COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: INTERVENOR HSP GAMING, LP,

AKA SUGARHOUSE CASINO

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PUBLIC HEARING

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BEFORE: WILLIAM H. RYAN, JR., Chairman
Gregory C. Fajt; Annmarie Kaiser; Keith R. McCall; John J. McNally, III; Anthony C. Moscato; David W. Woods; Members
Jennifer Langan, representing Robert McCord, State Treasurer

HEARING: Thursday, January 30, 2014

LOCATION: Pennsylvania Convention Center
Ballroom A
1101 Arch Street
Philadelphia, PA

WITNESSES: Wendy Hamilton, Mary Cheeks, Steve Rittvo, Neil Bluhm

Reporter: Sami Zeka

A P P E A R A N C E S

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E X H I B I T S

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P R O C E E D I N G S

CHAIRMAN:

Good afternoon, ladies and gentlemen. My name is Bill Ryan. I am the Chairman of the Pennsylvania Gaming Control Board. I will now call to order this meeting. At this time we will conduct a hearing for the purpose of receiving evidence from Intervenor HSP Gaming, also known as SugarHouse Casino. HSP SugarHouse was granted intervention by the Board at the Board’s meeting of January 8th, 2014, limited to the issue of market saturation. HSP will have one hour to present testimony. Would all representatives of HSP that intend to present testimony, please stand and be sworn?

WITNESSES SWORN EN MASSE

OFF RECORD DISCUSSION

CHAIRMAN:

Okay. At this time, HSP can now begin its presentation, and of course, I repeat, should be limited solely to the gaming market and the second casino’s impact upon that market.

ATTORNEY DONNELLY:

Thank you, Mr. Chairman. John Donnelly, D-O-N-N-E-L-L-Y. I'm appearing on behalf of SugarHouse. First I'd like to thank you very much for giving us this opportunity to intervene. Obviously this is an important matter, and I appreciate that we're at the end of the three days of hearings. We've been watching them with interest and it's given us a lot of insight into the Board's thinking and we've learned a lot. I will note that today I intend to present a limited number of witnesses. I originally had Mr. Patton on as --- who is the president. And Mr. Bluhm was in Chicago observing some of these hearings over your feed and hearing the tweets and so on. And Mr. Bluhm ---.

CHAIRMAN:

Excuse me, Mr. Donnelly, just so everybody can hear you more clearly, could you pull the microphone a little closer to you?

ATTORNEY DONNELLY:

Yes. I apologize, yes.

CHAIRMAN:

It's a huge room and it doesn't project real well.

ATTORNEY DONNELLY:

Okay. Thank you. Mr. Bluhm flew in

today, or last night, and is here in lieu of Mr. Patton and will provide the same testimony. Also Mr. Rittvo from the Innovation Group, who worked with our witness, Steve Karoul, on preparation of the expert report, flew in to address that. We will --- and I want to stress, and I've told staff, that we will not be issuing a new report. I want to stress that Mr. Rittvo assisted in the preparation of the report and adopts the report that's already been submitted in whole and will so do.

With that said, that --- I would like also or suggest that we will also present Mary Cheeks, who is the senior vice president of finance of SugarHouse, Wendy Hamilton, who is the general manager; I think everyone knows Wendy. And we will limit ourselves to one hour. Let me do an opening, if you will, and I will try to condense what we're going to say and condense the evidence that we're going to present today.

As I told you, we've been watching ourselves. We were over here physically for a day, day and a half. We had people here and then we watched on the feed and we had people over here, e-mails blasting everywhere. We came to the conclusion that what was being presented and what we should present is our facts and not the fiction that I believe has been presented to this Board for the last two and a half days.

There’s no doubt, and I don’t think anybody in this room, including my adversaries, if they're here, doubts that there is massive competition, and whatever --- however you define the market, be it northeast corridor, be it Mid Atlantic, be it Greater Philadelphia. Everybody knows that. Everybody in this room knows that. Everybody who has anything to do with gaming knows that. I would put up a slide of just the number. It’s all over the media, it’s at every conference you go to, it’s being talked about. No one has to prove that to anybody, and I know that you know that.

And so do my adversaries. And so how do you address that? Here’s how they addressed it. There’s two common threads that everybody addressed. The first one is when you know there’s stifling competition, how do I convince a Board to allow me to elbow my way into that competition? I tell them I’m going to grow the market. Now I will say something that I learned in law school and have always been told not to say. That is false. And it’s a false --- based on a false premise.

The false premise is that somehow or other there is this tribe of gamers lost in the Mid Atlantic states that no one has found and no one has brought in to game anywhere, and that somehow, by either building a building or buying a location, that that lost tribe is going to find itself to that casino and start gambling. That we will prove, show today, and I think anyone who thinks about it knows it's not going to happen. There is no lost tribe of gamers out there.

We have --- in Pennsylvania alone you have, just in this market right here, Harrah's, the largest casino operation in America, perhaps I guess the world, who is doing everything every day it can do to gain market share. You have Parx doing the same thing. You have SugarHouse. It's been one of the --- Parx has been an economic engine completely. SugarHouse has been very successful. It's got an experienced team of smart people. You have 11 casinos left --- there were 12. You have 11 in Atlantic City who have been doing it for 30 years. Every human being there is working for the same thing, to bring in revenue that will go to the bottom line.

So, this mythical tribe doesn't exist. It's not out there. There are people who like to game, there are people who don't like to game. There are people who like to bowl; there are people who don't like to bowl. Just by building a building or having a location is not going to manufacture players, as if you could print them in some factory.

The second theme that's been going through here, again recognizing this, is, well, cannibalization. And I applaud the Board because I know the Board raised this issue. And that's what we're going to address today. We heard a variety of numbers. We can't say that we got to have our arms exactly around the numbers, because they seem to vary everywhere, but we heard numbers that ranged from $36 million to $114 million worth of gross gaming revenue that would come out of my client's pockets.

Now let's think about that. SugarHouse's gross gaming revenue last year was $265 million. That's how much money they took in, $265 million. If $100 million came out of that, that's about 40 percent of its gaming revenue came in. And when we worked on those numbers as people were talking over here, and we were back at SugarHouse working on it, we --- a thought dawned on everyone. It's exactly what happened to the Atlantic City market.

In 2006 the gross gaming revenue in

Atlantic City was approximately $5 billion. Today it's around $3 billion; it's less than $3 billion. Forty (40) percent down. Straight down. And the sad part of that --- there's a lot of sad parts of that. Employees in Atlantic City were at one time 50,000 and now it's around 30,000. Exact parallel; it's 40 percent. So, a 40 percent bite is taken out of SugarHouse's gross gaming revenue. There are going to be extreme and unintended consequences. And you need only look down the expressway to see what happens.

Well, there are two examples. First of all, the example that if you build a building, that will somehow or other create gamblers. The Revel was two and half billion dollars. Brand new, beautiful, beautiful building. Looks like it's out of South Beach and puts anything in South Beach to shame. Already been bankrupt once, is heading to a new restructuring, solicited bids to purchase it that were --- came in Sunday. And at least the rumor is that it may be sold for $200 million to $300 million.

What happens when a casino gets in stress? Here's what happens. Casinos are somewhat like human beings; everybody's subject to economic rules. But we all heard, two things you can't avoid are death and taxes. There's three things that a casino cannot avoid. Debt, they have to pay their debt, their taxes, and they have to comply with the regulations. Those are three things that cannot be violated. Everything else, when times get tough, the belt tightens. And that means employees, employee benefits, marketing, which starts a downward spiral, capital, capital improvements, maintenance. Frills; frills like charities and frills like having special events and frills like taking care of the neighborhood and frills like keeping the property clean. Those all go downhill. If you drive down to Atlantic City, that's what you'll see today.

There's even --- there's things that aren't intuitive. Casinos, like people, start to get conservative. And when they get too conservative, if high rollers show up and want a credit line, the casino gets worried about that, because if you have 10 or 15 high rollers in your casino, you're going to win on the average. But if you only have one in there, that one person could beat you and ruin your month.

So, you draw in and draw in and keep conservative. You'll hear from Mary Cheeks, who went through that process in Atlantic City, and she'll tell you why --- that that was part of the reason she came here, to get away from that constant situation of watching every penny, driving in in the morning and thinking, my god, I've got to let somebody else who's a good employee go today.

