
18 debt in the OpCo and then first lien and second lien  
19 debt in the PropCo.

20 We also anticipate having a separate  
21 debt instrument on Caesars Palace specifically because  
22 we believe that, based on some historical transactions  
23 and some in the market, that investors would value  
24 that asset from a debt perspective differently than  
25 the rest of the portfolio. It's actually somewhat

1 similar to the Chester situation, with its own capital  
2 structure. And so those all in combination would  
3 equal the \$8 billion that we're referring to. And I'm  
4 happy, if you'd like to get into the specifics of the  
5 different tranches or provide that after, if you're  
6 interested.

7 MR. WOODS:

8 I get it. I just wanted to get that on  
9 the record. And just one last question and it's kind  
10 of just a --- just out of curiosity. And it's to Mr.  
11 Baumann. How does one wager \$5 to win a million?

12 MR. BAUMANN:

13 Well, the six card bonus bet. We're  
14 hoping not to pay too many of those out, to be honest  
15 with you.

16 MR. WOODS:

17 Right, right. Okay. Thank you.

18 CHAIRMAN:

19 John?

20 MR. MCNALLY:

21 A quick question for Ms. Carletta. With  
22 regard to the Know Your Customer, understanding the  
23 purpose is to get to illegal activity and knowing the  
24 source of funds. Is that also used or could it also  
25 be used in information to identify problem gamers?

1                   MS. CARLETTA:

2                   I think it could if we see a lot of  
3 suspicious activity across our several properties. I  
4 think it would take sort of that overview of what a  
5 person's doing at all of our properties to see if we  
6 can identify problem gambling through that. We  
7 haven't to date identified any problem gambling, you  
8 know, through the KYC process. But I could see how  
9 that could become relevant in the future.

10                   MR. MCNALLY:

11                   So you could interface what you're doing  
12 with problem gamblers ---

13                   MS. CARLETTA:

14                   Sure.

15                   MR. MCNALLY:

16                   --- to use this information in this  
17 program? Because we see with increasing frequency the  
18 cookie moms that are taking money from girl scouts and  
19 programs and using the money to support a Gaming  
20 addiction and ---

21                   MS. CARLETTA:

22                   Right.

23                   MR. MCNALLY:

24                   --- what I'm looking at is could this  
25 --- these protocols, this risk-based activity and some

1 of these triggers also be used to implement  
2 intervention for problem gamblers.

3 MS. CARLETTA:

4 Yeah, I think --- I think it could be,  
5 as we get further into implementing the KYC procedure.  
6 It's sort of new for us. We started doing it fully  
7 last summer. So, I think as we get further into it, I  
8 do see that there could be some overlap. And we could  
9 use it for that.

10 MR. MCNALLY:

11 And then, Ms. Richards, with regard to  
12 your make up of your --- your staff, your employees,  
13 are you a unionized facility?

14 MS. RICHARDS:

15 We are. We are part union and  
16 non-union. Correct. We have represented and  
17 non-represented groups.

18 MR. MCNALLY:

19 What's the breakdown of union versus  
20 non-union?

21 MS. RICHARDS:

22 I don't have that number off the top of  
23 my head. I apologize.

24 MR. BAUMANN:

25 But by work group, our --- generally



1 speaking, our food and beverage team is a member of  
2 UNITE HERE, Local 54. Our slot team is represented by  
3 the IBEW. And then we have other workforces that are  
4 represented by the carpenters. We also have our valet  
5 department is represented by the Teamsters. That all  
6 shakes out to be somewhere around 50 percent of our  
7 workforce, give or take.

8 MR. MCNALLY:

9 Thank you.

10 CHAIRMAN:

11 Dave?

12 MR. WOODS:

13 Sorry to bring you back up, but --- Mr.  
14 Hession. In response to my earlier question about the  
15 property being unique from the 37 others in the CEOC,  
16 could you tell us the reason for that uniqueness, as  
17 you stated to Counsel of the additional ownership  
18 portion of the property? Is that the only reason?

