

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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PUBLIC HEARING

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BEFORE: MARY DIGIACOMO COLINS, CHAIRMAN
Raymond S. Angeli, Jeffrey W. Coy, James B.
Ginty, Kenneth T. McCabe, Sanford Rivers,
and Gary A. Sojka, Members
Keith Welks, Ex-officio Designee

HEARING: Thursday, April 24, 2008
10:07 a.m.

LOCATION: North Office Building
Hearing Room 1
Harrisburg, PA

WITNESSES: Bill Doniger, Steven Price, Peter Carlino,
Bill Clifford, Tom Auriemma, Gary Luderitz,
Don Barden, Sam Marshall, Sean Harrison,
James Talerico, Cyrus Pitre

Reporter: Cynthia Piro-Simpson

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JAMES EISENHOWER, ESQUIRE
JUSTIN H. PARK, ESQUIRE
Schnader, Harrison, Segal & Lewis, LLP
1600 Market Street
Suite 3600
Philadelphia, PA 19103-7286

ROBERT P. KRAUSS, ESQUIRE
Ballard Spahr
51st Floor
1735 Market Street
Philadelphia, PA 19103-7599

BARBARA A. KAYE, ESQUIRE
Honigman, Miller, Schwartz & Cohn, LLP
2290 First National Building
660 Woodward Avenue
Detroit, MI 48226-3506

BARRY CREANY,
Deputy Enforcement Counsel

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CHAIRMAN COLINS:

Good morning, everyone. I'm Mary Colins, Chairman of the Pennsylvania Gaming Control Board. To begin with, could everyone turn off their cell phones and their Blackberries, et cetera, if you would?

And there are two matters that we're going to hear today, open the record too for hearings, before we begin the public meeting. First is Penn National Gaming, Inc., their acquisition by Fortress Investment Group, LLC and Centerbridge Partners, and that matter then will be followed by a hearing on PITG's petition for approval of modifications to their facility.

So if all of those in the Penn National matter would come forward, please. And ---.

ATTORNEY KRASS:

May we spread across?

CHAIRMAN COLINS:

You may, as long as you leave some room for some Gaming Board people. What do we need? We just need ---. I think you can spread across there. Before you all get too comfortable, I'm going to ask those of you who Counsel wishes to testify to rise and

1 be sworn, if you would. The court reporter will
2 administer the oath. She's to your left.

3 -----

4 WITNESSES SWORN EN MASSE

5 -----

6 CHAIRMAN COLINS:

7 All right. Good morning, everyone. Mr.
8 Krass, would you like to begin?

9 ATTORNEY KRAUSS:

10 Good morning, Chairman Colins,
11 Commissioners. Thank you very much for allowing us to
12 be here today. I'm Bob Krauss from Ballard Spahr.
13 And I have the pleasure of representing Fortress and
14 Centerbridge in their application to purchase the
15 stock of Penn National Gaming, Inc. and to become the
16 owners of Penn National Gaming, Inc.

17 It's really a pleasure because Penn
18 National, of course, is the home team. Others have
19 come before you, but Penn National is the only
20 national gaming organization that's headquartered in
21 Pennsylvania. So I can --- have been assured by the
22 groom from New York that they will be gentle with the
23 bride. The bride will be wearing bright white. And
24 we expect to have a transaction that will be
25 beneficial not only to the shareholders of Penn

1 National but also to all of the constituencies that
2 were served by the passage of Act 71.

3 First, let me introduce Bill Doniger.
4 Bill, can you raise your hand, please? He is with
5 Fortress. Next to him to his right is Steve Price
6 from Centerbridge. Peter Carlino, I believe you all
7 know, he's the Chairman of Penn National Gaming. Bill
8 Clifford, Bill, is the CFO of Penn National Gaming and
9 will be able to answer any questions you have. Tom
10 Auriemma is the Chief Compliance Officer for Penn
11 National Gaming and Gary Luderitz, as you know, is the
12 general manager of Hollywood Casino at Penn National
13 Race Course.

14 With that said, Bill, would you please
15 start the proceedings by commenting? We have
16 distributed to each of you a booklet. We're not going
17 to use a PowerPoint because we really want to do this
18 informally. But the booklet that we distributed will
19 have the information that is being --- to which
20 testimony is being given today. At the end of the
21 hearing, I will move to introduce with your permission
22 the material that is before you as well as a
23 memorandum that I have prepared concerning the
24 transfer fee. Thank you. Bill?

25 MR. DONIGER:

1 Fortress Investment Group is an
2 alternative asset manager based in New York City. We
3 have approximately 800 employees. We were founded in
4 May of 1998, and we currently manage a little over \$33
5 billion in capital in really two businesses. About
6 half of the capital is a hedge fund business, and the
7 other half of our capital is in the private equity
8 business where we invest in companies primarily in
9 North America and Western Europe. Our investment
10 philosophy is to invest in companies that are what we
11 call asset based so owned, stable, cash flowing
12 investments, and importantly that they are run by what
13 we believe to be the best in class management teams.

14 The Penn transaction is our first
15 investment in the gaming space, but is one that is
16 otherwise a hundred percent consistent with our
17 philosophy. And we are extremely excited to have the
18 opportunity to invest with Peter and senior
19 management, who we, you know, view as partners, and
20 their approach to us has been to treat us like
21 partners.

22 But to be clear, we operate out of New
23 York. We are not operators. We're investors and
24 cheerleaders for the most part. And from our
25 prospective, nothing will change from an operational

1 basis. We made the investment because of the quality
2 of the management team and their vision. And it
3 happens to be consistent with our philosophy. So you
4 know, we appreciate the opportunity to be here today,
5 and obviously I'm happy to answer any questions you
6 may have.

7 ATTORNEY KRAUSS:

8 Thank you, Bill. Steve, would you talk a
9 little bit about Centerbridge?

10 MR. PRICE:

11 Sure. Thanks, Bob. Thank you for having
12 us here today. Steven Price, I'm a senior managing
13 director at Centerbridge Partners. We started the
14 firm a little over two years ago in 2006. We are an
15 investment firm like Fortress. We have 5 billion ---
16 a little over \$5 billion under management. We invest,
17 as Bill said, like Fortress does in management teams.
18 We've made a number of investments across industries.

