

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: PRESQUE ISLE DOWNS, INC. LICENSE RENEWAL

PUBLIC HEARING

* * * * *

BEFORE: WILLIAM H. RYAN, CHAIRMAN
Gregory C. Fajt, Keith R. McCall, Anthony
Moscato, David W. Woods, Annmarie Kaiser,
Richard G. Jewell
Robert P. Coyne, Representing Eileen
McNulty, Secretary of Revenue, Fred
Strathmeyer, Representing Russell Reading,
Secretary of Agriculture, Jennifer Langan,
Representing Timothy Reece, State
Treasurer

HEARING: Wednesday, September 2, 2015

LOCATION: Strawberry Square Complex

303 Walnut Street

2nd Floor

Harrisburg, PA 17106

Reporter: Bernadette Black

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CHAIRMAN:

The first hearing relates to Presque Isle Downs, Inc., specifically the renewal of its Category I Slot Machine License. Can we have representatives from Presque Isle Downs come forward, please? Everybody here?

ATTORNEY SCHRIER:

Yes.

CHAIRMAN:

I would ask that everyone speaking please state and spell your name for the court reporter prior to your presentation. Additionally, because this is a formal proceeding, I would ask all non-attorney witnesses to please stand and be sworn in before we begin.

ATTORNEY SCHRIER:

I was going to introduce them and then we could swear them, how's that?

CHAIRMAN:

Sounds good to me, Counselor.

ATTORNEY SCHRIER:

Thank you. Good morning, Mr. Chairman and members of the Board, Ex-Officio Members, Bureau

1 of Investigation and the Board staff. My name is
 2 Stephen D. Schrier, S-C-H-R-I-E-R. I'm with the law
 3 firm of Blank Rome and I'm here today on behalf of
 4 Presque Isle Downs who is, as the Chairman mentioned,
 5 a Category I Slot License Renewal applicant. I'm also
 6 here on behalf of the El Dorado Resorts, which is the
 7 parent company.

8 And I'm pleased to have with me today
 9 the following executives from Presque Isle, Jeff
 10 Favre, Vice President and General Manager of Presque
 11 Isle. Kevin O'Sullivan who is the Assistant General
 12 Manager. And also the top management team from El
 13 Dorado Resorts who are here from Reno, Nevada, Gary
 14 Carano, our Chairman and CEO of El Dorado Resorts.
 15 Tom Reeg who is the President of El Dorado Resorts,
 16 Anthony Carano who is the Executive Vice President and
 17 General Counsel of El Dorado Resorts and Joe Billhimer
 18 who is the Chief Operating Officer of El Dorado
 19 Resorts. So, I would ask that they all stand and be
 20 sworn.

21 -----

22 WITNESSES SWORN EN MASSE

23 -----

24 ATTORNEY SCHRIER:

25 Thank you, Mr. Chairman.

1 CHAIRMAN:

2 Okay.

3 ATTORNEY SCHRIER:

4 As the Board is well aware, this
5 Applicant has been an instrumental part of racing and
6 gaming here in the Commonwealth from the beginning.
7 This licensee built its racing and gaming facility in
8 Erie, Pennsylvania and opened under a Conditional
9 Category I Slot License in February of 2007. It was
10 awarded its original slot license in February of 2000
11 --- I'm sorry, 2008, right. Since then it's operated
12 continuously and has contributed significantly to the
13 local economy and the Commonwealth while currently
14 finding itself in a marketplace that has changed
15 dramatically, and has presented some competitive
16 challenges.

17 Today, the company will present evidence
18 to the Board in two parts. First, on the activities
19 of Presque Isle Downs, since the public input hearing
20 that occurred on October 2nd, 2014 and how it will
21 address the challenges that I just mentioned. And
22 second, evidence will be presented on behalf of El
23 Dorado Resorts, and they will discuss several exciting
24 and significant developments that have occurred since
25 the last hearing. So, without further ado, I'd like

1 to introduce Jeff Favre, who is the Vice President and
2 General Manager of Presque Isle. Thank you.

3 MR. FAVRE:

4 Chairman Ryan, members of the Board. I
5 believe when I came here back in February ---.

6 CHAIRMAN:

7 Mr. Favre, if I could, could you just
8 state your name for the record and spell your last
9 name?

10 MR. FAVRE:

11 Jeff Favre, F-A-V-R-E.

12 CHAIRMAN:

13 And your position, sir?

14 MR. FARVE:

15 Vice President and General Manager.

16 CHAIRMAN:

17 Thank you.

18 MR. FARVE:

19 Thank you. When I was here back in
20 February for the Petition to reduce the number of
21 games and for our enhancements plan, I'm proud to say
22 that we're pretty much materially done with those
23 enhancements and those improvements. Approximately \$5
24 million in spend, which started at, you know, about
25 the end of March, beginning of April, and completed

1 right before the Fourth of July weekend. In fact, we
2 opened the new center bar I believe on July 3rd.
3 Certainly an improvement, I would like to invite you
4 all to come up and see it. Certainly added some
5 ambiance and energy to the floor, which we certainly
6 needed, and very happy with the end result.

7 Renovation upgrades to the high limit
8 room to try and attack the Cleveland market, which we
9 most of our table --- or not most of it, about 32
10 percent of it to the Horseshoe opening in May of 2012.
11 We were seeing some of those guests come back and the
12 high limit room only adds to that opportunity. Full
13 redesign of La Bonne Vie Steakhouse, that's the
14 exterior as well as the interior. We still have a
15 little bit of work left to do in there. For the most
16 part, it is done with, you know, exception of a few
17 punch list items which we'll continue to do. But it
18 should be done here by middle of the month, end of the
19 month.