19 MR. HESSION:

20 Yes. I think you have to look back to  
21 the origin of the property. And at the time, when the  
22 property was first conceived, we had minority  
23 investors that were involved. We invested a  
24 significant amount of capital in the entity and it was  
25 kept separate from all the rest because of that ---

1 the nature of that --- the JV structure.

2 Then we introduced a term loan at one  
3 point. Then we refinanced that with the bond that's  
4 in existence today. The ownership of the local  
5 minority investors has fallen to the --- what's now  
6 essentially just a quarter point or half a percent.  
7 But the overall structure has remained the same. And  
8 that's the genesis of why it's in existence.

9 Some of the other projects, as I  
10 mentioned that we contemplated recently, such as our  
11 Ohio joint venture and our Baltimore joint venture,  
12 also have similar characteristics to this one. The  
13 Baltimore one is in a different subsidiary, not within  
14 CEOC. But that would be very applicable to the same  
15 type of structure.

16 MR. WOODS:

17 Do you see the minority ownership  
18 continuing in the long term?

19 MR. BAUMANN:

20 At this point, we don't have any reason  
21 to change. You know, it seems to be working fine.  
22 It's very small piece as I mentioned. And in the  
23 future, that could certainly change. But at this  
24 point, there's no reason to

25 MR. WOODS:

1                   Thank you. Mr. Baumann, several years  
2 ago you changed the name from Harrah's Chester to  
3 Harrah's Philadelphia. Have you felt that there's  
4 been a benefit from doing that and if what, so what  
5 would that be?

6                   MR. BAUMANN:

7                   Yeah, I --- a brand or a name change  
8 like that is a difficult thing to measure. I would  
9 say intuitively, we like the change. It's certainly  
10 given us a much broader exposure to our own database.  
11 So, now when our own customers are coming through to  
12 Philadelphia, they say is there a Harrah's in  
13 Philadelphia, the answer is yes. Prior to that, it  
14 used to be, no. It's in Chester and people weren't  
15 quite sure where Chester was and used to actually  
16 confuse that with West Chester. So, we've certainly  
17 seen that.

18                   And prior to the increased regional  
19 competition, we did see growth in our outer markets  
20 after the name change. That's certainly been  
21 challenged lately with some of the increased  
22 competition. But generally speaking, we --- you know,  
23 we look at that name change as a favorable one and we  
24 like where we are today.

25                   MR. WOODS:

1           As a follow up question to Commissioner  
2 McCall in driving revenue, with horse track, when you  
3 first came --- and I do commend you, putting emphasis  
4 on the track from being --- I'll generally say a net  
5 loser and you're showing some growth. Is it now a  
6 break even or a net positive for the overall property?

7           MR. BAUMANN:

8           It's a little bit above break even. So,  
9 we've certainly have enhanced the margins in error  
10 over the years and account wagering has certainly  
11 helped us do that. But it's definitely an operation  
12 that above break-even at this point.

13          MR. WOODS:

14          Is it still the same demographic betting  
15 on the races or are you able to able to point to an  
16 example of moving people from in the casino to the  
17 horse racing and the horse racing back to the casino?

18          MR. BAUMANN:

19          The demographic that populates racing  
20 tends to be an older male, 60 plus. The area of cross  
21 over that we, and it's not to a higher degree, but  
22 there is some, is in poker. So we will see racing and  
23 poker cross over. We will see also some crossover on  
24 days like the Kentucky Derby. So, on that particular  
25 day, where there's thousands people coming into the

1 building, we will see some crossover into the ---  
2 whether it's, you know, horse racing or poker or  
3 upstairs on the main floor, we'll see that.

4 But generally speaking, the crossover  
5 that's there would happen between racing and poker.  
6 And I think some of that is proximity. And some of it  
7 tends to be dominated by males in both of those  
8 sections.

9 MR. WOODS:

10 And then finally, just over the next  
11 three to five years, do you have a number in mind for  
12 capital commitment towards the property? I know  
13 there's been discussion in the past about a hotel,  
14 just refreshing the overall product that you have, so  
15 forth. Is there a long-term capital plan?