19 This is our first investment in the
20 gaming space, but we look for stable businesses with
21 great management teams who have good vision to grow
22 the business. And we, at Centerbridge, do what we can
23 to try to help strategically think through issues, but
24 really day to day, and for the most part the
25 management teams that we back run the businesses.

1 The limited partners in our funds that we
2 manage are university endowments, state and corporate
3 pension funds, family offices. A number of those are
4 actually in Pennsylvania. And our firm has broad
5 experience, largely in the United States and Europe.
6 And we have about 50 people at our firm. And again,
7 like Bill, I'd be happy to answer any questions.

8 ATTORNEY KRAUSS:

9 Thank you, Steve. Gary Luderitz is with
10 us, the general manager of Hollywood Casino, the
11 spectacular Hollywood Casino at Penn National Race
12 Course. So, Gary, would you like to bring the Board
13 up to date on activities at the new casino.

14 MR. LUDERITZ:

15 Yes, thank you. Just a couple of things.
16 As the Board knows, we opened on Tuesday, February
17 12th to the public. And even as Kevin Hayes and I and
18 several others were cutting the ribbon, the fire alarm
19 was going off and asking all of our new guests to exit
20 the building immediately. But after we got past that
21 fun, we went on to do \$9.7 million in slot revenue in
22 the month of February with a win per unit per day of
23 \$268.

24 March --- oh, by the way, our first
25 weekend we did just over \$2 million in slot revenue.

1 And I should say that we also opened --- reopened our
2 live racing product on Thursday, February 14th after
3 being shut down for several months and not being
4 available to the public for some two years. So we are
5 very proud to reinstate live racing to the public on
6 that day.

7 In March, we went on to do \$16.2 million
8 in slot revenues at a win of \$259 in win per unit per
9 day. And our continued strong patronage overall has
10 allowed us to build a nice database, and we hope to
11 begin some direct mail marketing campaigns with that
12 database as we have now collected some tens of
13 thousands of names in our first couple of months.

14 During February and March, we also were
15 generating from very significant purse money for horse
16 racing to the tune of some \$2.8 million incremental.
17 And I think the fact that we built an integrated
18 racing and gaming facility, you can see the
19 interaction daily between our facilities that
20 accommodate both, and so we're very proud of that.

21 Based on early results, we do have a
22 petition into the Board to add another 295 games, and
23 that I believe is being heard in the first meeting in
24 May.

25 Just a couple remarks on diversity and

1 our efforts in employment. We spent a great deal of
2 time over the last two years recruiting in Harrisburg,
3 Lebanon, York and surrounding communities. We've met
4 with a lot of minority organizations, partnered with
5 organizations like CEEED, which is the Center for
6 Economic, Entrepreneurial and Employment Development,
7 the African-American Chamber and a number of other
8 organizations such as CareerLink at both Lebanon,
9 Harrisburg. We're very proud of the fact that we
10 think we created results that reflect the community.
11 Our workforce reflects the community in every respect.
12 And that's at every level, from the vice president
13 level, director, manager, supervisor and right down to
14 the line level.

15 Our efforts continued as it relates to
16 purchasing and construction. Out of some \$4 million
17 in expenditures that we made in the first quarter,
18 some --- check my notes, some 12 percent of that was
19 spent on minority vendors. As it relates to
20 construction, at the end of the fourth quarter of '07,
21 out of some \$209 million in awarded construction and
22 supplier contracts, \$107 million went to Pennsylvania
23 based contractors and suppliers, and some \$18.8
24 million or about nine percent went to minority
25 contractors and suppliers.

1 And just one other note that we are proud
2 of since we've opened, and including the test night
3 that we had for charity, Hollywood has donated
4 approximately \$159,000 to local and regional
5 organizations that have been in need. So our
6 beginning results. Thank you.

7 ATTORNEY KRAUSS:

8 Thank you very much, Gary. Peter, Bill,
9 would you be kind enough to kind of share the vision
10 of post-closing with what changes, if any, are going
11 to be made and what the plans are for being able to
12 support the growth activities in Pennsylvania of Penn
13 National?

14 MR. CARLINO:

15 Thank you, Bob. Chairman Colins and
16 members of the Board, I am pleased to be here, though,
17 talking about this sale to Fortress and Centerbridge.
18 I think many of you know that I have been either
19 President or Chairman of Penn National since 1972, so
20 this is a long time passion and business of mine.

21 So the decision to do what we felt was
22 best for shareholders and to partner with Fortress and
23 Centerbridge was one not taken lightly. And
24 obviously, I believe we've made the right choice with
25 some very, very strong people who represent some of

1 the most important funds in the --- in the world and
2 certainly in the United States. As I think Bill will
3 describe in more detail, and I think Steve indicated,
4 it's --- it is universities and state pension funds
5 and kind of a who's who of investors in America. And
6 they will be our partners.

7 It's clear to me that these folks do not
8 operate businesses. That's not what they do. They're
9 looking to us to continue to do what we have done so
10 well over these many years. I think I understand
11 their philosophy. They're not making this investment
12 for amusement. They're making it for return to their
13 investors, and they look to us to do that. And we
14 expect that we will partner with them along the way,
15 and that's sort of the relationship that I expect.

16 I think you need to know that I'm going
17 nowhere. I've signed a five-year contract from the
18 date closing begins to carry on. I am investing
19 significant amounts of money in the new venture, so I
20 intend to have money committed to this as well. And
21 obviously, I'm making the case that as far as
22 Pennsylvania should be concerned, and as I think as a
23 Pennsylvania based company, we feel it's business as
24 usual. The only difference is we have a very, very,
25 very strong financial partner who can help us as we

1 continue to expand throughout the United States. And
2 we are, by the way, the largest regional operator in
3 the United States. And abroad, we have significant
4 efforts now underway to build a platform around the
5 world.

6 So the message is we're going nowhere.
7 Our headquarters will remain as it is here in
8 Pennsylvania, and we're looking forward to this
9 association with these two companies. Thank you.
10 Bill, do you have any ---? Thought he was going to
11 get off Scott free. Well, it looks like he may for
12 the moment. Bob?

13 ATTORNEY KRAUSS:

14 Bill and Peter, if we get table games in
15 Pennsylvania, will you support them or how will you
16 approach that? What'd you tell me this morning?