I want to address quickly two issues, because I know they're on everyone's mind. One, if things are so bad here, why are you doing an expansion? That's a pretty easy one. We committed in 2005 and 2006 to do a project. We were in a beauty contest. And we agreed that we would do that project. Soon after that, there were appeals, there was litigation, we lost our financing. We had to scramble for new financing, the economic crisis hit.

And Neil Bluhm came in here and stood in front of this Board in a different place and a different time and said, I can finance this. I can't do what I promised to do then, but I'll do it later when the markets free up. He built what he could build at the time and we opened. It wasn't our dream place. We are now fulfilling that commitment. We are embarked on and will soon break ground for a $155 million expansion, which will put us a whole project over $550 million. So, we're putting in $155 million starting very shortly, be open in 2015, to put into this market.

What's that going to do? It's going to

pour more competition into this market. But we've committed to it and we need it. We need it in order to remain competitive in this market against the people who are already here. And you'll hear Wendy talk about how we structured this so that it is a minimum of additional gaming because the demand isn't there for gaming, but a maximum of amenities to try to keep our market share, what market share we have.

The second thing is didn't you know that there were going to be two licenses in 2005 and 2004 when the bill was passed? Well, yes, we read --- of course we read that. But the world has changed 180 degrees since then. In 2005 and 2006, I just pointed out, Atlantic City was at its peak, $5 billion in revenue. Now it's down 40 percent. Gaming is down virtually everywhere in the country. Raging competition is coming on. I don't have to recite it; you know it, we put it in our written statement. It's everywhere.

And coming on board online, frighteningly, is New York State with another seven casinos. Washington, D.C., or the suburb of Washington, D.C. with a giant mega complex with MGM, and a giant mega complex in Baltimore, Maryland. We are --- as you'll see testimony today, we're surrounded by and drowning in competition. Atlantic City just adopted Internet gaming. No one, no one knows what that's going to mean yet. Mary's going to extrapolate some numbers, but I will tell you no one knows what the impact's going to be.

What we do know factually --- and that's what we intend to talk about today, facts, not speculations. We do know there's nine million players there and about 40 percent of, you know, the market is traditionally considered to be Pennsylvania people, too. And all you need to do is drive across the --- across the river to play, because you just have to be present in New Jersey.

So, what's the solution? We have a --- I know you've spent --- you've spent three days of your time on this, and it's been a great time. But this Board has built a great economic engine. And I'm not beyond flattery, believe me, but I say this honestly. This Board is highly respected. You took from nothing to this huge, most successful experiment in the country, almost overnight.

And I believe and we believe that this decision could end all that. You'll hear testimony from our people that this market just cannot accept and absorb another casino. And if it does, all these unintended consequences will happen to everybody in this market. But they will fall very, very heavily on SugarHouse. And if it happens, we will look back a few years from now and very much regret that decision.

And there are alternatives. And the wise and I think prudent --- and we think the prudent alternative is what the legislature just suggested. As you all know, the legislature, the Senate has just commissioned a study and has adopted a resolution recognizing --- I won't recite the resolution; you've all read it, I'm sure. Reciting the success in Pennsylvania, reciting the economic crisis and the competition, and saying we want to study it and perhaps legislate to address what we do in the future. And that's coming out in the spring and the legislature will presumably act on that.

Secondly, our expansion will be open in 2015. Please, give us a chance to open the expansion and hope that the market will absorb that. And finally, if we take a step back and pause and do what I think a person would do before they pour more water into this bathtub that's overflowing and leaking into your living room. Sit back and say, let's wait and see if this market improves. Gaming market is terrible right now, in large part because of the economic market generally, but also because of the competition. That could improve, the economic market.

So, that's what we ask for. We ask you to wait and take prudent and wise look at it. With that, I will be quiet and I will ask Ms. Hamilton to speak.

MS. HAMILTON:

Good afternoon, Chairman Ryan, members of the Board. I'm Wendy Hamilton, H-A-M-I-L-T-O-N, and I've been the general manager of SugarHouse Casino since before we opened in September of 2010. Thank you for your time today. In my experience and to your great credit, the Pennsylvania Gaming Board and staff have been consistently deliberative and smart in your decision making and have thereby created one of the country's greatest examples of gaming success, right here in the Commonwealth. At a pivotal moment like this one, we are more appreciative than ever of your thoughtful approach.

First, I need to get something off my chest. For the past two and a half days, we've heard about hundreds of millions of dollars in potential revenue just waiting to be collected in Philadelphia. The existing operators have apparently just missed it. This is absolutely downright offensive. There are smart people running Parx. There are smart people running Chester.

We all work this market every single day. Let me speak for all of us when I tell you, if these pie in the sky revenues were here, we'd have found them. We market to every segment imaginable with incentives, events, amenities, including by the way, the general non-gaming public. Believe me, there are very few stones left unturned. Anyone who tells you they will create even $100 million in new revenue in Philadelphia in the short term is living in Crazy Town.

For the last two and a half days, you've been listening to some very enthusiastic people present some pretty over-the-top concepts. You've seen elaborate architectural drawings, fancy videos and you've heard testimony from some very persuasive people. It would be difficult to choose any one over the other. But if we can lower the volume on the sales pitches and listen instead to the market, the empirical and factual performance data as reported by the Board, then the choice becomes much easier.

The second Philadelphia license should be re-issued to no one, because this action right now will decimate the southeastern PA casino industry.

Everything the Gaming Board and the Commonwealth have worked for and every great decision you've made could be superseded by the one you got wrong. I know you know these facts. Thirteen (13) straight months of slot declines. New York, Baltimore, suburban D.C., all adding or expanding gaming. New Jersey and Delaware have just gone live on the Internet. We have no idea where this will go. Pennsylvania has just granted tavern gaming and is considering online gaming. We are up to our eyeballs in new and impending supply. This is a very volatile time.

The fact is the market has spoken. From 2012 to 2013, Parx, Chester, SugarHouse gave up a combined $46 million to allow new entrant Valley Forge to grow by only $38 million. So, the cannibalization acknowledged by every presenter would be actively inflicted on a declining market that has yet to absorb current supply. We are at the tipping point.

There is a finite percent of the population that enjoys gambling as a recreational activity. You've heard commentary on new access. A brand new casino in a region with no prior daytrip access would quickly attract this group.

To the contrary, gaming has been easily available to Philadelphia regional residents for 30 years and has become much more conveniently available since 2006. There is no ZIP code within two hours of Philadelphia that is underserved. There are not many ZIP codes in the northeast corridor that are underserved. Not only do our residents have easy access, they have options for every day of the week. So, there are few sustainable revenue streams coming from afar and no new revenue streams in our immediate region.

One of your applicants pointed out that none of his friends gamble. A casino with a pool will not change that. It is not something like carrying a cell phone that everyone will eventually do. Do participation rates rise as easy access comes to new markets? Yeah. But Philadelphia is not a new market. Not everyone goes fishing. Not everyone is a gamer. Counting on today’s skiers to be tomorrow’s gamblers is ludicrous. Ask Revel. They too dared to dream.

Another of your applicants suggested the damage to the market and to SugarHouse will be less if a stadium site is chosen. Not so. We are talking about five sites all within five miles of each other. Our daily business covers a 20-mile radius. Choosing our favorite applicant is like asking us to pick our poison. South Philly represents a significant portion of our business.

Before anyone else says it, I will. I am here out of self-interest. I'm also here in the interests of the 1,100 employees whose livelihoods depend on a healthy SugarHouse. I'm here on behalf of Philadelphia's New Year's Eve fireworks. I'm here on behalf of the Mummers Parade. I'm here on behalf of the hundreds of SugarHouse vendors who rely on our business for their bottom line. Susan Komen, Salute the Military, Philly's Veterans. The list goes on.

SugarHouse needs to stay strong for Philadelphia and for Pennsylvania. Five cash-strapped competitors scraping it out month to month isn't good for anyone. To the contrary, let us be strong. Let us support our neighborhoods and our charities. Let us hire and innovate. Let us out-market New Jersey, New York, Delaware. Let us grow our businesses organically at what pace the market allows.

Without exception, each of your applicants cites cannibalizing SugarHouse as a critical fact of their business. Every presenter has stated they will cannibalize SugarHouse to the tune of anywhere from $36 million at the low end to $50 million to $114 million per year. We cannot survive this. The year $36 million in revenue goes poof, we lay people off, raise healthcare premiums, suspend charitable giving, take a hard look at the 401(k) and stop reimbursing tuition. We charge employees for their uniforms and maybe their parking and stop paying service bonuses.

