

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: PRESQUE ISLE DOWNS, INC. -

REQUEST FOR IGAMING CERTIFICATE

* * * * *

HEARING

* * * * *

BEFORE: MEMBERS OF THE BOARD:

DAVID M. BARASCH, CHAIRMAN

Richard G. Jewell

Kathy M. Manderino (via telephone)

Merritt C. Reitzel

Obra S. Kernodle, IV

Dante Santoni, Jr.

Sean Logan

EX-OFFICIO MEMBERS/DESIGNEES IN ATTENDANCE:

Jennifer Langan, Designee, Department of
Treasury

Fred Strathmeyer, Designee,
Department of Agriculture

Christin Heidingsfelder, Designee,
Department of Revenue

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HEARING: Wednesday, October 31, 2018, 10:00 a.m.

LOCATION: Pennsylvania Gaming Control Board

Strawberry Square

2nd Floor

Harrisburg, PA 17101

Reporter: Bernadette M. Black

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ALSO PRESENT:

Kevin O'Sullivan, Vice President and General Manager,
Presque Isle Downs, Inc.

Justin Hurt, Vice President of Business Development,
Church Hill Downs, Inc.

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NONE OFFERED

P R O C E E D I N G S

CHAIRMAN: First up we have Presque Isle's request for an iGaming Certificate.

Before we begin, as always, I'd like for anybody who's going to speak today, to please state and spell your name for the court reporter prior to your presentation.

And I'd also ask Counsel to have all non-attorney witnesses please stand to be sworn at this time.

Excuse me, I think before we do that, we should have names - identities of everybody before you get sworn in.

MR. HURT: Justin Hurt, H-U-R-T.

MR. O'SULLIVAN: Kevin O'Sullivan, O, apostrophe, S-U-L-L-I-V-A-N.

CHAIRMAN: And would Counsel identify himself for the record, too?

ATTORNEY SCHRIER: Yes.

Good morning, Mr. Chairman, Honorable Commissioners. Stephen D. Schrier with the law firm of Blank Rome here on behalf of Presque Isle Downs, which is a Cat 1 Casino, if you can - you guys can sit down.

1 CHAIRMAN: No, we didn't swear them
2 yet.

3 ATTORNEY SCHRIER: Oh, I'm sorry.

4 CHAIRMAN: That's my fault, not yours.

5 ---

6 (WITNESSES SWORN EN MASSE)

7 ---

8 ATTORNEY SCHRIER: Okay. Thank you.

9 CHAIRMAN: Please proceed.

10 ATTORNEY SCHRIER: Mr. Chairman,
11 Members of the Commission, again, Stephen D. Schrier
12 with Blank Rome, on behalf of Presque Isle Downs.
13 Also here with me today is Kevin O'Sullivan, who's a
14 Vice President and General Manager of Presque Isle
15 Downs.

16 And we have representatives who are
17 from Churchill Downs and Kevin Hayes, Esquire, who
18 represents Churchill Downs. And we'll all be in front
19 of you this morning.

20 It's a pleasure to be here to present
21 Presque Isle Downs' petition, which seeks your
22 approval for the issuance of two Interactive Gaming
23 Certificates for online games and online table games.

24 Presque Isle Downs submitted its
25 petition to you for an Interactive Gaming Petition

1 August 10th, 2018. And I want to provide a brief
2 background about the status of this petition and of
3 Presque Isle Downs.

4 If we could put up the first slide.
5 Thank you.

6 As you all know, in February of 2018,
7 Eldorado Resorts and Churchill Downs announced that
8 they had entered into an agreement for Churchill Downs
9 to acquire Presque Isle Downs Casino from Eldorado
10 Resorts.

11 Churchill Downs, thereafter filed,
12 timely, its application materials with the Board for
13 investigation. And the parties jointly petitioned the
14 Board for preliminary approval of the change of
15 control.

16 That preliminary approval for change
17 of control was granted by the Board on August 15th of
18 2018. In the midst of this pending transaction, the
19 expanded gaming opportunity of interactive gaming in
20 the Commonwealth is now marching quickly towards its
21 launch.

22 And under the terms of the transaction
23 agreement, Churchill Downs is intended to be the
24 provider of the interactive gaming to Presque Isle.
25 And of course it will ultimately be the owner of

1 Presque Isle very soon.

2 As a result, the Licensee's petition
3 here and the iGaming offering that we're about to
4 present today are intertwined with its iGaming
5 supplier and its acquirer, Churchill Downs.

6 So I'd like to ask Kevin O'Sullivan,
7 Vice President and General Manager of Presque Isle
8 Downs, to introduce the presentation.

9 MR. O'SULLIVAN: Thank you, Steve.

10 Good morning, Mr. Chairman, Members of
11 the Board. I think Mr. Schrier covered the
12 circumstances about our petition here today, and our
13 reliance on our iGaming partner, Churchill Downs, for
14 the technology and compliances needed for interactive
15 gaming.

16 Presque Isle Downs expects this
17 transaction will close very soon. And in furtherance
18 of our Joint Agreement, Presque Isle Downs is relying
19 on Churchill Downs as its partner for the iGaming
20 platform and operation.