17 MR. CARLINO:

18 I'm going to get them this afternoon.
19 Look, it's no mystery, and it's been pretty public, I
20 think, with the newspapers. We're in the gaming
21 business. That's what we do. And like any business,
22 our goal is to provide what customers want. And I
23 won't belabor that point, but obviously a very, very
24 significant number of people say where's the rest. So
25 in due time and with a great deal of patience, perhaps

1 if this experiment, if you will, in gaming here in
2 Pennsylvania is as successful as the legislature and
3 the governor anticipated, and it will be, and it will
4 exceed all the original expectations, I would hope and
5 expect that some day we'll see table games. And we
6 would certainly support that.

7 ATTORNEY KRAUSS:

8 And how long do you think it will take to
9 ramp up to as many as 5,000 machines and to add the
10 other amenities that were in our application to begin
11 with?

12 MR. CARLINO:

13 In fairness, that's an unknown question.
14 Look, we're in the business of growing businesses.
15 What we have done, I think you know, at Penn National
16 is to create a master plan that looks far into the
17 future that provides expansion, building expansion for
18 another 2,000 machines above the 3,000 that we're
19 currently --- that we can currently employ, more
20 parking, future hotel and all the things that you
21 might expect to come.

22 But as we've just begun, it's been our
23 experience most closely in Charles Town, West Virginia
24 where I think you know we have one of the largest
25 facilities in the United States, now over 5,000

1 machines and going to 6,000, that it actually took
2 some time to take that spectacular facility from a \$2
3 million money losing --- a \$2 million a year loss
4 effort in West Virginia to what is now more than a
5 half a billion dollar a year business and very
6 successful and very powerful in the State of West
7 Virginia.

8 But it didn't happen overnight. It takes
9 time for customers to know who you are. And as you're
10 developing new markets that don't have active casinos
11 in town, people need to get out and understand what
12 you're about. So we expect that we will continue to
13 grow this business for quite a few years, and that
14 you'll see this steady, steady, steady growth. And as
15 soon as possible, we will --- we're committed to
16 expanding. But I mean, that's axiomatic that as a
17 business owner, we'll develop it to the absolute
18 maximum. And I'm sure Fortress and Centerbridge
19 agree.

20 ATTORNEY KRAUSS:

21 Thank you. And for the record, there are
22 2,020 machines that have been deployed at Hollywood
23 Casino now. We have an application before you for an
24 additional 295 machines, and the growth will go from
25 there to 3,000 under the law as quickly as possible,

1 as Peter has said. And then it will be up to you
2 whether it will go beyond that.

3 Let me also state for the record, Penn
4 National Gaming will remain as a public company filing
5 public reports, the Ks and Qs, and will subject to
6 Sarbanes Oxley and will have an audit committee and
7 will have all of the things. And
8 Fortress/Centerbridge have indicated that while they
9 may want to switch which company is the public
10 company, whether it's Penn National Gaming or whether
11 it's Penn National Acquisition or Penn National
12 Holdings, but they will maintain a voluntary filing
13 with the FCC so that for the foreseeable future anyway
14 all public reports will continue to be made and the
15 company will continue to be subject to the --- to the
16 compliance-type requirements of Sarbanes Oxley, audit
17 committee, compliance committee and the like. So that
18 will all go on without change.

19 MR. CARLINO:

20 Yeah. Let me add, look, you can quickly
21 guess that we'd rather be private for all the
22 competitive advantages of not having to tell your
23 competitors what you're doing. In the public world,
24 you know, now it's an acquisition, you've got to ---
25 or you sign a document. You must get it out there,

1 and everybody knows we'd really prefer not to do that.
2 But weighing that against just transparency and the
3 kind of things that this Board, and frankly others
4 would like to see, we've made a calculation that we're
5 going to remain a public reporting company.

6 ATTORNEY KRAUSS:

7 Thank you, Peter. Bill, we're in
8 troubling economic times. Would you like to talk
9 about the financing for this transaction, please?

10 MR. DONIGER:

11 Sure. And I guess I can talk about some
12 of the financing, because I think we are subject to
13 certain confidentiality provisions. And we have very
14 attractive financing, so we want to make sure that we
15 do everything we can to preserve our ability to obtain
16 the financing that is, you know, contractually
17 available to us. We are expecting to close the
18 transaction with a commitment of \$7.1 billion. \$5.1
19 billion of that will be senior bank debt and \$2
20 billion of that, in effect, is subordinating, kind of
21 high yield debt.

22 We will have a revolver that will be
23 unfunded of approximately \$400 million at closing
24 giving us ample equity. And we are in the process of
25 trying to get all the relevant documents put in place.

1 We have kind of initial drafts that we filed with a
2 number of states. I'm not exactly sure who got what,
3 but there's the framework of the documentation. And
4 you know, we are working expeditiously with the banks
5 to try to get all of the --- that put in place before
6 June 15th. And I feel, you know, very confident that
7 we will get to where we need to be and want to be.

8 ATTORNEY KRAUSS:

9 And can you discuss for us what your
10 plans are for taking money out of the Penn National
11 operation --- the Pennsylvania Penn National operation
12 up to the mothership?

13 MR. DONIGER:

14 Our business plan is to grow the company.
15 There's a number of initiatives that, you know, Peter
16 and the team are working on in other states. And
17 between the retained earnings and this revolver which
18 we put in place for incremental cash flow, incremental
19 equity, we intend to use that to grow the company as
20 opposed to, you know, dividends out to ourselves.

21 ATTORNEY KRAUSS:

22 There will be no percentage management
23 fee or anything like that that will go up?

24 MR. DONIGER:

25 We, at Fortress, have never charged fees

1 to any company in, you know, the history of our
2 existence. We basically --- we hope to add value and
3 we hope to get that return in the form of being a
4 shareholder. So we don't charge fees to any portfolio
5 company.

6 ATTORNEY KRAUSS:

7 Okay. Thank you very much. Tom, could
8 you join us now? Tom Auriemma is responsible for
9 having these wonderful meetings in 14 different
10 jurisdictions. So Tom can bring you up to speed.

11 MR. AURIEMMA:

12 Thank you, Madam Chair, members of the
13 Board. Upon the signing of the agreement on June
14 15th, 2007, I along with representatives of Fortress
15 and Centerbridge and their National Regulatory
16 Counsel, Frank Schrek, from the State of Nevada began
17 road shows throughout the United States and Canada to
18 explain the transaction to various regulatory bodies.