20 Reconfiguration of the gaming floor,
21 we're approximately 40, 50 percent done. The entire
22 south end of the casino has been reconfigured, which
23 includes table games being done in its final state as
24 well as the center bar being added. And all of the
25 games are reconfigured on that end of the floor. We

1 still have the north side to do, which will then give
2 us a clearly designated smoking/non-smoking floors,
3 which we believe from a marketing standpoint will
4 definitely be beneficial towards us.

5 We also repainted the interior of the
6 casino with a new color scheme, as well as right now
7 testing new lighting to try and figure out how to
8 improve the lighting. Because the lighting is a
9 little bit sporadic and inconsistent with the color
10 scheme that we wanted to, you know, portray. So,
11 we're working on that. Future plans, continue with
12 the reinvestment and community outreach. This is a
13 continued focus on our obligation and commitment to
14 the community.

15 I can tell you that we've certainly,
16 since I have been there, not to say that it wasn't
17 done before, but I believe, you know, the community
18 role is something that we should take very seriously.
19 And I can speak very positive in regards to El Dorado
20 and Mr. Carano and his family that they certainly
21 support the community in being actively involved. In
22 fact, it was one of the mandates that I was given,
23 that I actually had to live in Erie County. No
24 commuting and you had to actually live in Erie, which
25 was not a problem, but it shows their commitment to

1 the community.

2 Evaluate adjacent land to the casino for
3 future development. We own prime undeveloped land on
4 State Route 97 with a lot of good road frontage that
5 we believe that we can bring in potential developers
6 and spark any kind of activity that, you know, would
7 compliment and benefit Presque Isle Downs, that's in
8 our best interest. We're certainly interested in
9 pursuing, you know, potential options as we speak,
10 nothing definitive, but certainly I have talks on the
11 way.

12 Live entertainment and events, we did a
13 much more aggressive live entertainment schedule this
14 summer. We've had Charlie Daniels Band, Lorrie Moran,
15 Pam Tillis, Crystal Gayle, Travis Tritt, we still have
16 Jamie Johnson as well as we had boxing back in June.
17 Live boxing, which was the first time that we did
18 that, which went over really well. And happy to say
19 that we have our next event, last event for this year,
20 on Saturday. Pretty much sold out at this point in
21 time, so very happy with that.

22 We'll continue, as I stated earlier,
23 with the reconfiguration of the slot floor to give
24 more smoking/nonsmoking areas, as well as just better
25 overall flow and position of the games. With respect

1 to start towards the end of this month, beginning of
2 October, we'll be done by the end of the year.

3 Continue to upgrade the TVs in high
4 definition and digital marketing. For those of you
5 --- I know some will be coming to the property
6 shortly, you'll see a big projector screen, which
7 we've added. We have two more of those to add. And
8 they have what they call the L-brackets, which allows
9 us to, you know, show ESPN as well as marketing
10 message that scroll and provides content for upcoming
11 events and promotions.

12 So, we're certainly improving the
13 overall ambiance of the floor with the high def TVs,
14 marketing, digital marketing as well as slot signage,
15 which we'll be installing on the floor in about two to
16 three weeks. We'll start the install, which is
17 approximately 200,000 in slot signage, which will
18 again further enhance that ambiance. And we still
19 have to do our existing bars that have been there, we
20 have to renovate and improve those, which we'll be
21 doing by the end of the year as well.

22 Recent trends, there's no need to say
23 that, you know, the competition have certainly had an
24 adverse impact on us. Starts with the Horseshoe
25 opening in May of 2012 in Cleveland, ThistleDowns in

1 April of 2013, Hard Rock in December of '13 and most
2 recently Hollywood Mahoning Valley in September of
3 2014.

4 We've had an increase in gaming supply
5 of approximately 40 percent and, you know, what we
6 call our battleground area, which is in our mid
7 market, which is 31 to 60 miles, the Mentor, Ashtabula
8 area is certainly, you know, an area that we focus on
9 that, you know, has a pretty balanced decision whether
10 or not to go into Cleveland or to come to Presque Isle
11 Downs. And we're maintaining share of the inner
12 market, which is 0 to 30 miles, Erie and Crawford
13 County.

14 When you get into the mid market, we
15 have a little more erosion. Outer market, of course,
16 is where we're seeing the biggest significant impact,
17 which is Cuyahoga Fall, Cleveland, that area. This
18 was through June 30th, which is 2015 revenue in the
19 market. As you can see that, you know, we're
20 approximately 51 percent within in the inner market,
21 which is our own backyard, Erie County, Crawford
22 County, trickles a little bit into New York. We're
23 not too far from the state line there, but it's a very
24 small contribution. The mid market, which is the one
25 that I was explaining to you with Ashtabula and Mentor

1 area, it's about 26 percent.

2 And then, of course, the outer market,
3 23 percent. You see the erosion in the mid market is
4 a negative 1.2 and the outer market, approximately 10
5 percent. Up in the inner market, which, you know, I'm
6 proud and happy to say that we are up, which I expect
7 us to be, we got to figure out how to recapture more
8 of that mid market and do what we can for the outer
9 market. And we do believe that the enhancements and
10 improvements that we made certainly help us migrate
11 that direction, as well as continue those enhancements
12 and improvements to further capture more share.

13 Diversity, and we have a continued focus
14 on diversity. We take it very serious. We focus on
15 meeting our obligations and commitments. I believe
16 that we do a good job. In comparison to Erie County,
17 we're pretty much better in almost every category.
18 937 employees with approximately 96 percent of those
19 being from PA, and if I remember correctly, 88 percent
20 from Erie County. So, I feel that we're very well
21 balanced.

22 And the minority, African American, Asian, a
23 little light on Hispanic, but female and male, we're
24 --- actually, there's a correction, I do want to state
25 this for the record here as a percentage. PID Presque

1 Isle is actually 61 percent male, 39 percent female.
2 On the slide that you have in front of you, that's a
3 misstatement. So, it should be 61 and 39 for a
4 correction.