The year $50 million goes poof, we significantly reduce our workforce, offer health insurance only to our employees, not their families. We'd probably stop landscaping. We raise ATM fees and cut advertising. At $114 million, the impact is catastrophic. New Jersey will think it's great.

If Pennsylvania intends to fight off out-of-state competition and remain a nationwide example of good gaming, then the premeditated weakening of the current operators is not the right strategy. At SugarHouse, we are within weeks of breaking ground on a $155 million expansion for two reasons. Number one, our developers made a promise to Philadelphia, to Pennsylvania, to you. What got built in 2010 is a shadow of the original plan, but also the first casino financed after the Great Recession. It is a skeleton. It is not what any of us consider a final product.

Number two, we are not expanding to service a growing market. We are expanding to stay alive in a stagnant and hyper-competitive one. Our expansion is primarily non-gaming. We're adding a parking garage, event space, multiple restaurants, our first poker and some elbow room. We're increasing our square footage by 150 percent, but increasing our gaming units by only 27 percent.

The market has spoken. The region is awash in gaming. Please stop. Take a pause, assess the market impact of our expansion when it opens in 2015, await some recovery of the general economy, understand where online gaming will go. The facts we have do not support another casino. And think of all the facts, facts we do not yet have.

The $2.4 billion Revel is a great property. The facility lacks for nothing. They've been through one bankruptcy and they're headed toward another reorganization because the necessary demand does not exist. Neither is there $300 or $400 or $500 million worth of latent demand in southeastern Pennsylvania. Everyone in here knows this. If you award a second license now, you'll make one of these applicants very happy. But I guarantee you, three years down the road, the applicants who didn't get the license will be even happier. Thank you.

ATTORNEY DONNELLY:

Thank you, Wendy. I'd like to call Mary Cheeks.

MS. CHEEKS:

Good afternoon, Chairman, and members of the Board. I'm Mary Cheeks, C-H-E-E-K-S, CFO for both SugarHouse here in Philadelphia and Rivers in Pittsburgh. I have worked with and for some of the individuals that have presented to you casino proposals. Prior to joining SugarHouse and Rivers, I worked in Atlantic City market for 22 years, 12 of which was with Caesars Entertainment. You've heard a lot of data points with projections, forecasts and estimates about the Philadelphia market. I want to talk to you about the facts.

Sorry. Let's look at Valley Forge and their entrance into the Philadelphia market, comparing 2013 results to that of 2012. What happened? SugarHouse declined $10 million, Parx declined $6 million, Harrah's declined $30 million, for a total of $46 million in decline slot and table revenue from the existing Philadelphia market. Valley Forge grew $38 million to contribute --- and contributed to this decline. The four casinos comprising the southeast PA market declined a total of $8.2 million. So, I just want to restate that. Existing casinos declined $46 million, the new entrant grew $48 million (sic). In total, we still declined $8 million.

It's important to note that Valley Forge is a small property. It's 600 slot machines and 50 table games. Despite that small size, it still cannibalized the Philadelphia market. Also keep in mind that Valley Forge waived their entry fee for a considerable time. Each applicant for the second Philadelphia license has spoken about cannibalization of the Philly market to some degree. I want to tell you, cannibalization's already here.

Valley Forge came online a little less than two years ago and slot revenue has declined the last 13 months. When you look at the northeast gaming corridor, almost every state or regional market is experiencing declines in their slot revenue. Just to call a few of those out, Pennsylvania declined, '13 again compared to '12, $86 million. New Jersey declined $98 million. Delaware declined $68 million. Connecticut declined $72 million. Overall, the northeast gaming corridor declined $134 million. Our surrounding states and regional gaming markets are now self-sufficient and more gaming positions are being added to New York and Maryland, the only two northeast regional markets showing a little growth.

The Atlantic City market is a perfect example of both saturation and cannibalization. In 2006, the AC market generated over $5 billion in revenues, and now has declined to less than $3 billion. The workforce has experienced a significant reduction, approximately 50,000 employees at its peak; now at around approximately 30,000. AC experienced a 40 percent decline in both revenues and employment. The validation of saturation was seen with Revel’s performance and the sale of the AC Club for parts.

Online gaming was legalized in New Jersey and Delaware in November 2013. Focusing on New Jersey that has the largest gaming population within a 30-minute drive to the Philadelphia market, in December reported generating $8.4 million in online gaming revenue. To annualize this ramp-up period, this means that over $100 million in revenue will be generated from online gaming in New Jersey in 2014. Just another source of revenue displacement from the Philadelphia market.

So, these five reasons I spoke about make me very, very concerned about the Philadelphia market. I’m in great fear that it will become like AC. I left AC three years ago because my job almost primarily dealt with cost cutting. I lived and breathed reducing costs from marketing spend, operating supplies, cost of sales and jobs. Unfortunately, the most controllable cost is payroll and marketing spend, and of course you cut deeper in payroll than what you would do your marketing.

Cost cutting impacts service as well as revenue generating opportunities. The life cycle of happy employees that bring happy customers that brings a happy bottom line, or healthy bottom line evaporated in two years in front of my face. You stop operating for future growth and you live for short term savings. We don’t want Pennsylvania to follow the AC example. And believe me, I don’t want my career to go back to that place.

Just to share a story, I would park my car two blocks from the office, smoke a cigarette to get mentally ready to go in the office and eliminate someone’s career. It was very sad because you would know in terminating that employment, a lot of those people can’t rebound from that, that ends careers, families, homes.

I urge you to be extremely cautious in your decision of a second Philadelphia license to avoid weakening southeast PA. To conclude, I appeal to the Board to strongly consider not making a decision on the second Philadelphia license until the following events take place. Wait for a complete understanding of online gaming's impact and the overall state of the gaming market. Wait for the opening of SugarHouse expansion and allow for stabilization of the market. Thank you for your time and consideration.

ATTORNEY DONNELLY:

Thank you. Mary, just a quick question. There was a comment today that the stadium --- one of the stadium casinos would grow the market during games. Could you, in a very short period of time, explain to the Board what the experience has been in Pittsburgh near the stadiums with the Rivers Casino?

MS. CHEEKS:

On game days, our volume is significantly impacted. I will share specifics privately, but I would say it hurts the business. And in the Pittsburgh market, it's primarily the football stadium and the baseball stadium. Here in Philadelphia it would be all four venues. So, I would say it would be problematic.

ATTORNEY DONNELLY:

Thank you. I now call Steven Rittvo.

MR. RITTVO:

Thank you, and I thank you for the opportunity to speak. I had no ---.

ATTORNEY DONNELLY:

Steve, just please give a few of your credentials to the Board, if you would, please.

MR. RITTVO:

Sure. I am Steven Rittvo, R-I-T-T-V-O. I'm the Chairman of the Innovation Group. We've been in the industry doing feasibility studies now for something like 25 years. I'm a qualified expert witness in a number jurisdictions, federal court, the world court, a number of state jurisdictions to testify on gaming market assessments, gaming market sizes and casino economics.

ATTORNEY DONNELLY:

One question, Mr. Rittvo, did you participate in the preparation of the report that was filed with the Board?

MR. RITTVO:

Yes, I did. I was --- I worked with Steve Karoul in producing that report and I am comfortable in adopting that report fully.

ATTORNEY DONNELLY:

Thank you. I'd move Mr. Rittvo as an expert in casino market analysis.

ATTORNEY PITRE:

I have no objection, but I ask that Mr. Donnelly refer to the specific date of the report, or the date that it was entered into the record previously.

ATTORNEY DONNELLY:

Yes, we'll be limited --- we will not add an additional report.

CHAIRMAN:

I'm sorry, what was that, Cyrus?

ATTORNEY PITRE:

As long as the report is the report that was previously entered into the record before the Board and there's no new information, I'm fine with his testimony.

ATTORNEY DONNELLY:

We've agreed to that condition.

CHAIRMAN:

He can testify.

ATTORNEY DONNELLY:

Thank you, Your Honor.

MR. RITTVO:

Thank you. I guess I've been really familiar with the Pennsylvania market and the Pittsburgh market now probably longer than anybody else. And I’m going to say this, there are times when I’ve sort of felt like a ping-pong ball here. I did the initial work for the Senate Democratic Caucus that put the legislation together. And at that point we projected a gaming revenue for the State of Pennsylvania, generally in the realm of about $2.8 to $3 billion. And nobody believed us because they said it was too big.

We then did the work for the Casino Consortium to put in table games. And everybody said, oh, when you put in table games, it’s going to kill the slot business. And we said no. We’re on public record as saying we thought the slot business was going to go up three to five percent. I think the slot business went up about five and a half percent, you know, during that period. But again, we were just beat up on it.