19 Penn National, of course, owns 19 and
20 operates 19 different gaming facilities in 15
21 different jurisdictions from full scale casino hotels
22 to riverboats to slot facilities to thoroughbred
23 harness racetracks as well as a greyhound track in
24 Florida. So we went over the course of a number of
25 months to those jurisdictions to explain the

1 transaction. We came to Pennsylvania here about
2 September or October and explained it to your staff at
3 that point in time. Additionally, we continued
4 through the late fall and all of those regulatory road
5 shows were completed in January.

6 At the same time, of course, various
7 investigations were ongoing by the different
8 jurisdictions into the transaction, into the
9 backgrounds of the individuals from Fortress and
10 Centerbridge. And I'm pleased to report that we have
11 a significant number of jurisdictions that have
12 approved the transaction and the Fortress/Centerbridge
13 individuals at this point in time. They are the Ohio
14 Racing Commission, the New Jersey Racing Commission,
15 the Pennsylvania State Horse Racing Commission subject
16 to your approval, of course, the New Mexico Gaming
17 Control Board, the New Mexico Racing Commission, the
18 Mississippi Gaming Commission.

19 Additionally, we've done public
20 presentations like today before the Illinois Gaming
21 Board and the Iowa Racing and Gaming Commission. At
22 this point in time, we are scheduled throughout the
23 rest of May and into early June with various
24 regulatory bodies, and I'm fairly confident that we
25 will have all of our necessary regulatory approvals by

1 early June or certainly by June 15th.

2 Once June 15th comes, of course, there is
3 a ticking fee that does apply. The agreement calls
4 for this transaction to be closed within a one year
5 period of time by June 15th, 2008. If it goes beyond
6 that, the transaction certainly can be closed beyond
7 that time. But there is a ticking fee that is a
8 mathematical calculation that Bill Doniger is more of
9 an expert than I am at explaining. But what it does
10 is it essentially ups the costs to Fortress and
11 Centerbridge and increases the shareholder price.

12 That's essentially where we are at this
13 point in time. And of course, we would ask for your
14 consideration to give approval to this transaction as
15 well.

16 ATTORNEY KRAUSS:

17 Thank you, Tom. And one of the things
18 that we've found as we've gone around the country,
19 everyone is interested in how Pennsylvania feels about
20 this transaction, and that is why we have requested as
21 the earliest possible consideration of the transaction
22 and appreciate your hearing us today to move in that
23 direction.

24 Before I go into a very short
25 presentation on the --- some comments on the transfer

1 fee, I think there's a story. Of course, we always
2 thank your staff because they do such a professional
3 job and a thorough job in what they've done. This was
4 a very, very difficult situation for them because
5 we've got people who are literally all over the world
6 who had to be investigated, and your staff did a
7 marvelous job in doing that.

8 I want to share with you one thing.
9 There was a question in Japan in Nomura Securities,
10 one of the largest investment institutions in the
11 world, was extorted, for want of a better word, as
12 many Japanese companies were at the time by members of
13 Japanese crime families that either they would have to
14 pay them some money or they would come to their annual
15 meetings and they would embarrass them personally.
16 And you know, in Japan embarrassment is a very large
17 issue. And so there were questions as to what that
18 was all about.

19 Well, Nomura sent Shabata San, one of
20 their managing directors, who's also on Fortress'
21 Board to appear before your staff. Your staff was
22 very --- very good with dealing with Shabata San so to
23 make him feel like he wasn't being interrogated, like
24 he was a criminal or anything like that. And I
25 thought it was very interesting. I was present at the

1 interview. And at the end of the interview, Shabata
2 San not only thanked Michael Rosenberry for his ---
3 the way he conducted himself, but he thanked the staff
4 of the Pennsylvania Gaming Control Board actually for
5 doing what they were doing, because they were ensuring
6 the safety and the integrity of the industry in which
7 the company that he sits on their board was going to
8 invest in. So I think that story is very important
9 for you to know about because what we put out to the
10 rest of the world is certainly very important.

11 At your meeting on December 3rd,
12 Pricewaterhouse Coopers presented to you the criteria
13 that should be considered under Section 1328 in --- of
14 our law in determining what the fee should be on a
15 transfer. As you know, Commissioner Coy, I was active
16 in that whole activity. And it started off with a
17 transfer approval and then it started off with a
18 transfer fee and then there was ---.

19 COMMISSIONER COY:

20 I remember you mentioned very high
21 figures. That's all I remember.

22 ATTORNEY KRAUSS:

23 Thank you very much, Commissioner. And
24 we went back and forth and back and forth and back and
25 forth. And while some of the fees were determined to

1 be fixed in stone, so to speak, the transfer fee was
2 left to you to determine what would be appropriate
3 under the circumstances. Pricewaterhouse Coopers ---
4 and I've given you a memorandum, by the way, that sets
5 this out in a little bit more detail that I'll enter
6 into the record when we're finished.

7 On December 18th, your staff recognized
8 that the long-term benefit to the gaming industry and
9 the ability to have more money to plow back into the
10 industry was more important than a one-time shot, and
11 therefore, they recommended a \$2.5 million fee as the
12 transfer fee. And you adopted that as the transfer
13 fee in the Harrah's situation unless special
14 circumstances exist. And I'd like to spend just a few
15 minutes in describing what we think are the special
16 circumstances in this case for the --- that the
17 transfer fee should be reduced in this situation.

18 Perhaps the most important thing to
19 consider is what happened at the very beginning of
20 licensure. Licenses were granted at the end of
21 December 2006. Each of the licensees --- Category 1
22 licenses intended to open either a temporary or a
23 permanent facility rather quickly. Penn National had
24 made a different decision. It was going to tear down
25 its facility and build from ground up and build it

1 right as far as they were concerned.

2 The question was when was their \$50
3 million going to be paid. Everybody else was more
4 than willing to pay it right away because they were
5 going to be in business right away. Penn National was
6 not going to be in business right away. And there was
7 some concern that your staff had that if one person
8 paid early and one person paid later --- and by the
9 way, the law provides that the fee is due at the time
10 of the issuance of the license, which didn't happen
11 for Penn National until a year later. And we could
12 have taken a technical position and said no, we
13 shouldn't pay that a year before we're going to be
14 issued a license.