21 In the event that the transaction does
22 not close by the time the launch of iGaming in the
23 Commonwealth begins, Presque Isle Downs will utilize
24 Churchill's platform until closing to ensure ease of
25 the transition.

1 On behalf of Presque Isle Downs I am,
2 for one, very excited about our partnership with
3 Churchill Downs. And at this time I would like to
4 introduce Kevin Hayes, the attorney for Churchill
5 Downs who could tell you more about our internet
6 gaming.

7 ATTORNEY HAYES: Chairman Barasch,
8 Members of the Board, good morning. I'm Kevin Hayes,
9 H-A-Y-E-S, of the Law Firm Doherty Hayes. I'm
10 appearing today on behalf of my client, Churchill
11 Downs, Incorporated and PID, LLC in support of the
12 Petition for Approval of the Interactive Gaming
13 Certificate.

14 As Steve mentioned, PID, LLC, which is
15 a wholly-owned subsidiary of Churchill Downs,
16 Incorporated, submitted an application for Category 1
17 Licensure in March of this year.

18 And I am pleased to report that
19 yesterday, PID, LLC and Churchill Downs came one step
20 closer to becoming a Category 1 License when the
21 Pennsylvania State Horse Racing Commission approved it
22 for - approved its application for live racing and
23 parimutuel wagering at Presque Isle Downs.

24 We look forward to working with your
25 staff to obtain final approval of the change and

1 control of Presque Isle Downs, which will allow us to
2 close the transaction and begin gaming operations here
3 in the Commonwealth, including interactive gaming
4 operations.

5 It is our fervent hope that this will
6 occur before the launch of iGaming in the
7 Commonwealth.

8 With me here today is Brad Blackwell,
9 who's the Senior Vice President and General Counsel
10 for Churchill Downs, Incorporated, as well as Justin
11 Hurt, who is the Vice President of Business
12 Development for online gaming for Churchill Downs.

13 We have prepared a very brief
14 presentation in support of the petition in
15 collaboration with Presque Isle Downs and Eldorado
16 Resorts.

17 Without further delay, I will - I
18 would like to introduce Justin Hurt, who will provide
19 you with an overview of Churchill Downs' interactive
20 gaming capabilities and their plans for operations
21 here in the Commonwealth.

22 Justin.

23 MR. HURT: Good morning, Chairman and
24 Members of the Commission. My name is Justin Hurt,
25 I'm VP of Business Development for online gaming at

1 Churchill Downs, Incorporated. And first of all, I'd
2 just like to thank you for the opportunity to be here
3 today. We are very excited about the prospect of
4 iGaming in Pennsylvania and welcome the opportunity to
5 be here today to talk about that.

6 This slide is a high-level overview of
7 our company, which I believe you all have seen before
8 as part of our previous presentation to the Board.
9 Just to recap, briefly. We are best known for the
10 Kentucky Derby, and that is the foundation and history
11 of our company.

12 Over the years we have grown to have
13 nationwide operations, including casinos, racetrack
14 and online gaming, which is what I'm here to talk to
15 you all about today.

16 This is a simple rendering of our
17 Online Gaming Management Team and organizational
18 structure. Churchill Downs, Incorporated is a
19 publically-traded company, owned 100 percent by public
20 shareholders. And Churchill Downs interactive gaming
21 is a wholly-owned subsidiary of Churchill Downs,
22 Incorporated.

23 Ian Williams is the President of
24 Online Gaming for Churchill Downs. And he apologized
25 that he was not able to make it here today. Mr.

1 Williams was previously the VP of Marketing for Online
2 Gaming at Churchill Downs and has nearly 20 years of
3 experience in real money online gaming across
4 horseracing, casino, sports and poker.

5 The rest of our Senior Management Team
6 is in place and has a variety of experience across
7 real money online gaming, including horseracing,
8 casino poker and sports betting.

9 As you all know, on August 10th we -
10 Presque Isle Downs filed the Petition for
11 Authorization to Conduct Interactive Gaming for
12 Non-Peer-To-Peer Interactive Games which stimulate
13 slot - slot machines and table games. And we view
14 that as a natural progression of our existing online
15 wagering business, where we bring a decade of
16 experience operating regulated online wagering in the
17 horseracing vertical in the U.S.

18 And as part of that effort, back in
19 May, we announced an agreement with Golden Nugget
20 Atlantic City to enter the New Jersey market, where we
21 plan to operate online casino and online sports
22 betting. We're in the licensing process there now,
23 and we hope to launch that by the end of this year.

24 Within the brand limits of the
25 Pennsylvania regulations, we plan to operate

1 iGaming in Pennsylvania, using the brand BetAmerica.
2 And SBTech will be providing our online gaming
3 platform.

4 They are a leading B2B online gaming
5 platform provider, who currently operates in numerous
6 regulated markets across the world, including here in
7 the U.S., in New Jersey and Mississippi currently.

8 Our iGaming platform will be a
9 full-spectrum online gaming experience for our
10 players. We will have all the products that a player
11 would expect to see, including iOS and Android apps,
12 as well as a fully-responsive website.