We did the work for the analysis for Treasurer McCord that was done in about 2010. And our findings at that point, and you know, they’re well-documented in the report, was that we felt, you know, that particularly the Philadelphia, the south Pennsylvania market was fully developed or was going to be fully developed with the expansion of SugarHouse at that point. And our recommendation was to not put a casino in Philadelphia, but look for potential in another location in the central part of the state that candidly was going to open up some new markets for the area. We had a hard time defending that in sort of saying, put it someplace in a smaller market than Philadelphia. But we still strongly believe it.

We made a report to you; I believe my partner Tom Zitt came in and presented, you know, a report that was cited in --- the most recent thing to you. We made it in May of 2013. And we basically said our forecast for the Philadelphia market was about $1,175,000; currently it looks like it's about $1,146,000. Our numbers have been consistent throughout this process, and I think --- take it for what it is, but I think that’s an important aspect. We haven’t created numbers to make a client happy, made them bigger, made them smaller. We’ve evaluated them, they’ve been consistent and it’s there.

I got to tell you, I’m in a tough position today. I don’t have a whole lot of time and I’m not sure you should believe me per se that my analysis is better than somebody else’s analysis. You’ve gone through three days of a number of qualified people making presentations and analyses to you. I sure won’t disparage them, because a number of them used to work for me. And so I have respect in them and I hope they respect us.

But be that as it may, it's tough for me to refute all that and take them on one at a time at this point in time. And it's really hard for me to add a whole lot of stuff to what Wendy and Mary have said. They've really covered some of the issues. What I thought I would do is maybe try to give you a better sense of, you know, really what the process is, you know, and what does some of this stuff mean and maybe explain some ideas.

So, the first to me really is, you know, is the south Philadelphia market --- and people have used the word saturated, they've used the word mature, they've used the word fully developed. We believe that and, you know, we really do believe that sincerely. We told that before we got involved in this process, you know, to Treasurer McCord in there.

I'm going to say this, when I was an expert witness for Mr. Bluhm a year and a half ago, we said that they should not build larger than they were going to build and larger that's presented to you now because the market couldn't support it. If we thought there was a great market, we would have said, please expand it. We didn't.

AKRF, the guys that, you know, essentially were hired by the City of Philadelphia to evaluate it, on their first page basically say that this is a fully developed market. The media has said this is a fully developed market. These are all people that are in the --- I have to say this. If you look at the gaming analysts that cover the publicly traded companies, they will tell you that this is a fully developed market. They say the same thing. These are not folk with vested interests. That doesn’t mean really that there’s no growth in the market. It does mean that the growth is limited. And it does mean that the growth is going to be very heard to obtain and it’s going to be very costly to obtain.

I think we need to understand, you know, really where the growth sort of comes from. You know, in the early phases --- does somebody have that slide that came from my report that we cited? Let’s go back right there. If you look at the blue line, in the early phases of a market, you have one facility and the market is basically flat. It’s that one facility. As you add casino facilities, it’s a very elastic operation. I mean I add gaming positions, I add facilities. If I double the number of positions and double the number of facilities, the market doubles.

At some point, though, the market really hits a peak. You just can't extract more blood from that turnip. There are only a finite number of people that will gamble and they have a finite budget.

I'm sorry. I thought you had a question; I apologize. So, as you look, as we started adding from one facility to two facilities to three facilities, we started to hit what is, you know, basically the top of that market. The last couple of months, the last year are when we had Valley Forge. And basically you can see, we added Valley Forge and we did not grow the market at all.

And I think the same thing is going to hold true right now if you add another facility. There is just not that much more demand. Creating more slot machines is not --- placing more slot machines in the market is not going to induce more people to come. Wendy touched on that. Putting in more restaurants really are not going to induce more people to come. This is a locals market and we are pretty much close to extracting what it is. There is some growth there.

There's been a lot of discussion over the last couple of days on the gravity model, and people have told you, you know, they used the gravity model. Some people have done it on a ZIP code basis, some people have done it on a region basis. I saw somebody that did a sub-ZIP code basis. I have to say this, I'm a guy that applied the gravity model to the casino industry the first time 18 years ago. It's a transportation model. I'm actually a traffic engineer by education going way back. And so I think I understand it really pretty well.

The gravity model is a distribution model. It sort of says, I've got a finite number of gamers in this ZIP code and I'm going to distribute them across all the casino facilities, you know, in the area. And it assigns them to different facilities and it's very valid. And it's a great model to tell you how many people from each zone are going to come to each one of the individual casinos.

What it doesn't tell you is how many people live in each zone that are going to gamble. And that doesn't change tremendously because you put another casino in there. The number of people from each zone that are going to gamble is a function of the demographics, the age, the income, the ethnicity. And that doesn't change when you put another casino in the market.

And so I saw people who said, okay,

we’re going to put a new casino in the Philadelphia market and the percentage of people that are going to gamble is going to move from 40 to 46 percent to 48 percent, or something like that. I’ve not seen that in any market in the United States when we’ve added a new casino. That’s developed. Okay. We’ve added new casinos in Shreveport. We’ve added new casinos in Biloxi. We’ve added new casinos when it happened in Detroit and when there were developed markets, it grew one percent, two percent, three percent. But it did not grow tremendously.

The second part is I don’t know where some of those numbers came from in the sense of a 40 percent or 46 percent participation. Twenty-five (25) percent of the people in the United States visited a casino in 2012. That’s from the American Gaming Association. That was their number. It’s concentrated and it’s more intense in places where there are a lot of casinos, because you’re more accessible.

But again, that number has almost maxed out in urban areas at about 36 or 38 of the population very proximate to the casino. I’ve not seen 40 percent. I’ve not seen 46 percents really occur in urban areas. And we do primary research, we go back and we look at databases. But it’s relatively easy to say the market’s going to grow, because when I put another casino in, now instead of 38 percent of the people in a given ZIP code coming, 43 percent are going to come. And then we distribute them.

So, I don’t know that I understand how the elements of the numbers came in. When I look at the market specifically and I look at really what’s happened since we’ve added casinos and since we’ve added Valley Forge, and I look at the competition and what’s happened is we’ve added stuff in Philadelphia and the decline in Atlantic City, and now the fact that basically Delaware’s down, I’m not seeing growth in the market. And that’s the best I can tell you.

I don’t want to get into the nuances of, as I say, the individual percentages. But just from somebody that lives markets, it’s been relatively stable and flat. It is a reasonably fully developed market. Is there some growth potential? Sure. I mean I think we can probably grow this market in the realm of five percent, seven percent. It’s sort of what we’d assume what happened when SugarHouse expanded. But I don’t see a 15 or 20 percent growth in this market. It hasn’t happened anywhere.

Coming back to, I guess, what my

recommendation would be to you probably tracks very much what Mary said. It tracks very much what Wendy said. I think SugarHouse is now building their expansion. I think it will absorb the majority of what's left in this market. I think there is maybe some organic growth. We see growth generally. And we're in a strange economic period, but we see generally growth in the range of one to two percent a year. And that's comprised basically of normal population growth and maybe a little bit of inflation.

The potential to really grow more than that, I don't see. But if I'm wrong, you know, I think it doesn't pain the Commonwealth to really wait that two years, let SugarHouse open and make sure that you don't expand in such a manner that you're really going to hurt the existing operators. Because I think the margins and the impact that will be felt if there really is cannibalization --- and that's what this is going to be.

These guys probably --- the new casinos probably will do, in some instances, revenues close to what they're saying. I do believe that. They're building new facilities, they may have an interesting location, but I sincerely believe more of their revenue is going to come from the existing operators than growth into the marketplace.

And again, coming back to it, I have a lot of respect --- and I may not be the first or the only person that says this, but Steven Wynn walked away from this thing when he really looked at it, because he did not see enough growth in the marketplace as other states were coming online and taking the niches, or sort of slicing it.

If I were working for you, if I were working --- and when I worked for the treasurer, my recommendation was to postpone this decision or to look for another location in the central part of the state that's unserved for the application of this license. Thank you.

ATTORNEY DONNELLY:

Thank you. I call Neil Bluhm.

MR. BLUHM:

Mr. Chairman Ryan and members of the Board, I'm Neil Bluhm. I am the chairman of SugarHouse and my family and I are the principal owners of SugarHouse. I am also a partner in Walton Street Capital, which is the controlling partner of the Rivers Casino and also an investor in the Rivers Casino in Pittsburgh. As you know, we developed both these casinos in extremely difficult times. You've heard about that. And we also, of course, rescued the Pittsburgh casino, which was on the verge of bankruptcy during its development.