15 Instead, Penn National gratuitously paid
16 the \$50 million. And if I can just give you a few
17 easy numbers. The state had the money for a year.
18 Penn National didn't make a penny on it, and the state
19 if they invested it at merely four percent has made \$2
20 million on that before Penn National made a penny.
21 And I think it is appropriate to consider that in
22 fixing this fee, because no other Category 1 licensee
23 was in that position. Harris paid their license fee
24 in January of '07, and they opened the next day. And
25 there was no difference of timing between the payment

1 of the fee and the time they started earning revenues,
2 and I think that is a circumstance that makes this
3 significantly different from the other situation that
4 you were dealing with.

5 Secondly, the legislature debated at
6 length during the process, the two years that Act 71
7 was being debated before the legislature, as to
8 whether there should not be different fees for large
9 market versus small market. And large markets
10 obviously had more opportunity. They had more
11 opportunity to make more money not only in gaming, but
12 at all the ancillary activities. And there was a lot
13 of discussion as to whether Philadelphia and
14 Pittsburgh would be charged one kind of fees and
15 others including Penn National in Harrisburg would be
16 charged other fees. And the decision was made at that
17 time, a political decision, that we weren't going to
18 get into favoring one or disfavoring another, and
19 therefore, all fees would be the same. However, that
20 certainly is something that you should take into
21 account.

22 And Harrah's, which was charged a \$2.5
23 million fee is in, of course, a \$5.5 million --- 5.5
24 million person marketplace. And Penn National is in
25 the Harrisburg area, and depending on how we want to

1 count it, it's somewhere between a half a million and
2 900,000 people that are in its marketplace. And
3 that's a significant difference that I think is worthy
4 of consideration by you.

5 Lastly, in the Harrah's situation, where
6 you thought \$2.5 million was fair, Harrah's has had
7 and will continue to have a benefit, because only two
8 of the four projected facilities for the Philadelphia
9 marketplace are open. And therefore, they've had a
10 windfall that Penn National has not had and will not
11 have because there never was any expectation that
12 there would be several facilities in or around the
13 middle of the state. So I think for all of these
14 reasons, and the last one was where I started this
15 morning, Penn National has been in Pennsylvania for 30
16 years. They've been creating jobs for Pennsylvania
17 residents. They've been paying taxes and wage taxes
18 and the ancillary taxes that all of their vendors pay
19 for 30 years, and nobody else is in that position.

20 And I think all of those things are
21 appropriate for you to take into consideration as you
22 make your deliberation on setting the transfer fee for
23 this, and we would certainly be more than happy to
24 provide to your staff any additional information you
25 might think might be relevant.

1 CHAIRMAN COLINS:

2 Just a quick question for you.

3 ATTORNEY KRAUSS:

4 Yes.

5 CHAIRMAN COLINS:

6 Would you agree that our decision was
7 that \$2.5 million is the transfer fee unless
8 circumstances should dictate that we move from that?

9 ATTORNEY KRAUSS:

10 That was your finding on December 18th.
11 Yes, Chairman.

12 CHAIRMAN COLINS:

13 Thank you. Okay. Thank you.

14 ATTORNEY KRAUSS:

15 That concludes our presentation. Are
16 there questions from the Board, Madam Chairman?

17 CHAIRMAN COLINS:

18 I'd like to ask our Office of Enforcement
19 Counsel to present their --- make their presentation.
20 And if they have questions, you can question and then
21 we'll reserve our questions until you're finished.

22 ATTORNEY PITRE:

23 We only have questions, Madam Chairman.

24 CHAIRMAN COLINS:

25 Okay. Very good. Proceed.

1 ATTORNEY PITRE:

2 There's been some discussion about that
3 Mr. Carlino will remain on board and Mr. Luderitz will
4 still be the --- running the Penn National property.
5 But what will be the makeup of the board of directors
6 going forward post-acquisition?

7 MR. DONIGER:

8 The Board of directors of Penn following
9 the acquisition will be Peter Carlino, myself, Steven
10 Price, Wes Edens from Fortress and Mark Gallogly, I
11 believe, from Centerbridge. And then we will --- and
12 I was speaking with Bill Clifford. We will have
13 certain independent directors that have not yet been
14 determined for purposes of the various requirements,
15 you know, under the Securities and Exchange
16 Commission.

17 ATTORNEY PITRE:

18 Post-acquisition, how will the decision
19 making be done? Will Mr. Carlino ---?

20 MR. DONIGER:

21 Yes. He will be a Board member and will
22 have a ---.

23 MR. CARLINO:

24 Can I take a whack at that, if I might?

25 ATTORNEY PITRE:

1 Yeah. Why don't you?

2 MR. CARLINO:

3 The reality is that these folks own the
4 company, so they're going to have the majority votes.
5 I kind of like this structure. I've never said this
6 to you, but there's two from Centerbridge, two from
7 Fortress and me. I ought to be able to persuade one
8 or the other of you to --- they are the majority vote.
9 I wouldn't be cute about that at all. I'm delighted
10 to sit on that Board. I expect to have considerable
11 influence on the Board, but I expect the Board to take
12 only those positions that a Board would to support or
13 analyze major initiatives. Where the rubber meets the
14 road, of course, is the day-to-day running of the
15 business, and that wouldn't change.

16 MR. DONIGER:

17 Just a maybe final point on that. There
18 are --- a lot of public companies have independent
19 directors whose job is to look out for the interest of
20 the shareholders. We happen to be the shareholders,
21 and we obviously want to do what's right for the
22 company, the employees and ourselves as shareholders.
23 And so --- you know, but we --- we own lots of
24 companies, sit on lots of boards, and we'd expect,
25 again, eventually at some point to be a full public

1 company again. And they're going to keep all the
2 processes and disciplines in place that go with, you
3 know, what Penn and other public companies do now.

4 MR. CARLINO:

5 Bill, can I just maybe get you to add one
6 thing? I talked about it, but you could maybe fill in
7 a little more color. You have people that you
8 represent, and those, of course, are the very
9 significant investors. You're putting personal money
10 as partners --- you and your partners into this
11 investment, but then you represent a very large group
12 of people to whom you're responsible.

13 MR. DONIGER:

14 Yeah, we are fiduciaries for lots of, as
15 Peter said, state pension fund endowments including,
16 you know, Pezer (phonetic) actually is a large
17 investor in Fortress and has been for a long time.
18 And we take that obligation, you know, as --- I mean,
19 it's what we do. And every day we come to work trying
20 to do the right thing for our investors, and we have a
21 very good, you know, alignment of interests in trying
22 to, you know, not only make, you know, profits for
23 investors, but, you know, there's other
24 constituencies, employees, the states in which we do
25 business, lots of different counterparties. You know,

1 we have a record since 1998 that we're very proud of
2 in fulfilling all of those obligations.

