

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: PRESQUE ISLE DOWNS, INC., ELDORADO RESORTS,  
INC., CHURCHILL DOWNS, INC., AND PID, LLC -  
JOINT PETITION FOR PRELIMINARY APPROVAL OF  
CHANGE OF CONTROL

\* \* \* \* \*

HEARING

\* \* \* \* \*

BEFORE: DAVID M. BARASCH, CHAIRMAN  
Richard G. Jewell, Obra S. Kernodle, IV,  
Sean Logan, Kathy M. Manderino,  
Merritt C. Reitzel, Dante Santoni, Jr.,  
Members  
Jorge M. Augusto, representing Russell  
Redding, Secretary, Department of  
Agriculture; Jen Langan, representing  
Joseph M. Torsella, State Treasurer; Radee  
Skipworth representing Secretary of  
Revenue, C. Dan Hassell

Reporter: Rhonda K. Thorpe

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HEARING: Wednesday, August 15, 2018

10:00 a.m.

LOCATION: Strawberry Square, 2nd Floor

Harrisburg, PA 17106

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

ALSO PRESENT:

BRADLEY K. BLACKWELL, ESQUIRE, Senior Vice President  
and General Counsel, Churchill Downs, Inc.

AUSTIN MILLER, Senior Vice President, Gaming  
Operations, Churchill Downs

CHUCK KENYON, Senior Vice President, Human Resources,  
Churchill Downs

CRAIG ROBINSON, Vice President, Casino Finance,  
Churchill Downs

KEVIN O'SULLIVAN, Vice President and General Manager,  
Presque Isle Downs & Casino

STEPHEN D. SCHRIER, ESQUIRE, Presque Isle Downs, Inc.  
and Eldorado Resorts, Inc.

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## P R O C E E D I N G S

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CHAIRMAN: Thank you. Please  
introduce yourself.

ATTORNEY HAYES: Good morning, Mr. -  
good morning, Mr. Chairman and members of the Board.  
I'm Kevin Hayes, H-A-Y-E-S, from the Law Firm Doherty  
Hayes in Scranton.

And I appear on behalf of Petitioners  
Churchill Downs, Incorporated and PID, LLC in  
connection with the Joint Petition for preliminary  
approval for the change of control of Presque Isle  
Downs.

Specifically, we are here today to  
request the Board's preliminary approval of a  
transaction whereby Churchill Downs would purchase  
from Eldorado Resorts, Inc. substantially all the  
assets of Presque Isle Downs, Inc., including Presque  
Isle Downs Casino, a Category 1 - Category 1 Slot  
Machine Facility located in Erie County.

Upon the closing of the proposed  
transaction, Churchill Downs would own and operate  
Presque Isle Downs gaming and racing operations, which  
wholly own subsidiary PID, LLC.

In furtherance of this proposed

1 transaction, PID, LLC submitted its Category 1 License  
2 application to the Gaming Control Board on or about  
3 March 28, 2018.

4                   Also on that date, Churchill Downs  
5 submitted its - its application for licensure to  
6 conduct live horse racing with parimutuel wagering  
7 with the Pennsylvania State Horse Racing Commission.

8                   During today's hearing we will provide  
9 the Board with an overview of Churchill Downs' racing  
10 online and gaming operations.

11                   I understand there's a PowerPoint  
12 which - which follows our presentation. And get that  
13 up. There it is.

14                   In - in addition we will provide the  
15 Board with an overview of Churchill Downs' finances,  
16 along with a description of the funding resources of  
17 the proposed transaction.

18                   Churchill Downs' Vice President of  
19 Human Resources will review the company's commitment  
20 to diversity, equal opportunity and business  
21 operations.

22                   And lastly, I will discuss the  
23 Petitioner's proposed change in control fee that will  
24 be imposed by this Board in connection with this  
25 proposed transaction. At this time I would like to

1 introduce the representatives from Churchill Downs who  
2 traveled here from Louisville, Kentucky and who are -  
3 who are in attendance and will be presenting during  
4 today's hearing.

5 Austin Miller, Senior Vice President  
6 for Gaming Operations. Chuck Kenyon, Senior Vice  
7 President of Human Resources. Brad Blackwell, Senior  
8 Vice President and General Counsel. Craig Robinson,  
9 Vice President for Casino Finance. And also with us  
10 today is Chad Riney, who's Churchill Downs' corporate  
11 Counsel.

12 Also in attendance at today's hearing  
13 is Kevin O'Sullivan, Vice President and General  
14 Manager of Presque Isle Downs & Casino. He's here  
15 with his Counsel, Steve Schrier, from Blank Rome,  
16 who's Counsel to both Presque Isle Downs, Inc. and  
17 Eldorado Resorts, Inc.

18 CHAIRMAN: Good morning, gentlemen.

19 ATTORNEY HAYES: We welcome any  
20 questions the Board members may have during the course  
21 of our presentation or at the conclusion of our  
22 presentation.

23 At this time I would like to introduce  
24 Brad Blackwell, who is the Senior Vice President and  
25 General Counsel of Churchill Downs, who will be

1 providing the Board with an overview of Churchill  
2 Downs' proposed acquisition of Presque Isle Downs.