16 MR. BAUMANN:

17 Yeah. I could speak to the immediate  
18 plans. Our maintenance capital, so capital we spend  
19 maintaining, building and doing small projects, will  
20 be the same this year as it was last year. Which is,  
21 you know, north of --- right around \$2.5 million. We  
22 also are currently in process for securing additional  
23 capital to renovate and do some work on our  
24 restaurants and begin remodeling our restaurant  
25 portfolio. You know, if that's successful, that would

1 be a rather significant spend. And more to come on  
2 that probably in the next few months. We do  
3 anticipate coming back before the Board and showcasing  
4 what we're going to do from a restaurant and Gaming  
5 perspective.

6 Further out, development such as hotels  
7 or larger scale development. One, we're always  
8 looking for opportunities to grow and enhance. I  
9 think a lot of that depends on the market itself. Two  
10 is, we would love to see Chester become a  
11 participating member of the CRIZ. So, some form of  
12 reinvestment incentive would certainly get our  
13 interest --- our interest a lot higher in making a  
14 commitment like that. And I think in general, it's  
15 something that the City of Chester needs to --- needs  
16 to consider and embark on that journey to become a  
17 full-fledged CRIZ.

18 MR. WOODS:

19 Thank you very much. That's all, Mr.  
20 Chairman.

21 CHAIRMAN:

22 Tony?

23 MR. MOSCATO:

24 Thank you, Mr. Chairman. Mr. Hession,  
25 checking to see if was paying attention, did you say

1 that Harrah's Philadelphia will be in the OpCo or  
2 the ---?

3 MR. HESSION:

4 Yes. It will be in the OpCo. Correct.

5 MR. MOSCATO:

6 The OpCo. Okay. So even the physical  
7 structure itself will not be in the PropCo?

8 MR. HESSION:

9 Yes, that's correct. It's an important  
10 distinction. It's not involved in the restructure  
11 because of its separate capital nature. It'll remain  
12 entirely in the OpCo.

13 MR. MOSCATO:

14 Okay. Thank you. And you did a very  
15 good job of pointing out what your plan was and Ms.  
16 Fenstermaker did a very good job of pointing out that  
17 not all the lenders were on board yet. As the saying  
18 goes the best made plans of mice and men often go  
19 astray, can you share with us what your plan B may be  
20 or ---? And if you can't, I mean, I understand.

21 MR. HESSION:

22 Yeah. I'd hesitate to speculate. I  
23 think the most --- you know, as was discussed earlier,  
24 we've had continual modifications to our plan. I  
25 think the RSA that's in existence is on its second or

1 third amendment. And those amendments are based on  
2 negotiations as we go with the various lender groups.  
3 I'm hopeful that the broad form of the RSA persists  
4 throughout the discussions because I think it is the  
5 best outcome. But to your point, it would be pure  
6 speculation to think otherwise.

7 MR. MOSCATO:

8 Okay. And I like that the bond holders  
9 are included in it and protected to a great extent.  
10 And I hate to do this to you but I have a question for  
11 Ms. Richards.

12 MS. RICHARDS:

13 Sure.

14 MR. MOSCATO:

15 And it's just one very quick question,  
16 but I --- and again, I think I was listening right  
17 when I heard you say this, on page nine, you said at  
18 39 percent, you have the highest percentage of  
19 minority supervisors?

20 MS. RICHARDS:

21 Professional staff, supervisors and  
22 executive management. Yes.

23 MR. MOSCATO:

24 And what I was curious of, is that the  
25 highest as compared to other Caesars' properties,



1 other casinos in Pennsylvania, nationally? What are  
2 you comparing that to?

3 MS. RICHARDS:

4 I'm comparing that to the recently  
5 published diversity reports from, I think of the year  
6 --- fiscal year 2013, 2014.