3 ATTORNEY PITRE:

4 Is this a long-term investment? Do you
5 view this as a long-term investment? Is there a life
6 on the funds?

7 MR. DONIGER:

8 The funds that we'll invest are ten-year
9 funds in the very beginning. I think that if you
10 asked any private equity investor are you long-term
11 investors, they give you the stock answer, yes. I
12 will tell you the process of getting licensed in 15
13 states was something that is, you know, onerous. It's
14 appropriate, but it was something that we were warned
15 that it was going to be a process that was going to be
16 pretty invasive and thorough. And before making this
17 investment, we thought long and hard about our
18 willingness to, you know, engage in that process, and
19 we wouldn't have done that if we --- if this was for a
20 short-term, you know, investment. It's just --- it
21 was too much work. You know, it's pretty much what
22 we've done for the last year of our lives. And the
23 only way, you know, from our own interest to do that
24 is if we were committed in this company for a long
25 time.

1 ATTORNEY PITRE:

2 You mentioned that you expect the company
3 to be a full public company again in the future. Do
4 you have any time frame that you're looking at? Will
5 that depend upon ---?

6 MR. DONIGER:

7 No, we have no time frame, but it is
8 logical that as the company grows --- it's a great
9 business, and you know, that eventually will be
10 something we will consider. But there is no specific
11 time frame.

12 ATTORNEY PITRE:

13 My understanding, I want you guys to
14 correct me if I'm wrong, that a goal of approximately
15 \$1.3 billion was being raised through Fortress/Pennco
16 Investment Funds Equity; ---

17 MR. DONIGER:

18 Uh-huh (yes).

19 ATTORNEY PITRE:

20 --- is that correct? How much money do
21 you currently have committed to that fund?

22 MR. DONIGER:

23 We are still in the process and have not
24 asked for commitment. So as of right now, it is zero,
25 but that process is ongoing. And over the next, you

1 know, three or four weeks that will --- that process
2 will come to a conclusion.

3 ATTORNEY PITRE:

4 What are the primary sources of those
5 co-investors that you're seeking over the --- that
6 you're seeking this money from over the next three or
7 four weeks?

8 MR. DONIGER:

9 It's a combination of co-investment
10 funds, so people who --- you know, look to co-invest
11 in other peoples' transactions and actually other
12 Fortress funds as well.

13 ATTORNEY PITRE:

14 Do you have a plan B in case you don't
15 meet this \$1.3 billion goal?

16 MR. DONIGER:

17 We've fully committed Fortress as the
18 capital to close this transaction.

19 ATTORNEY PITRE:

20 All right. I expect you'll keep us
21 abreast with regard to the ---.

22 MR. DONIGER:

23 Absolutely.

24 ATTORNEY PITRE:

25 Okay. I have no further questions.

1 CHAIRMAN COLINS:

2 All right. Let me ask the Board members
3 if there are any questions. I'll start with
4 Commissioner Ginty.

5 COMMISSIONER GINTY:

6 Thank you, Madam Chairman. Mr. Price,
7 Mr. Doniger, thank you for joining us today. I hope
8 your road show is coming to an end. I did a few of
9 them in my day, so ---. I also want to thank you for
10 the confidence that you're showing in one of
11 Pennsylvania's best performing companies as well as
12 our new gaming industry.

13 I have two questions. One is --- and I
14 forget the term, but the prospectus that you used with
15 your limited --- when you approach potential limited
16 partners, there's a term for that that I just am
17 missing. Have you shared that with the staff?

18 MR. DONIGER:

19 I am not sure, but I think we'd be happy
20 to. So I would have to check.

21 COMMISSIONER GINTY:

22 The second question, and I don't want to
23 get into confidential information. Are the respective
24 shares --- respective investment of your entities
25 confidential information? In other words, what

1 Fortress is investing into the deal?

2 MR. DONIGER:

3 I'm sorry. Can you clarify the question?

4 COMMISSIONER GINTY:

5 The respective investments that Fortress
6 and Centerbridge are making into that deal, is that
7 confidential?

8 MR. DONIGER:

9 No, no, no. We are approximately 78
10 percent; is that right? And Centerbridge is 22
11 percent of the total investment.

12 COMMISSIONER GINTY:

13 Is the absolute number confidential?

14 MR. DONIGER:

15 Oh, what we personally?

16 COMMISSIONER GINTY:

17 No, no, no, no, no. What --- in
18 addition, you gave me a percentage ---.

19 MR. DONIGER:

20 Oh, the amount of equity. Sorry. The
21 commitment is \$2.7 --- I think \$2.7 billion is the
22 total equity commitment. They split 78, 22 percent
23 respectively.

24 COMMISSIONER GINTY:

25 Well, I'm showing in material I have that

1 Fortress is committing roughly \$2.3 million --- or
2 billion. Look at page 20, Bill.

3 MR. DONIGER:

4 Yeah. \$2.7 is the total commitment, I
5 thought, is rough equity, and roughly 2.1 and 600 is,
6 I think, the --- is the pretty close ---.

7 COMMISSIONER GINTY:

8 Breakdown?

9 MR. DONIGER:

10 Yes.

11 COMMISSIONER GINTY:

12 And that gives you your respective
13 percentages?

14 MR. DONIGER:

15 Correct. Sorry. I'm a little slow.

16 COMMISSIONER GINTY:

17 Well, I'm sorry I didn't explain it very
18 well. Thank you. That's all the questions I have.

19 CHAIRMAN COLINS:

20 Commissioner Sojka?

21 COMMISSIONER SOJKA:

22 Yes. Just a brief question for
23 Centerbridge. I believe I understand the arrangement
24 that's being presented here today, but you mentioned
25 also association with university endowments, which

1 would have to be a very different kind of
2 relationship. Is that a --- you manage resources for
3 endowments?

4 MR. PRICE:

5 For non-profits like the Museum of Modern
6 Art, the Museum of Natural History, for universities,
7 you know, Bryn-Mawr, the Milton Hershey School as well
8 as states like Pezers and ---.