3 Brad?

4 ATTORNEY BLACKWELL: Good morning, Mr.  
5 Chairman. Good morning, Commissioners. Brad  
6 Blackwell, B-L-A-C-K-W-E-L-L, Senior Vice President  
7 and General Counsel for Churchill Downs, Incorporated.

8 First of all, thanks for the  
9 opportunity to be here today. We're extremely excited  
10 about the acquisition of Presque Isle Downs, which  
11 we'll get into later in the presentation.

12 Pennsylvania's a state that we've been eyeing for  
13 years.

14 We're excited to be here and look  
15 forward to working with you going forward. So, let's  
16 skip the few slides, given the time constraints today.

17 But the transaction, as Kevin  
18 mentioned, we announced this transaction on  
19 February the 28th, 2018, earlier this year, with an  
20 agreement with Eldorado to purchase Presque Isle Downs  
21 Racetrack and Casino.

22 And at that time we had a requirement  
23 to also purchase another property that was Lady Luck  
24 Casino in Vicksburg.

25 We have since pivoted away from that,

1 due to a lengthy process with the FTC. And we  
2 replaced that requirement with the requirement to sign  
3 a definitive agreement to assume the operating  
4 agreement for Nemacolin here in Pennsylvania.

5 We completed that requirement and  
6 announced that deal on August 13th, 2018. And I'll  
7 note that that particular transaction of Nemacolin  
8 will take a separate path.

9 We'll work with the Gaming Control  
10 Board. We will follow the necessary process and file  
11 that paperwork.

12 But here today the focus is on Presque  
13 Isle Downs, which we've been working towards since  
14 February of this year.

15 On the next slide you can see a simple  
16 rendering of the ownership structure that Kevin  
17 referenced. Churchill Downs, Incorporated is a  
18 publicly-traded company, so owned 100 percent by  
19 public shareholders.

20 Underneath Churchill Downs,  
21 Incorporated is an entity HCRH, LLC, which is a  
22 holding company that we had utilized to hold our  
23 single properties. And so, under that for this  
24 particular transaction we formed a brand new entity  
25 PID, LLC. That is the proposed Category 1 Licensee

1 for this transaction.

2                   On page seven, I just have an overview  
3 of our company. We are best known for the Kentucky  
4 Derby.

5                   That's an event that we have held  
6 continuously since 1875, so our brand and operations  
7 go back to 1875, which is fairly unique in the gaming  
8 industry. The Kentucky Derby is the longest  
9 continuously held sporting event held in the United  
10 States and is also known as the greatest two minutes  
11 in sports.

12                   That's the foundation of this company.  
13 We have grown significantly since then. Now we're a  
14 publicly-traded company.

15                   We have operations nationwide in  
16 casinos, racetracks and online wagering, which we'll  
17 get to later. But I think the emphasis here is, you  
18 know, our beginnings were the Kentucky Derby.

19                   We take great pride in that event.  
20 And the characteristics of that event have carried  
21 over to our operations. And that's taking great pride  
22 in our operations, being willing to reinvest in our  
23 properties to maximize the value and also doing so  
24 responsibly, given that we are a public company for  
25 our shareholders.

1           And over the decades that we've grown  
2 our business, you know, at the very heart of that is  
3 creating extraordinary experiences for our customers  
4 whether they visit us at our brick-and-mortar  
5 facilities or online.

6           The next slide we're going to get you  
7 a large overview of our company. And so when you look  
8 at our annual reports we really break our company down  
9 to three segments.

10           There's racing, where we have  
11 ownership or an equity interest in seven racetracks.  
12 Four of those are thoroughbred racetracks. Again,  
13 highlighted by Churchill Downs Racetrack and the  
14 Kentucky Derby.

15           Our second segment is casinos, where  
16 we currently have ownership or equity interest in nine  
17 casinos and four hotels with nearly 10,000 gaming  
18 positions located in nine different states.

19           And in our last segment is our  
20 TwinSpires or online segment, where TwinSpires is the  
21 largest legal online wagering platform for horse  
22 racing in the U.S.

23           The next slide shows exactly where our  
24 operational footprint is. And these are physical  
25 operations where we own brick-and-mortar facilities.

1                   You'll see here that we're in a number  
2 of states, casinos, racetrack.

3                   And then with our online business  
4 TwinSpires, our tow company, United Tote, we actually  
5 service about 40 states, in terms of having contracts  
6 and a relationship with those states, either with  
7 racetracks or operating online wagering.

8                   Next we'll just kind of touch a little  
9 bit more in-depth on each of those segments.

10                  As I referenced, we have four  
11 thoroughbred racetracks that we own. There's of  
12 course Churchill Downs Racetrack in Louisville,  
13 Kentucky, home of the Kentucky Derby.

14                  We also own Arlington International  
15 Racecourse in Arlington Heights, Illinois, right  
16 outside of Chicago. There we have a rich history of  
17 racing as well, either by the Arlington Million, which  
18 was just ran last weekend.

19                  In Florida, we own Calder Race Course  
20 in Miami Gardens. And then down in New Orleans, we  
21 own Fair Grounds Race Course, another track with deep  
22 history that is home of the Louisiana Derby and also  
23 home of New Orleans jazz festivals since 1972.