5 We continue to work on trying to find
6 minority vendors, MBEs and WBEs as we call them. The
7 demographics of Erie County make it a little bit more
8 difficult in retaining some of those vendors. But we
9 have a continued focus on it.

10 I stated earlier, the community
11 outreach. You know, it's a focus that certainly
12 trickles down from the top. And as far as my team is
13 concerned, I asked each one of my directors and senior
14 leaders to be involved in the community to serve on a
15 Board or something that is, you know, near and dear to
16 their heart. As long as it's providing, you know, a
17 good dead back to the community, I ask them to get
18 involved.

19 We're involved with many organizations.
20 We do a charity golf tournament every year. We raise
21 approximately \$30,000 that we give back to the Erie
22 Community Foundation which then disperses that money
23 to multiple organizations, touching a lot more people
24 rather than trying to give a larger sum to just one
25 entity or two entities. They try and spread it among

1 many entities. In fact, we just had the Erie Gives,
2 which Erie Gives does a whole day of phone calls where
3 they raise money. And they certainly raise more money
4 this year than they ever have. It keeps exceeding
5 expectations. We participate in that every year, and
6 one of the major sponsors and, you know, participants
7 along with GE and Erie Insurance. And we're very
8 proud to be a part of that and be able to give back to
9 the community.

10 Economic impacts of the Commonwealth as
11 well as the local community is material since 2017
12 (sic) through 2015. Directly, we've had an economic
13 impact of about \$790.2 million. Indirectly, and it
14 could be considered directly depending on the
15 interpretation, but Erie Gaming Revenue Authority,
16 EGRA, has distributed approximately \$33 million back
17 into the community. We are the sole funding source
18 for that entity, so when you combine those two, the
19 impact is approximately \$123.2 million.

20 Employees, again, employ about 937 team
21 members. Approximately \$154 million paid in payroll.
22 Approximately \$20 million paid in payroll taxes and
23 \$18.4 in employee benefits for a total of
24 approximately \$192 million.

25 Of course, we continue to have a

1 commitment to racing. In fact, one of our Board
2 members, Mr. Pegram, is certainly involved in the
3 industry at a very high level and can provide us good
4 guidance and direction in that regard. And we
5 recently had a Board meeting, which he was able to
6 provide some insight that was very helpful. So, we'll
7 continue to focus on the racing product, and we've
8 certainly contributed a significant amount of capital.
9 This year we are about 90 percent complete with the
10 capital projects and plans that we had in place. We
11 have a few remaining items, but very minor. We're
12 currently working with the HBPA on 2016 plans, and the
13 capital spend.

14 At this time, I'd like to turn it over
15 to our Chairman and CEO, Mr. Gary Carano.

16 MR. CARANO:

17 Thank you. Gary Carano, C-A-R-A-N-O,
18 Chairman and Chief Executive Officer. I'd like to
19 thank you very much, Mr. Chairman and members of the
20 Board, and Cyrus and his team and the investigative
21 teams for this opportunity. It's been an exciting
22 year for our company, and we're very proud to be ---
23 have the opportunity to be in front of you today for
24 our renewal. Our executive team, as we presented to
25 you last year, is still intact.

1 Our family, as you may not remember, I
2 grew up in the gaming industry. My father now loves
3 his opportunity to be in the wine business, and he's
4 the founder of our company, but still going strong at
5 83 years old and ready to build another winery. But
6 I've grown up in the business along with my family
7 members.

8 My brother, Greg, the culinarian of our
9 family, graduated from the Hyde Park CIA in New York,
10 and he has actually moved out to these three
11 properties in Pennsylvania where our great-great
12 grandfather was Commander --- why can't I remember
13 that last name?

14 MR. FARVE:

15 Dobbins.

16 MR. CARANO:

17 Dobbins, Commander Dobbins, on my
18 mother's side. So, we do have some history on the
19 other side of the family. But Greg and his assistant
20 executive team have moved out to Erie, Columbus and
21 West Virginia and traveling between those three
22 properties. And I don't know if you had an
23 opportunity to eat at our property in Erie, but we
24 greatly feel that we've improved the quality of the
25 food, which is our culture, not only in the wine

1 business, we have our own microbrewery in Reno and
2 building a microbrewery in Columbus. But food is our
3 calling card. We feel that where people eat they're
4 going to gamble, so Greg and his team have done a
5 great job.

6 Tom Reeg has been with the family for
7 many, many years, joined our company formally in 2007,
8 previously our senior Vice President of strategic
9 development and now is President of our company and
10 comes with over 20 years of working in the gaming
11 capital markets, and is our person on the street and
12 is largely responsible for the opportunities that
13 we're presenting with you today, with the acquisition
14 of the other half of Silver Legacy and Circus Circus,
15 and has that charge to continue to grow our company.

16 Bob Jones was unable to be with us
17 today, but a member of our team for many, many years,
18 our chief financial officer. Joe Billhimer, as you
19 all remember, our chief operating office from MTR, has
20 been a great addition to the family and has fit in
21 very, very well. And I think he'd done a great job.
22 And last year, my son joined our company, after
23 leaving my father's law firm, as our General Counsel
24 and is doing a great job.

25 Next slide shows the geographic

1 diversity of our company, the founding property, El
2 Dorado Reno, that my father and his partner built in
3 1973. The next page will show all of the various
4 specifics to the amenities that we have, but currently
5 in Reno, the other half of the Silver Legacy. And
6 this slide does not show Circus Circus. But Circus
7 Circus has 1,600 rooms and Silver Legacy has 1,700
8 room, and the El Dorado 800 rooms all join together,
9 much like this property with Sky Bridges. On one
10 bridge is our microbrewery and the other bridge at
11 Circus is a restaurant. So, you'll see three
12 properties in Reno, Nevada.