13 We will feature a variety of slot and
14 table games from all of the leading providers in the
15 market, including many of the land-based titles that
16 our players are used to seeing in brick-and-mortar
17 casinos.

18 And our offering will also include
19 live dealer table games and a robust Player Rewards
20 and loyalty program.

21 Our iGaming platform that's provided
22 by SBTech has the capability to seamlessly integrate
23 sports betting. And we have already launched Sports
24 Betting with SBTech at two Mississippi casinos,
25 Harlows and Riverwalk.

1 And as I mentioned earlier, we also
2 hope to launch online sports betting and casino
3 products in New Jersey with SBTech by the end of the
4 year.

5 We believe that SBTech has a very
6 strong sports betting and risk-management system, and
7 our platform will allow for us to easily add sports
8 wagering in Pennsylvania, should a license be granted
9 for that in the future.

10 These are some renderings of our
11 player registration pages on a mobile device. Once a
12 player has submitted all of their information, we use
13 LexisNexis to do our ID and age verification to
14 validate the information that the player submitted and
15 to ensure that the player is at least 21 years of age.
16 And we're using GeoComply to provide our geolocation
17 services.

18 We take security and responsible
19 gaming very seriously across all of our gaming and
20 online gaming operations. We have numerous secure
21 deposit and withdrawal options available for our
22 players. And all of our data is transmitted via
23 standard, secure encryption protocols.

24 Our players will also have the option
25 to enable strong authentication, if they choose to do

1 so.

2 Our responsible gaming features
3 include the ability for customers to limit their
4 deposit activity, betting activity or time spent
5 playing a variety of time frames.

6 I know there have been some questions
7 from the Board from prior Petitioners on the changing
8 of those limits. I just want to state that on our
9 platform, if a player decreases their limit, that
10 change goes into place immediately. If a player
11 increases their limit, that limit goes into a place
12 once the current limit expires.

13 Players can also enable Reality Checks
14 on our website, which is a feature that causes a popup
15 to display at a player-selected frequency that
16 notifies the player of the duration of their current
17 playing session.

18 And we also have self-exclusion
19 options and shorter time-outs or cooling-off periods.

20 We will provide our players with
21 customer service via telephone, e-mail and chat.

22 And that concludes our presentation.

23 CHAIRMAN: Enforcement Counsel?

24 ATTORNEY GABRIELLE: Thank you.

25 Good morning, Mr. Chairman, members of

1 the Board. Ashley Gabriel, G-A-B-R-I-E-L-L-E, Office
2 of Enforcement Counsel (OEC).

3 The OEC, along with the Bureau of
4 Gaming Operations, Bureau of Investigations and
5 Enforcement (BIE), Bureau of Gaming Laboratory
6 Operations, Bureau of Licensing, Office of Diversity
7 and the Office of Compulsive and Problem Gambling,
8 have reviewed and consulted extensively on the
9 petition and the appendices filed by Presque Isle
10 Downs, Incorporated to conduct Interactive Gaming and
11 for the issuance of an Interactive Gaming Certificate.

12 OEC filed an Answer in this matter
13 requesting that the Board order the implementation of
14 certain listing conditions, if it was so inclined to
15 grant the relief requested in the petition.

16 As a result, the OEC has no objection
17 to the approval of Presque Isle Downs, Incorporated's
18 Petition to Conduct Interactive Gaming and to the
19 issuance of an Interactive Gaming Certificate to
20 Presque Isle Downs, Incorporated, subject to the
21 proposed conditions outlined in OEC's Answer filed on
22 September 7th, 2018 and any additional conditions
23 imposed by the Board.

24 The OEC is available to answer any
25 questions you may have.

1 CHAIRMAN: Thank you. Are there any
2 questions or comments from the Board for either party?

3 There's no separate presentation you
4 intend to make this morning?

5 ATTORNEY GABRIELLE: No, Mr. Chairman.

6 CHAIRMAN: Thank you.

7 Any further questions or comments from
8 Petitioners?

9 ATTORNEY SCHRIER: Yes, Mr. Chairman.
10 Thank you.

11 I would just add as sort of a
12 housekeeping measure, that we move into evidence this
13 PowerPoint that we've presented today.

14 And also with regard to the petition
15 that was filed, there was a motion made to protect
16 confidential information that had been submitted,
17 along with that. We'd just seek a ruling on
18 protection of -.

19 CHAIRMAN: As to the evidence, so
20 moved. As to your Petition for Confidentiality, I
21 believe the Board is in support of that.

22 There's no need for a vote. That will
23 be taken care of.

24 ATTORNEY SCHRIER: Very good.

25 Thank you very much for your time.

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MR. O'SULLIVAN: Thank you.

CHAIRMAN: Oh, and this will be voted on later today in the General Counsel's portion of the agenda.

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HEARING CONCLUDED

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CERTIFICATE

I hereby certify that the foregoing proceedings, hearing held before the Pennsylvania Gaming Control Board, was reported by me on 10-31-18 and that I, Bernadette M. Black, read this transcript, and that I attest that this transcript is a true and accurate record of the proceeding.

Dated the 27th day of November, 2018

Bernadette M. Black

Bernadette M. Black,
Court Reporter