24                  Now I'll switch over to our TwinSpires  
25 online segment. TwinSpires is one of the largest, you

1 know, legal, mobile-betting operator in the U.S. It  
2 was launched in 2007.

3                   And actually with a racing history as  
4 deep as Churchill Downs, we were kind of slow getting  
5 into that business.

6                   We didn't enter that business until  
7 2007. And, as you can see from the chart, you know,  
8 starting in 2007, starting off with about \$87 million  
9 in handle, we have grown that since then. And grown  
10 it almost each year to the point of just under \$1.3  
11 million in handle.

12                   It is the official betting partner of  
13 the Kentucky Derby, the Breeders Cup world  
14 championship and Churchill Downs Racetrack, and offers  
15 wagering, interfaces on iOS and Android apps.

16                   And something else we'll get to next  
17 is that we - Churchill Downs recently announced our  
18 planned entry into iGaming, so that's something that  
19 we have been looking at for quite a while. And as you  
20 know, there's a few states offering that, and  
21 Pennsylvania being one to join that.

22                   And so on August 10th of this year,  
23 Presque Isle Downs filed a Petition for authorization  
24 to conduct interactive gaming for peer-to-peer  
25 interactive games, which simulate slot machines and

1 table games. And so that application was filed and -  
2 and we are working with Presque Isle Downs on that  
3 endeavor and we'll likely appear in front of this  
4 control Board shortly on that Petition.

5 As I mentioned, Churchill Downs brings  
6 over a decade online wagering experience through  
7 TwinSpires. The other thing that we had recently  
8 announced was a relationship with Golden Nugget  
9 Atlantic City, where Churchill Downs will be entering  
10 the iGaming and sports wagering business and work  
11 through that process with the intent to get up and  
12 running there as soon as possible.

13 Now I'll turn it over to Austin  
14 Miller, who's our Senior Vice President of Gaming  
15 Operations to go over our casino segment and introduce  
16 you to how we plan to look at that segment.

17 MR. MILLER: My name is Austin Miller,  
18 M-I-L-L-E-R. Mr. Chairman, members of the Board, I'm  
19 delighted to be back in Pennsylvania. I say back in  
20 Pennsylvania, because my father's side of the family  
21 is - is from Pennsylvania. And as a youngster I spent  
22 an awful lot of time in York, Pennsylvania and have  
23 very fond memories of it.

24 If you look at -. At the corporate  
25 office in Louisville, Kentucky, I have the distinct

1 pleasure of working with a group of distinguished  
2 gaming professionals to guide our various properties  
3 and operations, giving advice and helping them  
4 conclude their operations.

5                   Among that group and with me today is  
6 Craig Robinson, our VP of Casino Finance. Wade West  
7 is our Senior Director of Marketing. Duncan McConnell  
8 is our Senior Director of Slot and Strategy and  
9 Performance.

10                   And then we also have Kathy Edith  
11 who's our Chief Compliance Officer, David Ziegler  
12 Senior Director of Facilities and Construction. And  
13 then Russ Stokes, Senior Director of IT. All of which  
14 have at least 20 years of experience in the business.

15                   At the properties Brad mentioned a  
16 little bit earlier -. Wholly-owned properties we  
17 operate five casinos and - and three hotels in four  
18 different states.

19                   Here you can see Calder Casino in  
20 Miami, Oxford Casino in Maine, Fair Grounds Race  
21 Course and slots and video poker operations in New  
22 Orleans, Louisiana. Harlow's Casino Resort & Spa in  
23 Greenville, Mississippi and Riverwalk Casino and Hotel  
24 in Vicksburg, Mississippi.

25                   Our equity investments in casino

1 property, we have four casinos and one hotel in four  
2 different states. Those entities are Miami Valley  
3 Gaming Racing. We're 50 percent equity partners with  
4 Delaware North. Saratoga Casino and Raceway in  
5 Saratoga, New York, 25 percent equity investment.

6 Saratoga Blackhawk in Blackhawk,  
7 Colorado, again, 25 percent equity investment in that  
8 property. And then a casino in Ocean Downs  
9 effectively a 62.5 percent equity investment there, 50  
10 percent wholly owned by Churchill Downs Racecourse.  
11 And then the remainder is by way of our 25 percent  
12 user's fee in Saratoga.

13 Now, those two - it's worth mentioning  
14 for the Saratoga properties - were currently in the  
15 midst of transitioning away from the two Saratoga  
16 properties, both Saratoga, New York and Saratoga  
17 Blackhawk, in exchange for a hundred percent ownership  
18 of Ocean Downs in Berlin, Maryland.

19 The other property I'd like to talk  
20 about for just a second is our newest facility, which  
21 had opened in early September, Derby City Gaming. And  
22 that is a historical racing facility that we will open  
23 in Louisville, Kentucky. A 85,000 square foot  
24 facility featuring 900 state-of-the-art historical  
25 racing games, two food and beverage outlets and a

1 feature bar in the center of the facility.

2                   This facility we're particularly  
3 excited about because of the ties that we are going to  
4 show to how important Churchill Downs Racetrack and  
5 the Kentucky Derby in Kentucky Hills is to the life in  
6 and around the area of Louisville.