13 Shreveport, we were able to acquire that
14 property in 2005, and that has done very, very well
15 for us. And then in front of you last year, I think
16 roughly at this time, with the merger with MTR Gaming,
17 the great property that I'll speak to in Erie, the
18 Mountaineer Casino and Scioto Downs. So, overall, you
19 see we have over 9,400 slot machines and video lottery
20 terminals. Over 275 table games, roughly 3300 hotel
21 rooms, over 30 restaurants, mini bars and lounges, and
22 7,000 great team members.

23 Next slide shows the specifics. Like I
24 said, we built the Reno property in 1973, there's
25 76,000 square feet of gaming floor, 1,200 slot

1 machines, 60 table games, 800 hotel rooms. This says
2 three fine dining restaurants, six casual restaurants.
3 My father and his wife would say they're all great
4 dining restaurants, because that's our culture. My
5 father said --- and I hope I didn't use this last
6 year. My father said we could never afford Frank
7 Sinatra, so food will be our calling card, food will
8 be our Frank Sinatra. And that is our culture, food
9 and player service, with our great team members.

10 We have a 600 seat show room at that
11 facility, also a small convention facility and
12 meetings facility. And like I said, that property is
13 adjacent to the Silver Legacy and Circus Circus.

14 Shreveport, we purchased in 2005 a great
15 property with 400 all-suite hotel with --- connected
16 seamlessly to a river boat, which is really a three-
17 story barge. We had a scare this last --- when was
18 it, last spring, summer, July with the Red River
19 cresting 40 feet. And it was --- it really got our
20 attention, but we didn't have any damage, but we did
21 have some business disruption with flooding, in that
22 market with some horrible flooding to the residences
23 in the Shreveport closure market.

24 But that property does well on the
25 market even the face of new competition with

1 Margaritaville. We have a very nice property and
2 continue to operate very competitively in that market,
3 a great steakhouse, buffet, a diner and a noodle bar,
4 and a 360 seat cabaret.

5 Silver Legacy, that we touched on that
6 we just announced that acquisition, we've been
7 operating that since its inception in 1995, a Nevada
8 mining-themed property with 120 foot mining rig in the
9 middle of the dome, 180 foot dome, in the middle of
10 the casino. This says over 28,000 square feet of
11 gaming, it's much, much larger than that. It's, I
12 think, like 90,000 square feet of gaming, 1500 slots,
13 60 table games, great steakhouse, buffet, coffee shop,
14 15,000 square feet of gaming --- convention meeting
15 space.

16 This is a spa. This is the bookend.
17 The picture in the middle is the Silver Legacy with
18 180 foot dome. Circus Circus is to the right and the
19 El Dorado is to the left. And we'll hopefully close
20 on this transaction in the latter part of November,
21 and assume operations at that time. We have been
22 operating, as with our great partner MGM, since 1995
23 the Silver Legacy, and that will take over Circus
24 Circus also.

25 Mountaineer Casino is 93,000 square

1 feet, 1,600 slots, 50 table games, 350 rooms, a great
2 steakhouse, nice buffet. The theatre outside this
3 property is sprawling, and because of competition
4 we're rightsizing this property, and just recently
5 we're faced with a smoking ban, but opened up a 10,000
6 square feet smoking --- outdoor smoking patio with 200
7 slot machines and six blackjack tables. This property
8 continues to face competition, Austintown in
9 September, but a very nice property with a lot of
10 great history with the racetrack.

11 Scioto Downs in Columbus, apparently
12 everybody growing up in the Columbus area knew Scioto
13 Downs racetrack, but they didn't know we had a casino.
14 We're going to rebrand this property this fall with
15 the opening of --- in mid-October with Brew Brothers,
16 we're building a microbrewery there and rebrand the
17 property El Dorado Scioto Downs. 132,000 square feet
18 total facility, 80,000 square foot of gaming, 2,200
19 VLTs with the ability to increase that. Smoking
20 patio, right now with 60 VLTs with the possibility of
21 adding another one in the future. Harness racing
22 versus thoroughbred racing as we have here in Erie.

23 And like I said, we just are under
24 construction of a \$6 million microbrewery called Brew
25 Brothers, which is named after the four brothers and

1 my sister. We got to figure out something for my
2 sister. Again, our sister is the Executive Director
3 of Hotel Operations in Reno for our properties there,
4 and sits on many boards in Reno.

5 In Erie, Erie we think we have a diamond
6 in the rough. We kind of say that with the population
7 of Erie County, over 200,000 people, I think we
8 continue to learn what this property needs, in not
9 only the gaming amenities, like Jeff said,
10 reconfiguring the entire casino floor was a project
11 that we've undertaken, adding the casino bar,
12 refurbishing the steakhouse. My brother's gone into
13 the buffet and changed that.

14 The little in-cafe snack bar needs to be
15 completely reconfigured. We're looking at the
16 clubhouse possibly, in that area up there, where poker
17 is, possibly rebranding that and maybe even moving
18 poker, if we have the approval from you to do that.
19 And maybe make that a possibility of Brew Brothers ---
20 we might call it Brew Brothers Lit up there, not
21 making your own beer, but branding that restaurant and
22 lounge and bar area, and having an entertainment,
23 nightly entertainment, venue upstairs.

24 My wife --- or my wife, my father's wife
25 who is in charge of our design team came with this

1 trip, and we continue to want to bring our Carano
2 family or El Dorado feel to Presque Isle. And we feel
3 that of all the properties, we haven't reached our
4 goals of revenue and profit level, we would say, at
5 this property. We think that we're reaching out to
6 try to give back some of that just spoke to in the
7 Cleveland market, but also as Jeff and his team have
8 done a great job of reaching out to the local
9 community.