Your Gaming Board and your statute really has done a remarkable job in the regional casino industry. And I've said that many times in other jurisdictions that we have spoken to, whether measured by tax revenue, nice properties, and really most significantly, that you don't have, to my knowledge, any existing casinos who are experiencing severe financial problems which many other regional casinos have experienced.

I am totally convinced that if another casino is added to this market, based upon the comments of people like Steve Rittvo, who I greatly respect as being a true expert in this industry, and our own feelings about what the impact of the cannibalization would be. We've heard all these projections, and I'm going to get into those in some detail. I believe that SugarHouse plus two other casinos, Harrah's Chester as well as Valley Forge, would suffer severe problems if we have cannibalization anywhere near the cannibalization that has been projected by the proponents for new casinos over the last couple of days.

First, it is absolutely clear that we expected that there was going to be a new casino in 2005 when we first appeared before you, but I want to discuss that in some detail. All right. The world and the economy has totally changed, as you know. And the regional casino business is nothing like it was when we appeared before you in 2005.

And let me dwell on that for a minute. The financial crisis has resulted in the middle class having all kinds of problems. We all know that. There's high unemployment and not much wage growth. And the middle class doesn't have discretionary income to spend as much money on a casino when they're being pressed otherwise. And this is just another form of entertainment, and you don't --- you don't have to spend your money in a casino if you're really having pressure in making ends meet.

We saw it when they changed, for example --- we've studied extensively why business is bad at our casinos. And it's not the upper end gambler; it's the gambler --- occasional gambler who is having trouble making ends meet. Some of it was getting rid of the --- and raising the employment tax. So, that's why the regional gaming business is tough right now throughout the United States.

We obviously have a lot more competition and we never knew anything or expected that Valley Forge would be opening a Category 3 in this market. And as you of course have heard, Valley Forge, after they opened, did not increase overall revenue, including their own, but decreased it. And frankly, the projections we all looked at in 2005 were very optimistic because we were in a boom bubble period at that time and then got hit in 2008 with the great financial crisis.

And I'd like to point out one other thing, and that is the difference between Philadelphia and an underserved market. We have a casino in the Chicago market in Des Plaines which is right next to O'Hara Airport. It's the first casino ever built in Cook County where Chicago is. But the Illinois law limits each casino to effectively about three --- 1,350 positions. So, the market is underserved.

We do $800 per slot machine of win per day. We do $300 win, which is the highest here, because we have --- in Pennsylvania I believe, because we don't have many slots either. We run 1,600. But my point is that if this market was so underserved, we'd be doing a lot more than $300 per day. I'm doing $800 per day in Illinois. That is an underserved market.

We've heard about Internet gaming and all the other issues. Just because we knew that there was likely going to be a second casino when we bid for our license, does not mean that you should automatically issue a new license here if it doesn't make economic sense. Okay. We admit we knew, but the world has changed and you have to look at what's going on today, not what people thought in 2005. And I think the evidence is overwhelming that there will be enormous disruption to the operators here in Philadelphia, particularly SugarHouse, if you add another casino.

We have a great team headed by Wendy Hamilton. And our other casinos that we operate in Des Plaines, Pittsburgh, Niagara Falls, Canada are all clearly market leaders in their market. And as I mentioned, we developed our properties under extremely difficult financial conditions. I've been before you many times and discussed that; some of you are new to the Board and weren't here when I was there. But I think we've been straight in giving you the facts.

The main thing that I want to point out to you is that we have taken the information that we have heard today --- not today, but over the last two days, dealing with the amount of cannibalization that would occur. We've heard cannibalization running --- there's one outlier on the down side around 30 some odd percent, but all the others are talking about cannibalization of 50, 60 plus, and two of them have said that the markets --- that SugarHouse, we're talking about just SugarHouse, will be cannibalized by over $200 --- by over $100 million.

Now what does that mean to SugarHouse? All right. $100 million drop in revenue or anything near that will have the following financial ramifications. And I want to go through this slowly. Out of the $100 million of course we won't have to pay taxes to the Commonwealth. Our average tax rate runs around 42 kind of percent, in that range. Because while we pay over 50 on the slots, remember the tables are significantly less. So, we're left with the --- we don't have to spend the $42 million. So, now we're losing $58 million.

On the other hand, we should be able to --- if our volume is down such a large percentage, $100 million, we should be able to cut some of our salaries by reducing staff, firing people. That'll probably run another maybe $10 million, maybe a little more. So, maybe we'll only lose $45 to $50 million.

You can't cut most of your costs. They're fixed. All right. We have insurance, we have real estate taxes. We have all kinds of expenses that you just can't change. Utilities are not going down; you got to heat the place or air condition the place.

So, the impact would be, as I said, $45 to $50 million at the high levels, and what impact would that have on us? Well, that would represent on today's EBITDA --- let's talk about EBITDA. That's earnings before interest, taxes and depreciation. That's the numbers that lenders lend you money against, and that's the number that people value a casino at.

So, that's a critical number. That would represent over 75 percent reduction of our current EBITDA. Without --- assuming we don't expand. If we expand, based upon our projections it'll represent over 50 percent. And of course we will have added an additional $155 million of cost and debt to the equation.

So, the bottom line is that anything near the numbers that the proponents have used, I'm using their numbers, would result in our property not being worth its debt. And that would result in severe financial problems when we have to refinance the debt or service our debt. The lenders only loan you a certain amount of your EBITDA. Call it five and a half, six, sometimes less depending on the market. They wouldn't loan us anywhere near the amount of money that our existing loans would then be at.

We've done a similar analysis for Harrah's. Not for them; we did it on our own. We don't know exactly what they make, but we could do a reasonable job of estimating. That's the business we're in. And we believe that Harrah's would be in a similar situation with somewhere near $50 million, because they're more levered.

Your casinos, our casinos are not over-levered. But if you add a casino to this market, which based upon the testimony of --- that we've heard, and based upon the cannibalization that the proponents are saying, you're going to have several casinos in Philadelphia in severe financial trouble. And I don't think that's in the interest of the Commonwealth or, frankly, in the interest of anybody. And you're doing it at a time when the market is --- the market is sinking and the economy is struggling. What is the rush?

In that context, let me mention a couple of other things. The first is --- I've asked myself this question. Am I here trying to scare you guys about bankruptcy? Is this a bunch of hogwash? I have just a list of some of the firms that have gone bankrupt in the last few years in the regional market. You may know some, but I just want to read a few of them. You've heard all about Revel. Atlantic Club went bankrupt; they went to sell it out of bankruptcy, nobody would buy it. Two competitors bought it for junk value, pennies on the dollar, to tear it down and keep the equipment and own the land, and fired all the people.

Two casinos in Vicksburg, Mississippi in 2012 got into financial trouble. Two casinos in Indiana were in high profile bankruptcies in 2010 and 2011. The Majestic Star in Gary, Indiana went bankrupt after the Ham and Horseshoe, which we compete with in Indiana, which is near Chicago, greatly expanded its facility and Majestic Star went broke. You all know about Trump; he's had four bankruptcies on his casinos.

Twin Rivers in Rhode Island near Providence, high profile bankruptcy in the northeast after a major expansion, went broke. Greektown in Detroit, a high profile urban casino, went bankrupt after MGM opened and expanded a newer facility in

2007. And two casinos, one in St. Louis and one in Denver have gone bankrupt. So, this is not --- I'm just throwing this out. I'm being very straight with you. Anything near these projections that we've heard, all right, would result as a severe financial crisis for us, and I believe for two other casinos in the Philadelphia market.

Now what I've also asked myself is, and I think it's a legitimate question, why are these folks proposing to build something here? And how are they going to get financing if what I'm saying is true, what he's saying is true? All right. And I've given this some thought. First, I've been in the real estate business for many years, until I got also in the casino business about 15 years ago. All right. Today real estate cap rates are at an all-time low. In other words, they sell for very, very --- very, very high multiples of cash flow because debt is so cheap.

So, some of these fellows are real estate developers who have never been in the casino business. They look at the casino projections and think this is --- oh, this is great because they may do better than a five or six or seven percent return which is what a prime piece of real estate may sell for today. So, why can they get financing? Well, we are in a financing market today that is very, very hot. Arguably a bubble as far as junk debt. It's common knowledge. The first lenders, the banks, are quite conservative. But there's a tremendous demand for high yield debt that's selling at all-time low yields because of the demand for yield.