7                   So I hope you all get a chance some  
8 day to come visit the property. We're very proud of  
9 it and can't wait to open it.

10                   Any questions?

11                   CHAIRMAN: Please proceed. We'll hold  
12 the questions.

13                   MS. MILLER: Sure. Okay.

14                   ATTORNEY HAYES: And next up an  
15 overview by Craig Robinson.

16                   Okay. I didn't realize we didn't have  
17 a seat down there. So, Craig can go ahead and proceed  
18 with the financial overview.

19                   MR. ROBINSON: Good morning. Thank  
20 you again for inviting us in. Again, Craig Robinson,  
21 Vice President of Casino Operational Finance. And I'm  
22 going to take you through three brief slides of  
23 numbers.

24                   We kept it very short and hopefully  
25 very painless. So, the first slide I have is the

1 overall Churchill Downs, Incorporated.

2                   And everything I'm going to speak to  
3 today, by the way, is from publicly-available  
4 information on our corporate website under the  
5 investor relations tab.

6                   Overall Churchill Downs has enjoyed  
7 over the last three years three percent combined - or  
8 five percent, sorry, combined average growth rate.

9                   From our revenue side on the EBITDA  
10 side, we are in the high 11 percent on a combined  
11 average growth rate. The key behind this is we  
12 particularly invested in our - in our namesake  
13 Kentucky Derby.

14                   We also continue to invest wisely in  
15 our existing gaming properties, both wholly-owned and  
16 joint ventures, and in TwinSpires and - and many other  
17 small acquisitions that hold in nicely to our existing  
18 company.

19                   As we focus on specifically the casino  
20 segment, continued success story there our combined  
21 average growth rate on the revenue side is three  
22 percent with 13 percent combined average growth rate  
23 from an EBITDA cash flow standpoint.

24                   This is, again, from very strategic  
25 investments in our existing properties and the joint

1 ventures that Austin had talked about earlier. And  
2 lastly the financial health of Churchill Downs,  
3 Incorporated is very important to everyone.

4           So, I wanted to walk you through a few  
5 key points on this. I won't cover every bullet point.  
6 But as of June 30 we had a very modest leverage of 2.3  
7 times.

8           And if you follow the gaming industry  
9 at all, that is on the typically the low side of the  
10 leverage that the larger gaming companies have.

11           Ideally, we like to keep that in the  
12 three to four times multiple, to make sure that we  
13 have the flexibility to run the company the best way  
14 possible. With a very disciplined maintenance capital  
15 spend, we challenge our properties - properties to be  
16 very pragmatic in where they invest capital, keep our  
17 properties very fresh, very appealing. And continue  
18 to drive ongoing revenue, taxable revenue.

19           And then we use our cash that we  
20 generate from operations very strategically as well  
21 for organic investments, acquisitions, dividends, debt  
22 repayment, typically in that order.

23           The balance sheet we always maintain  
24 good cash levels, to make sure that we have adequate  
25 cash for operations. We never want to constrain

1 properties with overaggressive cash management.

2                   And we're always thinking in the - in  
3 the back of our minds as we invest we want to protect  
4 the brand that is also important to us, and  
5 specifically the Kentucky Derby brand.

6                   Two last points I'll leave you with  
7 is, from an investment standpoint our dividends are  
8 in, evaluated annually. We don't have a set dividend  
9 policy. So, we have to maintain flexibility there.

10                   And then we continue to engage in open  
11 and active dialogue, specifically with our gaming  
12 regulators, to make sure we have great transparency  
13 before things happen that could impact the balance  
14 sheet both positively and negatively.

15                   With that, I will turn it over to  
16 Chuck Kenyon, our Senior Vice President of Human  
17 Resources to talk about diversity.

18                   MR. KENYON: Thank you.

19                   Good morning. My name is Chuck  
20 Kenyon, K-E-N-Y-O-N. I'm Senior Vice President of  
21 Human Resources for Churchill Downs, Incorporated.

22                   Thank you for the opportunity to be  
23 here today. Churchill Downs recognizes and  
24 appreciates that the Gaming Control Board is charged  
25 with promoting and ensuring diversity in all the

1 aspects of gaming activities.

2 Churchill Downs understands and will  
3 be required to implement a comprehensive adversity  
4 plan that compiles - complies with the regulations.

5 We have reviewed the Presque Isle  
6 Diversity Plan, which has been approved by the Gaming  
7 Control Board. And we are prepared to continue the  
8 implementation of that plan.

9 We are proud of our record of  
10 promoting diversity and equal - equal employment  
11 opportunity in our gaming operations. And I think we  
12 submitted with our application that - we submitted  
13 with our application that 54 percent of our employees  
14 were minority and upholding with wholly-owned  
15 subsidiaries of our gaming operations. And 50 percent  
16 were female.

17 MR. LOGAN: Glad to hear that, because  
18 this group you brought with you -.

19 ATTORNEY HAYES: Commissioner, if I  
20 may, our Chief Compliance Officer was scheduled to  
21 come and she's actually hosting a compliance summit.

22 We had another person, Elizabeth  
23 Wester, who's actually on our presentation list. And  
24 she had an issue last night where she was unable to  
25 travel. So, we appreciate the comment.