10 We feel that we should own Erie, and we
11 don't think we're there yet. We think there's a lot
12 more opportunity once we continue to offer and add
13 amenities that the local people want to make a reason
14 to come to our property that aren't there right now.
15 So, that, with the development of the adjacent
16 property that Jeff spoke to, and property that we have
17 adjacent to the casino, we're looking for
18 opportunities, whether it's doing development
19 ourselves or looking to third party to maybe do a
20 third-party hotel, that would be great.

21 So, that is our story on Erie, and we're
22 very excited that --- like I said, with the
23 opportunity we have in Erie with our growth and I
24 appreciate for this opportunity to present in front of
25 you. And now I'll turn it over to Tom to discuss the

1 recent successful refinancing that took place. Thank
2 you.

3 MR. REEG:

4 Thanks, Gary. Thank you, Mr. Chairman,
5 Commissioners. I'm Tom Reeg, R-E-E-G, President of El
6 Dorado Resorts. I'll talk through --- we've had quite
7 a busy summer at the corporate level. In July, we
8 refinanced the former El Dorado's eight-and-five-
9 eights secured notes and the old MTR Gaming 11-and-a-
10 half percent notes, which we had identified as a
11 significant opportunity prior to the merger, MTR had a
12 very high cost to capital. We knew we were going to
13 be able to reduce that, we were quite pleased with the
14 results and so we came out with a \$150 million
15 revolving credit facility, five years and there was a
16 little bit drawn on that. At closing, we'd expect to
17 pay that down over the next quarter or two.

18 There's \$425 million of a term loan B,
19 which came a LIBOR plus 325 basis points. So, on a
20 four --- with a one percent floor, that's seven year
21 debt with a four-and-a-quarter percent interest rate,
22 and then a \$375 million unsecured bond offering, eight
23 year paper that came at seven percent. So, the
24 weighted average cost of capital for the company
25 formerly was over ten-and-a-half percent. It drops in

1 this refinancing to about five-and-a-half percent.

2 So, our overall interest rate as a
3 company prior to the --- interest expense prior to the
4 refinancing was a little over \$80 million in cash
5 interest, will now be running at about \$45 million of
6 cash interest, which compares to MTR alone. MTR alone
7 was paying \$65 million of interest expense, so this
8 obviously creates a much firmer financial footing, you
9 know, without question from a parent company
10 standpoint. Presque Isle's parent is on the firmest
11 financial footing it's been on since Presque Isle
12 opened seven years ago. We'll be generating in excess
13 of \$75 million of free cash flow a year, post the
14 refinancing. That allows us to consider new
15 investments in all of our properties, including
16 Presque Isle, as Gary touched upon.

17 Our interest coverage will be
18 approaching four times, and the prior MTR gaming,
19 interest coverage was never north of two times. So,
20 we've very excited about where it puts us. We don't
21 have a funded debt maturity now until 2022, when the
22 term loan B will come due. So, we really think we're
23 in good shape from a financial standpoint.

24 If you flip to the next slide, as part
25 of the refinancing, the proceeds of the refinancing

1 were used to, as I said, refinance the El Dorado and
2 MTR debt. We also borrowed an additional \$50 million
3 in order to start to fund the acquisition at Silver
4 Legacy and Circus Circus. On July 7th we reached an
5 agreement with MGM where we would buy their 50 percent
6 stake in Silver Legacy, which we've operated since
7 inception, and their Circus Circus property. The
8 purchase price is \$72.5 million of cash. We'd expect
9 to close in November.

10 At closing, Silver Legacy should have
11 about \$55 million of net debt on it that we'll
12 refinance at close --- or we'll repay at closing. So,
13 there's about \$127 million funding need. \$15 million
14 came from the excess proceeds from the issuance we did
15 in July, will generate free cash flow between now and
16 closing that will be used. And we have about a \$60
17 million remaining need.

18 To address that need, we filed an S1
19 registration statement to issue secondary equity.
20 We'd expect to be in the equity markets issuing ---
21 executing that offering sometime between Labor Day and
22 the closing of the Reno transaction, however you may
23 have noticed the equity markets have been quite
24 volatile recently. If we don't get the execution that
25 we'd like, we do have the revolver availability to

1 fund it. So, we have the capital fund, but the
2 preference here is equity.

3 As I think we testified in front of you
4 a year ago, we've been historically a conservative
5 company relative to leverage pro forma for all of
6 these transactions. We should be less than five times
7 levered, you know, somewhere in the fours. And, you
8 know, historically Presque Isle's parent has been
9 levered above six. So, we've taken that down more
10 than a full turn inside of the first year of our
11 ownership, and we'll be in the position where we can
12 further de-lever with the free cash flow if there are
13 not further growth opportunities or reinvestment in
14 our property. So, we really think we're in a good
15 position here.

16 This acquisition, because there was so
17 little debt coming from these properties allowed us to
18 further de-lever the \$127.5 million of cost that it
19 will take to close the transaction, brings about \$30
20 million of trailing EBIDTA onto our balance sheets.
21 So, as I said, allowed us to de-lever further.

22 So, we're very excited about where we
23 sit as a company. We're excited for the prospects for
24 Presque Isle going forward, as Gary said. We think
25 targeting the Erie market and giving Jeff and his team

1 the pieces that they haven't had in the past to
2 compete should allow us to stabilize this property and
3 have it start to claw back some of what it's lost due
4 to competition over the last three years or so.

5 ATTORNEY SCHRIER:

6 Thank you, Tom. Mr. Chairman and
7 members of the Board, that concludes our presentation
8 regarding the renewal. And I would just respectfully
9 submit to you that Presque Isle Downs has met all of
10 the criteria necessary for the renewal of this
11 Category I Slot License under the Act and the
12 Regulations. And the company is now here to answer
13 any questions that you may have. Thank you.