So, the high yield lenders are stretching to provide financing so that deals may not need much equity. It's not much different than what was going on in 2005 and '06 and '07 in the subprime market where money was being thrown at people buying homes, et cetera. And there's a lot of concern that we're in the situation where we may have a bubble in the high yield debt market. And some of this of course is caused by QE2 or QE3 where the government is trying to stimulate things by making financing readily available.

So, I wanted to touch on that to deal with the idea of why people --- they don't have to maybe put up much equity and get a lot of leverage; the returns may be --- look decent. But the reality is that they are going to get crushed, in my opinion, as will the existing casinos when you over-saturate a given market.

I'd also like to add one other thing. After --- and by the way, let me mention one other thing I forgot to mention. When I said Chester on our analysis is going to have a similar problem, bear in mind that Chester's revenue between 2012 and 2013 went down by approximately $30 million, okay, with just one new competitor being --- entering the market, Valley Forge. So, I think our analysis is correct and they'd be in a similar spot, and I think Valley Forge would as well.

Right after Steve Wynn pulled out of the market --- I know Steve pretty well. And he and I had a conversation, and I asked Steve why --- why did you pull out of Pennsylvania? And he said, because my assessment was that the market could not grow and I couldn't grow this market. If anyone in the world can grow a market in gaming, it's Steve Wynn; let's be realistic. If he couldn't do it, I don't know how anybody else is going to be doing it.

So, in conclusion, we are asking you to wait and see what happens in this economy, what happens with our expansion and not do something that I am concerned is going to obviously hurt us, but hurt our employees, but hurt your market and hurt this Board, who has done a fantastic job to date. You don’t want to have a situation where a bunch of your casinos are in financial trouble and I think that’s what will happen with all of this cannibalization. Thank you, and I guess we’ll answer any questions any of you may have.

ATTORNEY DONNELLY:

Thank you, Neil. With that, I would move the filings, to the extent I have to, the filings that we made on January 10th and --- which was the statement, the expert report and a number of other filings, and the PowerPoint. And we will rest.

CHAIRMAN:

Okay. Any questions from the Board? Greg?

MR. FAJT:

Thank you, Mr. Chairman. I appreciate the explanation on the question about why other businesses, Deutsche Bank, Jeffries, who I consider to be, you know, first line financial institutions, and private equity investors would invest in these other casinos. And I’ve written that down, and thank you for answering that.

I have a question that’s really not relevant to what you’re here to talk about, but because you mentioned it and because you’re here, Mr.

Bluhm, I'd like to get it on the record. When will you be breaking ground on your $155 million expansion at SugarHouse?

MR. BLUHM:

We expect to break ground this year. We need a few final permits from the Army Corps. Our projection is that we will be opening the expanded facility, which I think is going to really be nice, sometime about late September, early October of 2015.

MR. FAJT:

So, you don't have a date yet on when you're actually going to break ground?

MR. BLUHM:

We need I think a permit from the Army Corps.

MR. FAJT:

Okay.

MR. BLUHM:

We don't want to be presumptuous about when we're getting this, but we're quite confident and we're in the late stages of getting ready to break ground.

MR. FAJT:

Thank you.

MR. MCCALL:

Just a simple question, and I hate asking somebody who's a billionaire about finance when I'm sitting on this side of the table. But, you know, we sat here for three days listening to experts, and experts that are going to put up millions and millions and millions and millions of dollars. And how do we respond to them when they're willing to put all that money up in investment with the risk of losing it?

Because what you, all of you have said makes perfect sense to me and I think probably to all of us up here. It makes absolute perfect sense and is almost common sense. That's how simplistic it is. But we have all of these experts that have come before us who have said, we're going to spend $700, $800 million, and some of it --- a lot of their own money. Why would they risk that? And I understand there's going to be some cannibalization, but why risk all of that money and all of that investment if it's going to fail?

MR. BLUHM:

Okay, sir. You've asked a good question. First, let's go through what the people --- are they really putting up their money or are they raising money from somebody else? Basically the way these deals are financed, okay, the investment banks go out and sell the paper. They don’t invest any money. They get a fee, you pay their expenses up front, and if the deal closes and they raise the money, great. And we’ve seen though history, there are periods when things work out and there are periods when they don’t. And the investors have short memories.

All right. So, right now --- in 2005 and ’06 we couldn’t borrow a dime to build SugarHouse. And we had to come in with massively more equity because the world then, they didn’t want to loan money. Now there’s a lot of money around. So, the bankers are out looking for business, and not one of them --- I don’t know. This I don’t know; are they giving firm commitments or are they giving highly confident letters? Okay.

But they’ll go the market and try to raise the money. And if the market is good, I’m not saying they won’t, because you got a hot market now. But that doesn’t mean the deal won’t be in trouble. And some of those lenders may not think it’s so bad if they end up owning the property and wipe out the equity of the owner. But it’s not good for anybody to have the lender own those properties and then have to figure out how to get out of them later, and there’s no growth or anything good happening.

And in some cases, you know, sponsors are putting up relatively small amount of money. It's option money or they own an old piece of land they're willing to throw in, claim it has some huge valuation to try to get a piece of the deal. That's what goes on in our business. And you've got that in this situation.

So, all I'm saying is you've got Steve Wynn walking from this. You hear what I'm saying. Some of these guys will have an option. And I'm not sure that they all got involved in this thing just to build this. Some of them maybe got involved to protect their other properties that are ready. So, there's a lot of different reasons for people to do these things.

MR. MCCALL:

Great. Thank you.

CHAIRMAN:

Dave?

MR. WOODS:

Just looking for two specific numbers. First, you've quoted the four of the five applicants' number regarding cannibalization range. Where do you put that number for SugarHouse, with another applicant being successful and if we select that? What number do you place on that?

MR. BLUHM:

We really don't know. We know there's going to be very serious cannibalization. We know that any number in the area of $50 plus million would be very difficult for us. And as it goes up from that, it becomes impossible, as I've said. If the cannibalization is $30 million --- but we don't think it'll be that low.

But frankly, the market has gotten worse over the last few months, as you know. So, 2012 --- I'm sorry, 2013 was not a good year. We made --- did much better in 2012 than we did in 2013. Remember that your costs tend to go up, your insurance costs, all these other costs go up. Your healthcare costs. And if your gross is going down --- and this is one of the few industries where that's occurring. But that's what's happened in 2013.

MR. WOODS:

I appreciate that, but the applicants did come forward and put numbers on what they believe would come from SugarHouse. Do you have a number or ---?

MR. BLUHM:

The only thing we ---.

MR. WOODS:

A range?

MR. BLUHM:

Our range is --- from what I'm hearing, they've got a bunch of experts. Some of them are saying it's $100 plus. Others seem to be saying it's in the range of $50 plus, $50 or $60 ---.

MR. WOODS:

I'm not asking what they believe it is. I'm asking --- and maybe Mr. Rittvo, you could provide that range of what SugarHouse believes the number is.

MR. RITTVO:

I want to say, I'm not sure I disagree radically with the ranges that were there. Part of the problem with cannibalization is who is competing against me? What is their location, where are they, what are they actually going to build? Candidly, who is their operator?

So, I mean again, looking at what's out there and not knowing who, if anybody, and my recommendation is to not --- there not to be anybody. But out of the range that's there, I'm not sure that their cannibalization numbers are not normative. That's the range that's there. We don't know. And it’s not being evasive. I mean I think it’s really being --- we don’t know what the competition would be and how they would operate it. Nothing seemed out of line to me, you know, in what people are saying.

MR. WOODS:

And Wendy had stated that she didn’t want to pick her poison, I think was your phrase.

MR. RITTVO:

And I think that’s really the validity of it.

MR. WOODS:

Do you have an opinion of --- and I’m not going to ask you which candidate, but do you have an opinion that one would hurt your facility more than another?

MR. BLUHM:

I don’t --- we think that they will all hurt significantly. We don’t know how much. I would say this to you. All right. When we first heard about this, when you first started considering this, this was maybe a year ago or whatever. I don’t remember the exact date. Our thoughts of what impact this would have were a lot less than what we think today based upon what a bunch of experts are saying, the candidates for new casinos themselves are saying, what he is now saying, and we're extremely worried. And we're undertaking $155 million expansion.