7 MR. MOSCATO:

8 Okay. So it is other properties in  
9 Pennsylvania.

10 MS. RICHARDS:

11 In Pennsylvania. Correct.

12 MR. MOSCATO:

13 Thank you very much.

14 MS. RICHARDS:

15 You're welcome.

16 MR. MOSCATO:

17 Thank you, Mr. Chairman.

18 CHAIRMAN:

19 Annmarie?

20 MS. KAISER:

21 Just real quickly. You know, a lot of  
22 what we see as Board members are individuals that come  
23 before us who --- where minors have gotten onto the  
24 property. And I applaud the work that you're doing in  
25 doing the bonus for security to keep minors out. One

1 of the questions I had though, I'm just more curious  
2 than anything, is using electronic equipment. How  
3 often do you have to replace that and how --- how  
4 often are folks able to get around the electronic  
5 equipment?

6 MR. BAUMANN:

7 Well, first of all, thank you. We're  
8 very proud of our efforts in that particular program  
9 in general. The electronic devices, I don't know the  
10 exact failure rate, but they're pretty sturdy devices.  
11 We actually have backup stock on hand, so we're never  
12 without those devices.

13 The only incident we've had since we've  
14 gone with those electronic devices and installed the  
15 bonus program was really somebody who got through with  
16 a --- with a fake ID that got through during a time of  
17 distraction and wound up on the floor. So, outside of  
18 that, we've not had a failure with those electronic  
19 devices. We grab the form of ID and we put it through  
20 there, we get an accurate read 100 percent of the  
21 time. And to our knowledge, we've not had a fake ID,  
22 if you will, get through that system.

23 MS. KAISER:

24 Good. My other quick question, I  
25 applaud you also for doing the broadcast, advertising

1 campaign on problem gaming. And I don't expect you to  
2 have statistics today, but I'm just wondering, did you  
3 see that that enhanced the numbers of individuals that  
4 came forward to get on the Self-Exclusion List? Did  
5 you see any change after doing that campaign?

6 MR. BAUMANN:

7 Not to my knowledge. Our numbers are  
8 fairly consistent.

9 MS. KAISER:

10 Consistent, okay. Thank you.

11 CHAIRMAN:

12 Any questions from the ex-officio  
13 members?

14 MS. MCNULTY:

15 We're just wondering if anybody has hit  
16 the million?

17 CHAIRMAN:

18 I'm sorry?

19 MR. BAUMANN:

20 Actually, they have not at Harrah's  
21 Philadelphia, but ---.

22 MS. MCNULTY:

23 I was just wondering anybody hit the  
24 million.

25 CHAIRMAN:

1 Oh.

2 MR. BAUMANN:

3 They actually have not yet at Harrah's  
4 Philadelphia, but they have in other markets, Las  
5 Vegas and Atlantic City. So, its hit I believe five  
6 times. I could be off by one, but I'd say five times.  
7 Yeah. We actually recently had an incident where  
8 somebody didn't put the wager on and actually got the  
9 six card bet. So they lost a million dollars for not  
10 putting up the five.

11 CHAIRMAN:

12 Okay. Anything else? Okay. Thank you  
13 all very, very much.

14 ATTORNEY DOWNEY:

15 Chairman, one point of order. If I can  
16 move in addition ---.

17 CHAIRMAN:

18 Certainly.

19 ATTORNEY DOWNEY:

20 In addition to the documents that we  
21 discussed earlier, move the PowerPoint in and we're  
22 good to go.

23 CHAIRMAN:

24 Cyrus?

25 ATTORNEY PITRE:

1                   No objection subject to my subsequent  
2 --- the subsequent verification.

3                   CHAIRMAN:

4                   Okay. It will be admitted.

5                   ATTORNEY DOWNEY:

6                   Thank you.

7                   CHAIRMAN:

8                   Thank you all very much. I appreciate  
9 your hard work and cooperation. A vote on the  
10 issuance of license renewal is scheduled --- excuse  
11 me, for later today under the Bureau of Licensing  
12 section of the agenda. Right now, the Board will take  
13 about a ten-minute recess so we can discuss this  
14 matter in Executive Sessions. So we will return at  
15 --- let's say at noon. Thank you.

16                                   \* \* \* \* \*

17                                   HEARING CONCLUDED AT 11:50 A.M.


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CERTIFICATE

I hereby certify that the foregoing proceedings,  
hearing held before Chairman Ryan, Jr. was reported by  
me on 02/25/2015 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