14 CHAIRMAN:

15 Thank you. Any questions or comments
16 from Enforcement Counsel?

17 ATTORNEY MILLER:

18 Yes. Good morning, Chairman Ryan.
19 Dustin Miller on behalf of the Office of Enforcement
20 Counsel (OEC). Nan Davenport's here with me. Just a
21 few questions about the presentation. We'll start on
22 slide three regarding the floor plan changes. And
23 this question will be for Mr. Favre. I think your
24 testimony was that the reconfiguration is almost
25 complete, do you have any timetable of when it will be

1 completed?

2 MR. FARVE:

3 Actually, the reconfiguration's about 40
4 to 50 percent complete, which was the entire south end
5 of the casino, which includes the entire table game
6 reconfiguration. We have to do the entire north side
7 of the casino that's remaining. We purposefully
8 pushed it back because we had all the disruption from
9 when we started construction and reconfigure the south
10 end before. We wanted to give them a break, so to
11 speak, because of all the disruption and frustration
12 as well as get through our busier period and peak
13 season. So, we'll be starting that again here towards
14 the end of this month, beginning of October. We
15 expect that to be complete right around Christmas
16 time.

17 ATTORNEY MILLER:

18 Okay. And so far the improvements you
19 made on --- I guess, on the south side, have you seen
20 any noticeable impact on your business from those?

21 MR. FARVE:

22 Certainly. You know, just the overall
23 energy and the feel of that floor, you can feel it,
24 it's different. And we certainly believe that is one
25 of the positives from the exchanges that we've made is

1 trying to create that ambiance and atmosphere, what I
2 call love, give the floor some love. You know, rather
3 than kind of being in a Sam's Club and rather than
4 groceries, you have slot machines with aisles and high
5 ceilings. We're trying to bring that love and
6 ambiance to the floor.

7 So, table games is certainly a tighter
8 footprint, and if you come in on a Friday and
9 Saturday, I think you would be very impressed. In
10 fact, you know, our drop figures are up year over year
11 approximately four percent. And we're going to
12 continue to be aggressive in that regard, going after
13 table game players. The enhanced and improved high
14 limit area only adds to that opportunity.

15 ATTORNEY MILLER:

16 And I did see a recent news article, it
17 seemed to indicate that in, I believe it was May and
18 June, there was some uptake in table games play, and
19 then a little bit of drop off in July. But you do
20 expect --- would you say that July would be an
21 anomaly? Do you expect an uptake in the table games
22 play?

23 MR. FARVE:

24 When you actually look at the volume,
25 the volume was up. We just paid out more winners, had

1 more lucky players. And we expect the continued
2 improvement in volume to continue. Hopefully, you
3 know, we have a better hold. But then again, you have
4 to have winners.

5 ATTORNEY MILLER:

6 Now I want to turn to slide four,
7 specifically regarding future plans and the one about
8 the evaluating adjacent land for development. Just to
9 clarify that, is it through the sale or lease of those
10 lands, or are you --- is the organization planning on
11 developing those lands itself?

12 MR. FARVE:

13 We're considering all of the above.
14 We've got an active agreement now with Passport
15 Reality to market some of the out parcels for leasing
16 opportunities. We would expect to use some of the
17 property adjacent to the casino for improvements that
18 we would do. I would say the least likely alternative
19 would be for us to sell land that's adjacent to the
20 property.

21 ATTORNEY MILLER:

22 Okay. I want to go now to slide eight
23 regarding the community outreach and charitable
24 contributions. I think this came up at the public
25 input hearing, but there was a significant uptake

1 there between 2012 and 2013. And I think that it came
2 out in the testimony that there was a different
3 calculation or a way that you guys were calculating
4 the charitable contributions. And now we see at the
5 2014 figure there's a little bit of a drop off there.
6 Is there any specific reason for that?

7 MR. FARVE:

8 Actually, I have no reason to say why it
9 has dropped. I can tell you, certainly I wasn't there
10 in '13, but you know, I came in at the beginning of
11 '14. And I know that we have been pretty actively
12 involved and doing a lot of things. Maybe there was
13 something in '13 that was an anomaly that I'm not
14 aware of. But for the record, I have nothing
15 specific.

16 ATTORNEY MILLER:

17 Okay. And finally, regarding the
18 horseracing, it's our understanding that there is a
19 Horseracing Commission requirement that two barns be
20 built by the end of this year on the back side. Could
21 you just give us a status of what's going on in that
22 regard?

23 MR. FARVE:

24 Yes, I actually had conversations with
25 Kevin Kyle last week as well as met with Todd

1 Mostoller, Executive Director of the HBPA. I am
2 actually waiting on Todd to return some information to
3 me for an updated draft of the letter to submit to the
4 Racing Commission. And really the ball's kind of in
5 his court right now, in theory. In principle we agree
6 on the improvements that we want to make, but until
7 Todd can get me the information back from his
8 constituency, I don't really don't know what that is.
9 Because some of the improvements that we had
10 originally outlaid for horsemen, he thinks that it
11 should be changed to something that would benefit them
12 better. And he had some ideas, but he needed to go
13 back and speak to them to get that specific
14 information.

15 MR. BILLHIMER:

16 If I may, Joe Billhimer,
17 B-I-L-L-H-I-M-E-R. We currently have relief to not
18 build a barn this year. I think you've stated that we
19 had an obligation to build something by the end of
20 this year.