So, somewhere that number's going to be $50, $60 to $100 million. I don't know what it's going to be. We just don't know. I do know, and I don't want anybody to think that the number isn't significant if it's in the sports stadium area where the three casinos are, because we have a huge amount of business that comes from South Philly. So, those people --- if we're getting just cannibalization, it's a closer drive to go there. You're just moving the deck chairs around.

MR. WOODS:

We have to grapple with, I guess, what is the line between competition and saturation. And you're asking us to do that. Do you have a clear line that you believe can be drawn numerically or percentage-wise in some fashion? Do you have a definition of competition versus saturation?

MR. RITTVO:

You know, I don't know that it's a bright line, to be very honest with you, because I think it's dynamic to a certain degree and it changes a little bit year after year. I believe when I'm now looking at something where my projection was $3.2

billion for 2014, and effectively I think I’m hitting somewhere in the realm of $3 --- $2.9 billion right now, and accepting that we are still in somewhat of a limited economic downturn, I think I’m really approximating that fully developed market with SugarHouse’s expansion.

Maybe in response to your other question, maybe I believe that the cannibalization numbers might be a little bit higher, you know, than that $30 to $100 range, because I think there is less growth in the market. And I strongly, sincerely feel that, and the potential that’s there. And so more of it is going to come from the existing operators. I think at the present time, taking the known knowns, and acknowledging that there are some known unknowns, I think we’re very close to, for this current economic situation, I think we’re very close to a fully developed market. And it’s not competition at this point.

Would that change if unemployment rates went down? We’ve run models, okay, and gaming revenues significantly are related to unemployment rates. If every drop in unemployment of one percent, we actually see gaming revenues basically be going up two to two and a half percent. We’ve run the Russian models on that. Now we got a little bit of a goofy thing here, because I think that we're not necessarily reporting full unemployment because people have left the labor force and we haven't figured out how that's worked, you know, its way through the economy.

But if I came back to you in three years and said, gee, the unemployment rate dropped from seven and a half percent to five percent in a normative piece and I got seven and a half percent more in the market, and this is --- the State of Pennsylvania's a $3 billion market, guess what? I've added $200 million plus some organic growth, and I might not have the same opinion. It's a dynamic process. And I can only speak to it as it is right now.

So, I don't want to tell you it's --- it's not a bright line, but it is a line. And I do believe at this point, at this point in time with what is the known known, and that is what is the current unemployment rate, what is happening, what is proposed in SugarHouse's expansion, I think I'm very close to the saturation. What happens and what is the shift if New York comes on --- and not if; when. Does it have a tremendous impact on Philadelphia? No, honestly it doesn't. I mean it's going to be the Catskill region.

It might have more of an impact on the Poconos, but I lose a little bit.

Okay. Revel, despite everything --- we can talk about how bad it is. But if somebody does take it over, it's going to be somewhat better. They would undercapitalize, they'll reposition it, they'll remarket it. You know what? Maybe it grows $50 million. In Revel's mind, that's nothing to a certain degree. In the scheme of Atlantic City that's not much. But of that $50 million, $30 million more is going to come out of Philadelphia. It's an unknown unknown. I don't know what they're going to do.

Internet gaming, what you guys do, you know, is a known unknown. The stuff in pubs, I've lived that in Louisiana. Okay. In some instances it's had an impact; in some instances it hasn't had an impact. Some of it is what is the full set of regulations, how many machines? It's very different to me if I have three machines per outlet versus five machines per outlet, because one becomes a mini casino and one becomes a different thing. Will it have restrictions on the payouts? It's a known unknown, but I don't know what it is.

And I think it's somewhat naïve to assume that it won't impact the market somewhat. Does it impact it 20 percent? No. Does it impact it two percent? I think that's a real potential. And again, I think that has the opportunity to blunt the growth, you know, for another year. It's another $60 million that comes out, and it's offset maybe by a little bit of growth in the economy and a little bit of growth in population. You got a lot of stuff that's in a state of flux right now. And I'd be happy to take them point by point with you, but ---.

MR. WOODS:

I get your drift.

MR. RITTVO:

I can't give you that bright line. I'm sorry.

MR. WOODS:

I just have one more question for you.

MR. RITTVO:

It's okay.

MR. WOODS:

Five applicants have come, presented their numbers. They're all within similar ranges with the exception of Market 8. I believe their consultant used the term robust. Their year one was higher than any of the other four applicants' year five numbers. How would you characterize the robustness of his numbers?

MR. RITTVO:

I don’t know that I’ve seen his numbers, but I will say this. My experience is, for the most part, it’s very difficult for a new operator to be the market leader. People have vested interests. I mean we can talk about them in player club points, we can talk about them in relationships and that type of thing. There’s sort of an interesting curve on a new casino in a market.

What happens is in the first month often, it’s got a high demand. Everybody goes to see the new boy on the block. And then it sort of really drops off because everybody goes, okay, I saw it, I liked it, I didn’t like it. But you know what? I got my casino host, I like this restaurant, I’m not induced to change. I got a whole bunch of vested points in this --- in my players’ club. And so they then start to attempt to ascend up.

I don’t know that I have seen in any place in a developed market --- and I don’t want to tell you it doesn’t exist, because I’m operating from memory. Where the new guy in, you know, becomes the market leader in the year that they’re there. I think it’s really tough to do that.

I will also tell you that, you know, there are pros and cons about downtown casinos. Sometimes access works, sometimes access doesn't work. I've seen it where it has never fulfilled its desires. That's the case in New Orleans, you know, that cord downtown. And to be honest with you, Detroit's shook everybody up. I mean it's exceeded what everybody felt.

So, I don't know and I have not analyzed their traffic patterns, I have not analyzed their parking patterns. I do perceive that somebody said that they were going to have a very high transit utilization for it. I have to say this. I mean this is how I got into the casino industry was doing traffic studies 25 years ago. I have never seen really high transit utilizations. I've seen good busing programs.

But people that are going to a casino sort of want to feel --- I want to say this. It's an aspirational business. People want to feel rich. I mean that's what we're selling. We're selling this opportunity that's the only place in the world that somebody will valet park your car, they'll call you yes, ma'am, and no, sir, and potentially give you a complimentary drink. And somehow getting on public transit doesn't make that happen.

And Aqueduct in New York, it's one of the most successful casinos, it's on the subway line. The original projections were a very significant number of people going to get on the subway line to go there, because it was far to drive and, you know, all sorts of other things and was not easy to get there because the Van Wyck Expressway was crowded, and you got to know that I'm an ex-New Yorker.

Bottom line is their numbers are spectacular, but it's not transit ridership. It's busing programs, some at midday, it's automobile drivers. But that percentage that is coming by transit is way less than what anybody really thought about. So, again, don't have --- and I've not looked at their traffic. But intuitively, you know ---.

MR. WOODS:

I appreciate your answer.

MS. HAMILTON:

If I ---.

MR. WOODS:

I don't want to belabor the rest of the numbers if they have questions. But Wendy?

MS. HAMILTON:

I just wanted to add one quick comment

to your question about competition versus cannibalization. Less quantitative ---.

MR. WOODS:

Saturation, yeah.

MS. HAMILTON:

Saturation. Competition is good. Keeps us all on our toes. I can tell you my team and I eat, breathe and sleep what is going on at Parx, what is going on at Chester, what is going on all over Atlantic City, even what's going on at Valley Forge. Our players have every card. You know this. They carry a stack and they tell you, well, over here yesterday I got ---. So, there's no lack of competition in this market. That's healthy. That's healthy.

MR. WOODS:

Thank you. That's all my questions, Mr. Chairman.

CHAIRMAN:

John?

MR. MCNALLY:

Thank you. You've intervened for the purpose of talking about cannibalization and saturation, but as I read the Act, we also have an obligation as a Board to fulfill that Act. And part of that is to provide for economic development for the citizens of the Commonwealth. And we have had considerable testimony the last two and a half days about economic development that their casinos will spur outside of their walls, the jobs that they will create not only inside of their walls, but outside of their walls. Don't we as a Board have an obligation to take that into consideration in awarding a second license?

MR. BLUHM:

I would say that you could look at that as a factor, but you have to factor in the harm that it is also going to do in terms of loss of jobs, less gaming revenue from the existing places. You have a state where people have come in in good faith, have invested millions of dollars and built casinos, and you have the most successful casino operation in the country, regional casino. You really do. You should be proud of what you've done.

Okay. But if you think that you can just keep building and building and adding because it's going to get more construction jobs, you're going to end up with a giant mess on your hands like in Atlantic City or elsewhere. Trees don't grow to the sky. I've been in real estate business for 45 years.