1                   It's certainly something that is not  
2 reflected, but just how things happened to work out.

3                   MR. MILLER: And in closing I'd just  
4 like to say that things are moving forward at Presque  
5 Isle.

6                   MR. KENYON: So getting back to the  
7 acquisition in question and what's behind that.  
8 Obviously, this Gaming Control Board is familiar with  
9 the property at Presque Isle Downs Casino.

10                   And as I was alluding to you before,  
11 you know, we've been interested in Pennsylvania for  
12 some time. It is a significant gaming jurisdiction, a  
13 large state. And it offers really the perfect  
14 opportunity for us, in terms of our experiences with  
15 gaming, racing and online wagering.

16                   And so, based on where this state is  
17 heading now, we think we're the perfect fit for those  
18 opportunities. This investment allows us to scale our  
19 gaming portfolio.

20                   We certainly continue the high low.  
21 It allows us to do so in a creative manner. And then,  
22 again, we really appreciate the opportunity to  
23 participate in some of these other upcoming  
24 opportunities.

25                   In terms of the funding and the

1 transaction, the purchase price is \$178.9 million.  
2 And we would fund that and it's all based on timing of  
3 approval, but from cash from operations.

4                   Last year we generated \$185 million of  
5 cash flow from operating activities. We also have  
6 availability under a revolving credit facility that  
7 offers us \$700 million of capacity, so - right there.

8                   Okay. And also earlier this year, we  
9 generated cash from the sale of one of our  
10 subsidiaries of table games.

11                   So, - so, in closing, you know,  
12 really, you know, the key attributes for our company  
13 - as I mentioned, we have an excellent reputation with  
14 the brand and operations that date back to 1875.  
15 We're a publicly-traded company with a successful  
16 track record, very transparent with our public  
17 filings.

18                   As we alluded to before, we have a  
19 very strong balance sheet, so no financial concerns.

20                   We're already licensed in multiple  
21 jurisdictions. Across our companies we hold 64 Gaming  
22 Licenses across 40 states and three Canadian  
23 provinces.

24                   We've got a proven experience with  
25 racing, gaming and online. Again, all the

1 opportunities that we see before us in Pennsylvania.  
2 We offer a seamless continuation of existing  
3 operations. We're keeping the exact teams operations  
4 in place. And we've done this numerous times under  
5 Austin's direction.

6           And then lastly, as I alluded to earlier,  
7 you know, we really feel like we have a great  
8 reputation. We're offering extraordinary experiences  
9 that all started with Kentucky Derby. That's a part  
10 of the culture. And when we look at identifying new  
11 opportunities, we bring that to the table.

12           And we're always looking for ways to  
13 improve. And I think that's reflected in not only the  
14 Kentucky Derby, but our other gaming properties that  
15 we purchased along the years.

16           With that, you know, we look forward  
17 to welcoming Presque Isle Downs to our team and their  
18 over 800 employees. And, again, we appreciate the  
19 opportunity to be here today and certainly look  
20 forward to working with the Gaming Control Board going  
21 forward.

22           CHAIRMAN: Thank you very much.

23           If you speak -.

24           ATTORNEY HAYES: Mr. Chairman and  
25 members of the Board, before we conclude our

1 presentation, I would like to address the change in  
2 control fee, which would be assessed by the Board in  
3 connection with this transaction. As we all are  
4 aware, Section 1328 of the Gaming Act requires the  
5 Board to impose a fee for change of control of a Slot  
6 Machine License.

7                   Specifically, Section 1328 of the  
8 Gaming Act provides that the Board has the discretion  
9 to proportionally reduce but not eliminate the fee,  
10 depending on the transaction, the relevant ownership  
11 interest and changes resulting and other consideration  
12 deemed relevant by the Board.

13                   Now, I'm keenly aware of the fact that  
14 this Board has entertained two prior change in  
15 ownership petitions this year. So, I will spare you  
16 the long chronology of - of the - of the change in  
17 ownership fee.

18                   But, as you know, the change in  
19 control fee that was initially determined by the Board  
20 in 2007 through Hamlet Holdings acquisition, Harrah's  
21 Entertainment was \$2.5 million.

22                   That fee was assessed to purchasers of  
23 five casinos, including, as part, Eldorado Resorts'  
24 acquisition of Presque Isle Downs in 2014.

25                   When Churchill Downs entered the Asset

1 Purchase Agreement with Eldorado Resorts in February,  
2 the assumption was that the Board would continue to  
3 impose the \$2.5 million change in control fee.

4                   So, to be clear, unlike prior  
5 petitioners, Churchill Downs and PID is not requesting  
6 a reduction in the \$2.5 million fee.

7                   We're only requesting that the Board  
8 follow its past practice and apply the same fee here.  
9 The assessment of the \$2.5 million fee makes sense  
10 based on precedent and based on economics.

11                   We respectfully submit that the  
12 increase - that an increase in the \$2.5 million change  
13 in ownership fee would not be justified, especially  
14 when Presque Isle Downs & Casino has experienced  
15 increased competition in Eastern Ohio in the  
16 introduction of Penn National Gaming facility in  
17 Youngstown, facility in Cleveland, as well as  
18 increased competition - competition in Western New  
19 York, where both Seneca properties have made major  
20 investments in the last two years.