21 MR. FARVE:

22 It's actually '16.

23 ATTORNEY MILLER:

24 Oh, okay.

25 MR. BILLHIMER:

1 We're actively working with the Racing
2 Commission, with the HBPA, to find a better mix going
3 forward. Racing Commission is implying --- we don't
4 think there's a need to build as many barns as we have
5 in our development agreement, but that being said,
6 we're also prepared to build those barns. But we are
7 working with the HBPA to come up with a solution that
8 we can present to the Racing Commission and ultimately
9 will come back to this Commission and make sure we're
10 on firm ground to make it a better experience not only
11 for the racing fan, but the gaming fan that creates
12 revenue for the racing. So, we're looking for a good
13 mix.

14 ATTORNEY MILLER:

15 Okay. Thank you. I don't have any
16 further questions. Let me check. No further
17 questions.

18 CHAIRMAN:

19 Thank you. Any questions from the
20 Board? Greg.

21 MR. FAJT:

22 Thank you, Mr. Chairman. Mr. Favre, I'd
23 like to drill down a little bit on the smoking and
24 nonsmoking. It's an area that I do a lot of public
25 speaking on Gaming in Pennsylvania, and I always tell

1 people it's the number one complaint I get when I go
2 out. But I also realize that gamblers smoke, and
3 that's just, you know, part of the nature of the beast
4 I guess. But have you see --- Ohio is nonsmoking, but
5 are they now doing what you had talked about, Mr.
6 Carano, in West Virginia where they're putting these
7 outside patios? Didn't Ohio come out nonsmoking
8 initially, right, on all their casinos?

9 MR. CARANO:

10 Yes, sir.

11 MR. FAJT:

12 Okay. Do they have any smoking now
13 allowed on the patios that you discussed? The
14 property you were talking about was West Virginia,
15 correct? Or do you have an outdoor patio in Scioto
16 Downs?

17 MR. CARANO:

18 Scioto Downs, yes, sir. We have an
19 outdoor patio in Scioto Downs, and also just as of
20 July 1, we built an outdoor smoking patio in West
21 Virginia.

22 MR. FAJT:

23 Okay. And so West Virginia at least in
24 the Mountaineer, in that county, and Ohio in the whole
25 state is still nonsmoking within their facilities; is

1 that correct?

2 MR. CARANO:

3 Yes, sir.

4 MR. FAJT:

5 Okay. Do you, you know --- as your
6 position as General Manager, do you see that as a help
7 or hindrance that these other states are nonsmoking?

8 MR. CARANO:

9 I actually consider it a competitive
10 advantage that Ohio is all nonsmoking.

11 MR. FAJT:

12 I would agree with that, and just that's
13 --- my gut tells me that that's true. Okay. Mr.
14 Carano, a question for you, and I don't know if you
15 have this information, but if you could provide it to
16 OEC. I'd like a breakdown of your senior management,
17 and you can define that any way you want, of minority
18 and women in your senior management team at the
19 corporate level. So, if you could just give that to
20 OEC at some point, that would be helpful.

21 MR. CARANO:

22 We'll provide that.

23 MR. FAJT:

24 And last question for Mr. Favre. The
25 contributions that we just talked about, the \$121,000,

1 to the best of your knowledge, is that cash only or
2 does that include, you know, time off for some of your
3 folks to go to the United Way during working hours?
4 Is the \$121,000, is that cash only and doesn't
5 include, like, an hourly factor for employees who
6 volunteer during the work hours?

7 MR. FARVE:

8 We do not include the time that people
9 contribute.

10 MR. FAJT:

11 Okay.

12 MR. FARVE:

13 The majority of it is in cash. There is
14 some in kind in there with regards to, for example,
15 for Thanksgiving we do turkeys for our team members.
16 Whatever the balance of turkeys left over, we'll
17 donate to the Food Pantry.

18 MR. FAJT:

19 Okay. If you could also provide to OEC
20 the breakdown between cash and in kind of that
21 \$121,000, that would be helpful.

22 MR. FARVE:

23 Certainly.

24 MR. FAJT:

25 Thank you, Mr. Chairman.

1 CHAIRMAN:

2 Tony.

3 MR. MOSCATO:

4 One question, Mr. Chairman, for Mr.
5 Favre. When I was up earlier this year, we were out
6 on the back deck there and you were talking about the
7 deer on the track. I'm just wondering if that's been
8 resolved. I know you were going to meet with the Game
9 Commission, I make that distinction, and I'm just
10 curious where that's at. Other than that, I believe
11 you're doing a very admirable job in a very
12 competitive market.

13 MR. CARANO:

14 Thank you.

15 MR. FARVE:

16 Thank you very much. You know, I would
17 like to say that the deer problem has went away
18 completely, but unfortunately I can't. However, it
19 have been mitigated, in my opinion, pretty much to the
20 point that we should see very little disruption or any
21 more occurrence of deer. We did install a ten foot
22 high fence, high deer fence, around the perimeter to
23 track approximately 3600 linear feet. We're going to
24 add an extension onto the home stretch to even give us
25 more barrier and protection. We have cut and reduced

1 the foliage and habitat to make it less attractive to
2 the deer. We've done as much as we can and certainly
3 have taken it very seriously. I would never have
4 imagined at the beginning of the year that one of my
5 biggest challenges and hurdles would be deer. But
6 indeed it has been and I think that we've dealt with
7 it pretty well.

8 MR. MOSCATO:

9 Thank you.

10 CHAIRMAN:

11 Annmarie?

12 MS. KAISER:

13 No.

14 MR. MCCALL:

15 Just one question, and I probably don't
16 give enough credit to the hearty people of the
17 northwest coming from Southeastern Pennsylvania, but I
18 noticed future plans do not still call for any kind of
19 garage set up on the property. I know it's probably
20 something that the people in the Northwest, I assume
21 you've determined, does not prohibit them in any way
22 shape or form from coming. I just want to know where
23 that fits into any future plans.