God, that seems long. And I've seen so many booms and busts. Okay.

So, you don't --- I don't want to see you guys make a mistake. Yes, I have a vested interest. If I lose this property, I will be heartbroken. Okay. To the lenders or whatever. I will still be in decent financial shape, although I've got a huge cash investment in this project.

But it's not, in my judgment, in the interest of what is the best run gaming operation in this country to over-saturate a market and have several of your guys in serious trouble. And that could well happen if the numbers are anywhere near the numbers of cannibalization that I've heard.

MR. RITTVO:

I think you touched on two things. One is the construction jobs, and that's a one-time it. And you're absolutely right. You build another facility, you know, you're going to have more construction jobs for the construction duration. It's going to happen. And so yes, that's, you know, a win.

I think on the other side you really have to look at what happens to the ongoing type activities. And I think, you know, as Wendy touched on, if you start having such decreases in revenue that you really start to lay off and you send less vendors, you're spending less money with vendors and other pieces, will you have an impact? Yeah. I don't think you're going to lose as many jobs as you would gain in a new facility. I mean, you know, one plus one might not equal two; it might equal 1.2.

So, yeah, you're going to have some growth and I sure --- I would not deny that, you know, by any stretch. I think you got to look at what is the cost to the people that lose their jobs? And we've seen this in other places. And I think the worst thing that you can do, and that's --- it's your policy decision. It's your value construct, not mine.

But I think the worst thing that can happen is you give somebody a job, they make decisions in their lives. They buy a home, they place their kids in school, they do some other things. And now the job goes away. And I think you've done more economic harm than you've done good. And I think that's the piece that you really need to look at, is that incremental upside, because there will be some incremental upside. I mean I could never look you straight in the face and say, you're not going to create new jobs, you know, in building another facility.

But is that worth the tradeoff of the --- I'm going to say this, of really the human harm that goes along with that percentage of people that won't do it. Those charities that have been counting on those revenues coming from here --- because as it gets more dissipated, as it gets more diffused, there's less discretionary dollars that come into the market. Everything is going to go into the facilities and it's going to be less donations, I think it's going to be less support.

You've got good jobs in this industry. The gaming industry is very respected because it pays a decent wage, it gives good benefits, it provides healthcare and all the pieces that come with it. If that dissipates, I don't know, are you better off with more jobs that are not as good? Your call.

MS. HAMILTON:

Well, not only that, but making sure that the Commonwealth is capturing all available revenue doesn't have to feel like a car accident. The existing operators, you know, we like to make more money. So, if there's a couple of points of growth left in the market, we're pretty good at making plans to say, hey, we want to add 100 slots. We want to add a couple dozen table games. I think you can count on our competitors and us to do that. If there's a couple points left out there, we're going to bring it to you.

MR. RITTVO:

That is different than your question about job creation.

MR. BLUHM:

I would just add one other thing. This doesn't have to be a permanent yes or no. All right. But why, if there are all this uncertainty --- and you've heard massive cannibalization. You know the economy isn't good. You're all intelligent people. You know that. You know the revenue's been dropping. You could wait and see. If the revenues are booming and we open our casino and we're doing great, our expansion, and it looks like there's really room to grow the market and employment is down and things are good again, then take a look at it then. But right now I think it's a very dangerous thing to be doing in light of what's going on in the Commonwealth and in regional gaming throughout the U.S., particularly in the northeast.

MR. MCNALLY:

I have no further questions. Thank you.

CHAIRMAN:

Tony?

MR. MOSCATO:

Thank you, Bill. Just one question and I guess one clarification. When Ms. Cheeks was testifying, she --- on slide 11, she testified that the Philadelphia market was down four percent. It says excluding poker. Do you know what this number would be if it included poker?

MS. CHEEKS:

Poker was up by $48,000. Poker was up year over year $48,000.

MR. MOSCATO:

Okay.

MS. CHEEKS:

So, it’s really no impact.

MR. MOSCATO:

Thank you. And you also said --- and I should say I think you said; maybe I wrote it down incorrectly, that for a time Valley Forge waived its entry fee.

MS. CHEEKS:

Yes.

MR. MOSCATO:

What did you mean by that?

MS. CHEEKS:

Basically Valley Forge didn't follow the rules for a period of time by comping entry fee.

MR. MOSCATO:

Thank you.

MS. CHEEKS:

You're welcome.

CHAIRMAN:

Greg?

MR. FAJT:

Thank you, Bill. Just a real quick comment more than a question. Mr. Bluhm, I heard what you were saying about, you know, what we know now is that, you know, we're in a tenuous market. But we also know that no casino is going to open for probably three years. We're going to make a decision, we're going to get sued, going to go to the Supreme Court, they're going to take six months or a year, and then whoever wins is not going to do anything until that decision's final, and then they're going to be two years, year and a half, two years in construction.

So, we're always trying to guess what the market is going to be three years out, two and a half years out. So, I --- you don't need to respond, but I just want to make that clarification. Thank you.

CHAIRMAN:

Mr. Rittvo, you're familiar, are you not, with the Pennsylvania gaming market?

MR. RITTVO:

Hope so.

CHAIRMAN:

And in southeastern Pennsylvania ---

MR. RITTVO:

Yes.

CHAIRMAN:

--- you're familiar with the location of Parx ---?

MR. RITTVO:

Yeah, I want to say I probably want to look at the map just to put it together, but the answer is yes.

CHAIRMAN:

Given where you stand on this, you probably also know Parx is an applicant for a casino which they want to build down near the stadium. Why would they want to do that if you're right?

MR. RITTVO:

They would not be the first entity that I've seen that has looked to protect its total share of the market as opposed to an individual facility.

The ability to cross market, the efficiencies of scale may help somebody like that offset it. The same question, I have to be honest with you, was asked in Massachusetts. Why did Mohegan Sun and Foxwoods go after the licenses there?

And again, I think it has to do with the fact that they are potentially better off owning two facilities that may not be as strong as --- I don't want to say strong. They may have some elements --- and I'm hypothesizing. Okay. I have not spoken to them and, you know, I don't want to be quoted as this is their thought process.

But if you asked me how I might look at it, you know, I could see it as having one facility that sort of has a rating of five that's going to go to a rating of three if I have competition. And maybe I'm better off if I'm the guy that's the competition, you know, and I can basically have my two facilities at a four. I have efficiency and advertising in the market, I have efficiency in branding. I will be able to do something to enhance my players' club, you know, in cross market.

And so it sort of --- if you can't beat them, join them, sort of philosophy. I can't tell you that that's the answer but I can tell you that it's what I saw in Connecticut. It’s what I’ve seen, if I look at Harrah’s, in Indiana and Illinois. It’s just not that uncommon a phenomenon to say somebody’s coming, and it might as well be me. So, I can make it the best I can for my total company, my total operation as opposed to my single facility.

CHAIRMAN:

Thank you. Anybody else?

MR. BLUHM:

I’d like to give you my views of that. Being in this business, knowing a lot of the players, I believe very firmly that when Steve Wynn announced that he wanted to build that casino north of us, okay, that would have been a very huge challenge to the fantastic operation that Parx has. It’d be closer to Parx, it’d draw from a large sector.

And I think they felt, it’d be my guess, okay, that by going somewhere south they could possibly have another alternative, a viable alternative to Wynn, who would have hurt Parx the most probably. And of course, he pulled out and there’s a certain momentum, you’re in a deal, and you just keep going. And they’d probably rather have it there than in one of the other places, because it’s a better location and in the interest --- better for them and the issues that Steve has mentioned.

CHAIRMAN:

Okay. Thank you. Anything from you, Cyrus?

ATTORNEY PITRE:

No, I'm ---.

CHAIRMAN:

Okay.

ATTORNEY PITRE:

I know there's been enough doom and gloom scenarios.

CHAIRMAN:

All right. I think that's it, ladies and gentlemen. Thank you all for being here. That will bring to a close the suitability hearings. I want to thank everybody who was a part of this, for all your cooperation. I certainly want to thank employees, members of the Board, who have worked so hard over the last 15 months to put this all together and make this doable. So, to all the employees at the Board, I'd say thank you. And this concludes the hearing. All these matters will now be taken under advisement for review by the Board. Thank you all, ladies and gentlemen.

* * * * HEARING CONCLUDED * * * *

CERTIFICATE

I hereby certify that the foregoing proceedings, hearing held before Chairman Ryan was reported by me on 1/30/2014 and that I Sami Zeka read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

Sami Zeka