21                   Lastly, consideration should be given  
22 to the fact that a new Category 4 facility will be  
23 opening in Lawrence County. We - we appreciate and  
24 fully understand the argument that Act 42 of 2017  
25 provided additional offerings for casinos in

1 Pennsylvania. However, it's important to remember and  
2 note that operators like Churchill Downs will be  
3 required to pay a licensing fee for each of those  
4 forms of gaming.

5                   For instance, in the case of Presque  
6 Isle Downs, Churchill Downs will be required to pay,  
7 if this transaction is approved, the \$8 million  
8 Interactive Gaming Fee for the two forms of  
9 interactive gaming that would be offered at - at  
10 Presque Isle Downs.

11                   In the event that Churchill Downs is  
12 to offer sports wagering, we'd be required to pay the  
13 \$10,000,000 fee to offer that.

14                   We respectfully submit requiring \$2.5  
15 million as a fee for this transaction would be  
16 consistent from an economic standpoint, including when  
17 you review the recent imposition of a \$1.35 million  
18 fee for Valley Forge and \$3.75 million fee for Penn  
19 National's acquisition of The Meadows.

20                   It is no secret that Presque Isle  
21 Downs is consistently ranked among the bottom three in  
22 terms of consumer revenue in Pennsylvania. This, of  
23 course, is not a reflection of poor marketing and/or  
24 management. It's a reflection that it operates in the  
25 smallest market except for Nemacolin.

1           So, in reviewing the three average -  
2 three-year average of revenues at Valley Forge and the  
3 Meadows, you could see that Valley Forge has - Presque  
4 Isle has enjoyed revenues of over about 14 percent  
5 greater than Valley Forge and 49 percent less than  
6 revenues by the Meadows during that same period of  
7 time.

8           So, the \$2.5 million fee would fit  
9 appropriately in between those - those two fees, based  
10 on casino revenue.

11           So, in closing, we respectfully would  
12 suggest that a review of competitive environment  
13 facing Presque Isle Downs and comparative revenues of  
14 Valley Forge and the Meadows provide a basis for  
15 assessing a fee of \$2.5 million in this instance.

16           In conclusion, we respectfully request  
17 the Board's approval of this transaction on a  
18 preliminary basis. I certainly thank you and your  
19 staff for your time and attention and allowing us to  
20 present here today. Thank you.

21           CHAIRMAN: Thank you.

22           Questions or comments from Enforcement  
23 Counsel?

24           ATTORNEY TEPPER: Good morning,  
25 Chairman Barasch, members of the Board. David Tepper,

1 T-E-P-P-E-R, for the Office of Enforcement Counsel  
2 (OEC). At this time we have a few questions for the  
3 Petitioners.

4 As you know, Churchill is required to  
5 be approved by the Pennsylvania Horse Racing  
6 Commission, in order to be granted the Category 1 Slot  
7 Machine License by the Board. Has a fee been set for  
8 consideration by the Pennsylvania State Horse Racing  
9 Commission in this matter?

10 ATTORNEY HAYES: Counsel Tepper, the  
11 last that I heard from the Horse Racing Commission  
12 we've been working very actively. In reviewing the  
13 application materials is that a date certain has not  
14 yet been set.

15 ATTORNEY TEPPER: Do you expect for  
16 Presque Isle Downs to enter into a Shared Services  
17 Agreement with Churchill?

18 MR. ROBINSON: Sorry for logistics.  
19 Craig Robinson again. Yes, we do anticipate entering  
20 into a Shared Services Agreement.

21 We provided a draft of our existing  
22 agreement, which we call actually an Administrative  
23 Services Agreement. We provided drafts to staff in  
24 April for review, very similar to those you have  
25 already seen that covers accounting, tax, legal,

1 insurance, IT, all those services that - that are  
2 related.

3 ATTORNEY TEPPER: And where will these  
4 services be conducted, if that agreement is approved?

5 MR. ROBINSON: The centralized  
6 services, such as accounting, AP, payroll tax will be  
7 processed in Louisville.

8 And we will split that responsibility  
9 with accountants on property as well.

10 ATTORNEY TEPPER: And you discussed  
11 Churchill's experience with casino operations, horse  
12 racing and interactive gaming. Can you provide the  
13 Board with information about Churchill's experience  
14 operating sports wagering and whether Churchill  
15 expects to enter this market in Pennsylvania?

16 ATTORNEY BLACKWELL: Sure. As I  
17 referenced in the presentation, we recently announced  
18 a deal in New Jersey. We plan to offer both  
19 interactive gaming and sports wagering.

20 We also own two casinos in  
21 Mississippi, where sports wagering has been approved  
22 in the brick-and-mortar facilities and we plan on  
23 participating in that shortly later this year.

24 In terms of sports wagering in  
25 Pennsylvania, that is certainly something we're very

1 interested in.

2                   Similar to other operators in the  
3 state, there are some concerns with the licensing tax  
4 there, but something we're very interested in.

5                   ATTORNEY TEPPER: And have all  
6 anticipated applications been submitted to the Board's  
7 Bureau of Licensing?