24 MR. FARVE:

25 I wouldn't say that we've come to any

1 definitive conclusions. In fact, talks have been
2 underway for making further improvements and
3 enhancements to the property from everything from a
4 parking garage to entertainment, convention/meeting
5 facility, hotel accommodation of the above. I kind of
6 defer to Gary and Tom to speak to it in more detail,
7 because ultimately it's their decisions. And we've
8 certainly looked at a lot of things and put a lot on
9 the table.

10 MR. CARANO:

11 We definitely, Gary Carano, excuse me,
12 sir, have had many discussions. Our last Board
13 meeting is in Erie and definitely the garage
14 possibility is on the table. We come from the same
15 kind of climates in the wintertime and realize that
16 experience isn't optimum. So, we are definitely
17 thinking of that as one of our possibilities in the
18 future.

19 MR. MCCALL:

20 Thank you.

21 CHAIRMAN:

22 Dick.

23 MR. JEWELL:

24 I have a question related both to Mr.
25 Reeg and Mr. Favre with contributions. To Mr. Reeg,

1 is the --- do you have a budget number that you set
2 each year for contributions? And then to Mr. Favre,
3 how do you triage the needs and requests that come in,
4 and the allocation of that money, as I assume it's
5 budgeted?

6 MR. REEG:

7 For your initial question, there is not
8 a corporate budget number set for contributions. We
9 leave that to the property levels and encourage each
10 of them to be actively involved in their communities,
11 both from a monetary standpoint and from just a
12 presence standpoint.

13 MR. JEWELL:

14 Thank you. Mr. Favre?

15 MR. FARVE:

16 One of the most difficult things in
17 regards to what I do is try to make decisions on how
18 to allocate money. It's one that I prefer not to be
19 in, because how do you choose one over another. And
20 they all have really good causes and serves a good
21 purpose. But at some point, you know, you have to
22 make decisions. And we try and focus, certainly,
23 within the Erie community with an emphasis on veterans
24 and children's education as well as trying to give
25 back to the homeless and people in need in regards to

1 Food Pantry and needs in that regard.

2 Part of the reason why we work with the
3 Erie Community Foundation is when we give them the
4 moneys, they then disperse those moneys out to, you
5 know, I forget how many registered 501(c)(3)s and not
6 for profits they have. But it's a large number, it's
7 in the hundreds. And we can touch a lot more people
8 that way. And it kind of takes the burden off my
9 back, so to speak, for those moneys. And that way we
10 can touch a lot more people. So, it's not an easy way
11 to go about it no matter how you look at it, but
12 that's kind of how I approach it.

13 MR. JEWELL:

14 Thank you.

15 CHAIRMAN:

16 Any comments? Ex-Officios? Okay.
17 Enforcement Counsel, any presentation?

18 ATTORNEY MILLER:

19 We have a statement, we also have --- we
20 would like to make a motion at this time to update our
21 enforcement exhibits from the public input hearing.
22 We have four exhibits, I've provided them to the Board
23 and I've marked them as OEC Exhibits 4A, 5A, 6A and
24 7A. Exhibit 4A is a letter form Liquor Control
25 Enforcement stating that there hasn't been any

1 violation since the October 2014 public input hearing.

2 (OEC Exhibit 4A marked for
3 identification.)

4 ATTORNEY MILLER:

5 Exhibit 5A is Consent Agreements that
6 have been entered into and approved by the Board since
7 that time. And there's only been one of those.

8 (OEC Exhibit 5A marked for
9 identification.)

10 ATTORNEY MILLER:

11 Exhibit 6A is three compliance
12 conference memos.

13 (OEC Exhibit 6A marked for
14 identification.)

15 ATTORNEY MILLER:

16 And Exhibit 7A is 15 warning letters.

17 And we would make a motion to admit them into the
18 record. And we'd also ask that Exhibits 6A and 7A be
19 made confidential.

20 (OEC Exhibit 7A marked for
21 identification.)

22 CHAIRMAN:

23 Counselor, any objection?

24 ATTORNEY SCHRIER:

25 No, Mr. Chairman.

1 CHAIRMAN:

2 Okay. They will be admitted.

3 ATTORNEY MILLER:

4 Thank you. Then at this time, we don't
5 have any witnesses today or any presentation.
6 However, representatives from BIE, FIU and the Bureau
7 of Casino Compliance are here today if you have any
8 questions for us. Presque Isle Downs, Inc., its
9 affiliates and principles timely filed renewal
10 applications and the Board's Bureau of Investigations
11 and Enforcement (BIE) has completed the background
12 investigation.

13 Presque Isle fully cooperated with BIE
14 during the license renewal investigation, and BIE has
15 not identified any information that would preclude a
16 finding of suitability for Presque Isle Downs, Inc.,
17 its affiliates or principles. As a result, the OEC
18 recommends that Presque Isle Downs, Inc. be found
19 suitable for renewal of its Category One Slot Machine
20 License.

21 CHAIRMAN:

22 Okay. Anything further?

23 ATTORNEY SCHRIER:

24 Mr. Chairman, just a housekeeping
25 matter. I'd like to just move into evidence our

1 slides that we presented to the Board today. Thank
2 you.

3 CHAIRMAN:

4 No objection, I would assume?

5 ATTORNEY MILLER:

6 No objection.

7 CHAIRMAN:

8 It will be admitted. And with that,
9 hearing nothing else, thank all of you. A vote on
10 this matter is schedule for later today under the
11 Bureau of Licensing's section of the agenda. So,
12 thank you all, gentlemen, lady.

13 * * * * *

14 HEARING CONCLUDED

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CERTIFICATE

I hereby certify that the foregoing proceedings, hearing held before Chairman Ryan was reported by me on 9/2/15 and that I, Bernadette M. Black, read this transcript, and that I attest that this transcript is a true and accurate record of the proceeding.

Bernadette M. Black

Bernadette M. Black,

Court Reporter