9 COMMISSIONER SOJKA:

10 They essentially hire your group as a
11 manager essentially for some of their funds?

12 MR. PRICE:

13 Correct. Correct.

14 COMMISSIONER SOJKA:

15 Okay. So a different relationship than
16 what we're talking about here. Thank you.

17 CHAIRMAN COLINS:

18 Anything further, Commissioner? Okay.
19 Commissioner Rivers?

20 COMMISSIONER RIVERS:

21 No questions.

22 CHAIRMAN COLINS:

23 All right. Thank you. Commissioner
24 Angeli?

25 COMMISSIONER ANGELI:

1 Just one question. I notice on page 20
2 where it says Deutsche Bank and Wachovia are debt
3 providers, I'm not really sure of the details of
4 Wachovia's recent concerns. But is that a concern at
5 all about the debt financing from Wachovia?

6 MR. DONINGER:

7 No, they --- I mean, they are a large,
8 you know, well capitalized financial institution. So
9 their ability to fund this transaction is not a
10 concern of ours whatsoever.

11 COMMISSIONER ANGELI:

12 Thank you. I have no further questions.

13 CHAIRMAN COLINS:

14 Commissioner Coy?

15 COMMISSIONER COY:

16 Just a real quick one because by your own
17 admission, you've never done any investments in a
18 gaming concern before. So when you were looking for
19 this transaction, were you looking for a successful
20 company that happened to be in gaming, or were you
21 looking for a successful --- or a gaming company that
22 happened to be successful?

23 MR. DONIGER:

24 Our business is to invest in companies
25 that --- again, we have a philosophical approach. For

1 the most part, when we invest in companies, we've
2 never invested in a particular sector. So we look for
3 investments that have characteristics that are
4 consistent with our approach, asset based so there's a
5 real stability, a level ---. The cash flows are
6 reasonably predictable that have some organic growth,
7 but also that operate inside of sectors where there's
8 lots of opportunity to grow the business, expanding.
9 And I would say the --- you know, the gaming business
10 is something that, you know, again, is very consistent
11 with that approach. To have, you know, 19 assets, and
12 again a very stable steady cash flow. But the idea
13 that gaming is going to expand as we see here in
14 Pennsylvania, something that we feel very, very
15 strongly about.

16 And so given that, we've always had an
17 interest. But again, the idea that you just invest in
18 a gaming company is not, you know, so straightforward
19 because you have to be willing to engage in a
20 licensing process that's pretty thorough. So for us,
21 it was a function of we're interested in the space,
22 but it had to be the perfect company for us to really
23 kind of make that kind of commitment. And you know,
24 one thing lead to another and we're sitting at this
25 table, and we're very enthused about it.

1 COMMISSIONER COY:

2 So the answer to the question is it's a
3 little bit of both?

4 MR. DONIGER:

5 Yeah.

6 COMMISSIONER COY:

7 And one other question. You said that
8 you've been in this process vetted by what, 17
9 different jurisdictions?

10 MR. AURIEMMA:

11 It's actually 15 different jurisdictions.

12 COMMISSIONER COY:

13 And I guess I'd be curious to know from
14 your point of view, or whoever wants to take a crack
15 at it, how did the vetting or the investigation from
16 your prospective in Pennsylvania compare to the other
17 jurisdictions?

18 MR. AURIEMMA:

19 It's clearly the best and easiest. No
20 problems whatsoever.

21 MR. DONIGER:

22 Easiest was not the right answer.

23 MR. AURIEMMA:

24 From my prospective, of course, is
25 different jurisdictions do different levels of

1 investigations. The investigation here in
2 Pennsylvania was very thorough. As, you know, many of
3 you know I was a former regulator in New Jersey.
4 Clearly, your investigation here was comparable if not
5 exceeded what New Jersey would have done. I find it
6 to be very thorough, comprehensive and reasonable
7 under the circumstances.

8 Most of the other jurisdictions also were
9 very reasonable. They asked the appropriate
10 questions, the pertinent questions, and I think ---
11 overall despite the intrusiveness of these types of
12 investigations, I think the Fortress/Centerbridge
13 individuals, went through this, I think they've
14 handled it all very well. And you know, it's very
15 daunting to basically put your life before 15
16 different regulatory jurisdictions in one year.
17 That's a pretty tough task to ask of them, but they've
18 done it very well and they've held up very well. And
19 I think most --- most jurisdictions respected the ---
20 you know, their privacy where appropriate. And I
21 think overall I think their experience has been a good
22 one.

23 ATTORNEY KRAUSS:

24 For the record, what was your last
25 position in New Jersey and for how long?

1 MR. AURIEMMA:

2 As the director of the Division of Gaming
3 Enforcement in New Jersey. I was director for five
4 years. Before that, I spent, you know, 25 years also
5 as a regulator in New Jersey.

6 COMMISSIONER COY:

7 Just one final comment, Madam Chairman,
8 as to Mr. Carlino and others. As one commissioner who
9 lives in the central part of the state and talked to
10 people about going to your facility, the comments are
11 all very, very favorable, as is mine, about the
12 facility. You can be proud of what you've done.

13 MR. CARLINO:

14 Well, thank you very, very much. I give
15 a lot of credit, by the way, to Gary Luderitz, who's
16 here, and his team, because they're the folks that
17 make it happen, so ---. And this is an ongoing
18 process. We got a few more restaurants to open and
19 it's going to be a lot of fun over the next few years.

20 And I --- just one second since you gave me an
21 opening for that. I did take very seriously the
22 notion that we are the home team and that we're right
23 here in Harrisburg, the state capitol. And we wanted
24 this to be a showcase that we, as a company, could be
25 proud of and hopefully that the state legislature will

1 be proud of as well.

2 COMMISSIONER COY:

3 Can you guess the one complaint I get?

4 MR. CARLINO:

5 Losing money?

6 COMMISSIONER COY:

7 No.

8 MR. CARLINO:

9 Tell me, please.

10 COMMISSIONER COY:

11 Too smokey.

12 MR. CARLINO:

13 Yes, yes, yes.

14 COMMISSIONER COY:

15 And I know you struggle with it, and I
16 know the industry struggles with it. But it's the
17 only really negative thing I hear.

18 MR. CARLINO:

19 We're very much aware of that. We've had
20 some problems with the pressurization in the building.
21 And that is to say, you need a positive pressure to
22 --- and it's not adequate. So you might imagine that
23 we're working with our contractors to fix that
24 problem. With ceiling heights as high as they are,
25 there's no reason that we ought to have a smoke

1 problem. So I understand it's getting better and it
2 will be right before very long. So yes, that's one of
3 many complaints we've heard, so ---.