8                   ATTORNEY HAYES: I'll take that one.  
9 Yes, all - all the vast majority of the applications  
10 were submitted in March of this year. And one  
11 additional application was submitted in June, which  
12 came about as a new point to the Board of Directors.

13                   And so, as far as I understand,  
14 there's no outstanding request from the Bureau of  
15 Licensing.

16                   ATTORNEY TEPPER: And do you  
17 anticipate any additional applications needing to be  
18 filed?

19                   ATTORNEY HAYES: We do not. I mean,  
20 at least we've not been notified of any request for  
21 additional information.

22                   ATTORNEY TEPPER: After the closing  
23 date, how long do you anticipate it will take  
24 Churchill to begin the transition into the full  
25 control of the property?

1                   MR. ROBINSON: We anticipate engaging  
2 with them as soon as possible. We're very anxious to  
3 get to work with staff and continue to put out the  
4 great product that they have thus far.

5                   ATTORNEY TEPPER: And we know that  
6 there's expected to be a transition period regarding  
7 Eldorado being on the property following the closing  
8 of the transaction. How long do you expect this  
9 transition to last?

10                   MR. ROBINSON: I'll take that. I  
11 talked to the Transition Services Agreement. Yes, we  
12 have an agreement with Eldorado as part of the  
13 purchase to allow for it - a very timely and organized  
14 transition of services.

15                   That time frame varies, depending on  
16 the individual area that we're discussing, but it can  
17 - it covers anything from 30 to, I believe, 120 days  
18 is the longest to make sure that we have a very - very  
19 orderly transition of administrative function and  
20 backhouse process is over.

21                   ATTORNEY TEPPER: And do you expect to  
22 make any changes to the benefits offered to Presque  
23 Isle employees?

24                   MR. KENYON: Yeah, we offer a very  
25 competitive benefit package. We have four different

1 healthcare plans currently.

2 I think there are some benefits that  
3 we provide that currently is not available at Presque  
4 Isle. In particular I talk about a - our 401(k) plan,  
5 which is a Safe Harbor Plan and matches made every pay  
6 period, as opposed to a discretionary match at the end  
7 of the year.

8 I'd also like to point out our  
9 Employee Purchase Plan, which has been a huge win,  
10 success for our employees. You have the opportunity  
11 to enroll in the Employee Purchase Plan.

12 And the calendar year runs from  
13 August 1st to July 31st. And whatever the price is at  
14 August 1st or July 31st, the way we set the price for  
15 it is 15 percent off the lower of those two. And I  
16 did a little homework last night.

17 I could tell you that if an employee  
18 had been in the plan for the last ten years, and if  
19 they were compensated at a level of \$35,000, eligible  
20 earning is \$35,000, and at five percent. In the  
21 Employees Stock Purchase Plan, they would have put  
22 \$17,500 into that plan.

23 They would have purchased 331 shares  
24 of stock. At yesterday's closing price, it was worth  
25 \$93,000.

1           So, it's one benefit that we offer at  
2 Presque Isle that I think could be a significant  
3 improvement.

4           ATTORNEY TEPPER: Thank you.

5           Will the change of control affect the  
6 number of employees employed by the facility?

7           MR. MILLER: We don't anticipate any  
8 changes. We - as I alluded to earlier, we have a core  
9 group of folks at the corporate office that advise  
10 properties on their operations.

11           But we don't have an excess of  
12 employees looking for placement, so we're delighted  
13 that Kevin is a full staff now. We anticipate that  
14 full staff staying in place as we move forward.

15           ATTORNEY TEPPER: Are there any plans  
16 to expand or otherwise make changes to the gaming  
17 floor at Presque Isle?

18           MR. MILLER: It's probably too soon to  
19 tell. You know, Kevin is a very experienced slot  
20 operator. I worked in two different markets with  
21 Kevin, both in Tunica, Mississippi and in Biloxi,  
22 Mississippi. From our tour through the property, the  
23 floor looks in - in very good shape.

24           The one thing that I do know we do  
25 need to change as part of the deal is the name of the

1 restaurant, Brew Brothers. That will stay with the  
2 parent company, so that's the only change that I see  
3 that's imminent.

4 ATTORNEY TEPPER: And do you  
5 anticipate making any capital improvements or  
6 renovations to Presque Isle?

7 MR. MILLER: We do. We love to invest  
8 in our properties and watch them grow. I can't -  
9 sitting here today, I'm not in a position to say what  
10 those are. We need to spend more time with Kevin and  
11 the team at Presque to see what their long-term plans  
12 are, what their projections are for the future and  
13 where additional investments of capital would make an  
14 improvement to the property and the revenues.

15 ATTORNEY PITRE: With regard to the  
16 Collective Bargaining Agreement that's currently in  
17 place at Presque Isle, do you plan on maintaining that  
18 Collective Bargaining Agreement?

19 MR. KENYON: Yeah, we do. I think it  
20 runs through 2020, if I'm not mistaken. There are two  
21 of them.

22 ATTORNEY PITRE: Okay.

23 And you mentioned that there will be  
24 shared services at Presque Isle. Just to put you on  
25 notice, you understand that you have to petition the

1 Board for approval if any shared services that are  
2 offered on that property?

3 ATTORNEY HAYES: Yes, Attorney Pitre,  
4 each employee understand that any shared services have  
5 to first be approved by the Board by formal petition.