4 COMMISSIONER COY:

5 I know I said final, but one more. And
6 that is the comment made earlier by your manager about
7 your minority recruitment and minority employment. My
8 response would be to say that it's a good start.

9 MR. CARLINO:

10 That's fair enough. It's always a start,
11 and I understand that.

12 CHAIRMAN COLINS:

13 Very good. Thank you. Commissioner
14 McCabe?

15 COMMISSIONER MCCABE:

16 I have no questions, but I did want to
17 also echo what Commissioner Coy has said. I want to
18 thank you, Peter, for the fine job you've done with
19 Penn National and with Hollywood Casino. Thank you.

20 MR. CARLINO:

21 Well, thank you very much.

22 CHAIRMAN COLINS:

23 I have a question of Mr. Price and Mr.
24 Doniger. It's a question that's going to start with a
25 bit of a preamble. But also, Mr. Doniger, did not we

1 meet at the opening of Penn National, I believe? I
2 think we met that day. I think so.

3 MR. DONIGER:

4 Yes.

5 CHAIRMAN COLINS:

6 It's good to see you again. What I
7 wanted to ask you about is your intention as potential
8 new owners of Penn National Gaming with respect to the
9 Pennsylvania facility. When we licensed Penn National
10 in --- and we saw this new facility open, one of the
11 most important elements for me was the fact that this
12 is part of a very experienced, well run gaming
13 company, the Pennsylvania facility. That's very
14 important. It's not just that it looks nice, but that
15 it's run very well by a good company. In
16 Pennsylvania, as you know, we have a tax rate, which
17 is very high. It's 55 percent. What assurances can
18 you give us if you become the owners of Penn National
19 that this Pennsylvania facility will stay with the
20 company, which started it and runs it very well rather
21 than it be a bottom line type of sacrifice because of
22 the tax rate here?

23 MR. PRICE:

24 Well, first of all, we invested in the
25 company fully knowing what the tax rate was, so it's

1 not a surprise to us and any of our plans. But you
2 know, as Bill said and what I tried to say is, that we
3 look --- we look at a lot of different industries and
4 a lot of different companies and a lot of different
5 investments. And ultimately, the differentiator is
6 the management team. And we back management teams.

7 So we --- and you know, I think your
8 staff has checked with a number of the companies that
9 we've both invested in. But it's really up to Peter
10 and the management team. We agree that it's an
11 excellent management team he's put together to come up
12 with plans as to how to grow. We try to help him
13 think strategically and give them the capital. But
14 ultimately, it's Peter and the management team's call
15 as to how and when to grow the facility. We love
16 growth. We'd love to get to 3,000 and continue along
17 the master plan as soon as the management team feels
18 like it's warranted.

19 MR. DONIGER:

20 The other point is, I mean, this is a
21 service business, and you know, you can do things ---.
22 We own lots of companies that are service business and
23 service-type businesses. And if you think you can,
24 you know, make, you know, long-term returns by cutting
25 costs and cutting corners, you lose every step of the

1 way. And so --- you know, what this --- people have
2 choices. And the way, you know, this facility is
3 going to perform the best is to make it the top choice
4 and the best choice for the customers to come to.
5 But, you know, you could ask me what specifically
6 we're going to do. We don't know, because again, we
7 are investors and we invested with them and we have
8 the utmost confidence that, you know, Gary and Peter
9 and Bill Clifford and Tim Wilmott are going to do all
10 of the right things to make this --- basically for all
11 of the relevant constituencies at this facility.

12 MR. CARLINO:

13 I'd like to stick my nose in here for
14 just a second. Obviously, I have some confidence that
15 they've got their heads in the right places or I
16 wouldn't be sitting here next to them. That's the
17 entry point.

18 Penn itself has if you were to examine it
19 the highest return on capital in the industry. We do.
20 In other words, we return more to our shareholders for
21 every dollar invested than any other company. It's a
22 measure even of my own compensation and the
23 compensation of our senior staff. So we are very,
24 very tough about how capital gets deployed. I don't
25 expect that these folks are going to be any less so.

1 Just as our managers arrive at our door with the case
2 that they want a new restaurant or they want to build
3 a new hotel tower, and they've got to tell us --- and
4 we all carefully analyze, tell us where we're going to
5 see the kind of return. I won't give you what our
6 threshold is, but tell us how we're going to those
7 numbers. They've got to make the case, and we're very
8 difficult about that.

9 So we're used to that process. And the
10 same will apply here. If we do good enough in
11 managing this facility and we can deploy capital
12 effectively, we will continue to do that forever we
13 hope.

14 By the way, that gets to the issue of
15 while we'll --- to the degree we can encourage the
16 thought of table games sometime in the future when
17 this is a much more proven concept and the public, we
18 hope, is a lot more comfortable that we can --- you
19 know, there's gaming going on here. So why not give
20 the public what it wants? Again, not an argument for
21 table games, but we hope it will be part of an
22 evolution over time so that we'll continue to deploy
23 capital so long as we can effectively do it as to just
24 when they cut us, cut operations to the bone. I don't
25 expect it anyway, that they're going to mess with the

1 day to day. That's our job, to run an efficient
2 operation. So if that helps at all.

3 CHAIRMAN COLINS:

4 Yes. Thank you. Thanks a lot. All
5 right. Are there any other questions? All right.
6 Thank you very much.

7 ATTORNEY KRAUSS:

8 Madam Chairman, before we close, just
9 technically, I'd like to move that the entire verbal
10 presentation today along with the booklets that we
11 distributed and the memorandum pertaining to the
12 transfer fee be entered into the record.

13 CHAIRMAN COLINS:

14 Very good. Any objections?

15 ATTORNEY PITRE:

16 No objection.

17 CHAIRMAN COLINS:

18 All right. They're accepted. Thank you.

19 ATTORNEY PITRE:

20 Madam Chair, I would only ask that the
21 record remain open with regard to this matter. We're
22 not ready to close it as of yet.

23 CHAIRMAN COLINS:

24 All right. We'll hold the record open
25 for a bit longer.

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ATTORNEY PITRE:

Thank you.

CHAIRMAN COLINS:

Very good. Thank you.

ATTORNEY KRAUSS:

Thank you very much, Madam Chairman.

Thank you very much.

* * * * *

HEARING CONCLUDED

* * * * *