6 ATTORNEY PITRE: Okay.

7 And a final thing, I noticed that you  
8 mentioned the - the cash from the sale of Big Fish  
9 Games in your PowerPoint presentation. And I know  
10 that you're aware of the lawsuit and the ruling coming  
11 from the federal court for the State of Washington as  
12 it relates to Big Fish Games.

13 Have you received any notices of any  
14 other lawsuits as it relates to Big Fish Games?

15 ATTORNEY HAYES: No.

16 ATTORNEY TEPPER: Okay.

17 I have no further questions. We turn  
18 it over to the Board.

19 CHAIRMAN: Thank you, Cyrus.

20 Any questions or comments from the  
21 Board at this time?

22 MS. MANDERINO: Thank you for your  
23 presentation. I want to return briefly to the last  
24 questioning that Counsel had asked you about the  
25 Collective Bargaining Agreement, which I now

1 understand is in place until 2020.

2                   Okay. When I looked at the background  
3 material that was presented to me, not part of your  
4 presentation today, it appeared, if I was reading it  
5 correctly, that while the offerings in your benefit  
6 package seem to be comparable or more than what is  
7 perhaps available to employees now - the cost of that  
8 seemed to be more expensive than - the cost to the  
9 employees seem to be more expensive than that which  
10 they are paying now.

11                   Again, I was reading the background  
12 material. So, I guess my question is, could you  
13 clarify that for me?

14                   And explain for what I will call the -  
15 the average working person in the casino what changes,  
16 if any, they might see in their compensation package.

17                   And, again, if there's a Collective Bargaining  
18 Agreement in place is - is the intent to honor that  
19 and then I guess negotiate in full faith with the -  
20 the organized workforce going forward?

21                   Can you address what I thought I saw  
22 in terms of cost of your benefit package, particularly  
23 healthcare, which I think kind of for average working  
24 folks between their pay and their healthcare benefits,  
25 sometimes that's all they can afford to pay for and

1 won't really be able to take advantage to the full  
2 depth of that some higher-paid people would, some  
3 other things that were in your benefits offerings?

4 MR. KENYON: Sure. Certainly. First  
5 on a union front, we're going to honor those  
6 contracts. In regards to the healthcare, we've - we  
7 have looked at the healthcare very carefully. I - I  
8 think it's important to point out that we have two  
9 plans, our PPO 2500 and our high deductible health  
10 plan 2700, which are actually cheaper than the current  
11 plans.

12 So, we see in our workforce  
13 approximately a third of our employees are in the PPO  
14 1000, a third in the PPO 1500 and a third in the 2500.  
15 I think it just depends on what that particular  
16 individual wants, but we actually have two plans that  
17 will be cheaper than what is currently provided.

18 MS. MANDERINO: Thank you.

19 I think that's it, Mr. Chairman.  
20 Thank you.

21 MR. JEWELL: Chairman, just a very  
22 basic comment for the record.

23 Counsel, I believe in your remarks you  
24 cited the Category 4 casino that's going to be in  
25 place, I believe, in Beaver County and not in Lawrence

1 County.

2 ATTORNEY HAYES: Okay. I'm sorry. I  
3 misspoke, then.

4 CHAIRMAN: Any other questions,  
5 comments from the Board?

6 MR. JEWELL: And that's Mount Airy.

7 MR. LOGAN: Yeah. Any local  
8 agreements that you have or PID has - do you plan -  
9 above and beyond the legislative taxing issues, do you  
10 plan on honoring those agreements, whether it's with  
11 an economic development agency, a tourism agency or  
12 whatever?

13 ATTORNEY HAYES: Commissioner, that  
14 would be our objective, to continue to have good  
15 community relations with the -

16 MR. LOGAN: Some commitment to honor  
17 them.

18 ATTORNEY HAYES: - the Erie County -.  
19 I believe we would honor them. I  
20 don't fully know what they are as I'm sitting here,  
21 but I believe we would honor them.

22 ATTORNEY BLACKWELL: Yeah, we would  
23 honor the existing -.

24 MR. LOGAN: Thank you. That helps.

25 CHAIRMAN: Is there any further

1 comments from you, based on the questioning you had.

2 ATTORNEY HAYES: No, Mr. Chairman.

3 Thank you for your time.

4 CHAIRMAN: Thank you very much.

5 A vote on this matter is scheduled for  
6 later today, under the Office of Chief Counsel section  
7 on the agenda.

8 Thank you for coming.

9 ATTORNEY HAYES: Thank you very much.

10 ATTORNEY BLACKWELL: Thank you.

11 \* \* \* \* \*

12 HEARING CONCLUDED AT 10:47 A.M.

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CERTIFICATE

I hereby certify that the foregoing proceedings, held before Chairman Barasch, was reported by me on 08-15-18 and that I, Rhonda K. Thorpe, read this transcript, and that I attest that this transcript is a true and accurate record of the proceeding.

Dated the 12th day of September, 2018



**Court Reporter**  
Rhonda K. Thorpe