

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: INTERVENOR HSP GAMING, LP,

AKA SUGARHOUSE CASINO

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PUBLIC HEARING

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

HEARING: Thursday, January 30, 2014

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

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

Reporter: Sami Zeka

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A P P E A R A N C E S

1
2
3
4
5
6
7
8
9
10
11
12
13
14
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16
17
18
19
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I N D E X

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8
9
10
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12
13
14
15
16
17
18
19
20
21
22
23
24
25

OPENING REMARKS

By Chairman

5

OPENING STATEMENT

By Attorney Donnelly

5 - 17

TESTIMONY

By Ms. Hamilton

17 - 23

By Ms. Cheeks

24 - 28

By Mr. Rittvo

28 - 40

By Mr. Bluhm

40 - 52

QUESTIONS BY BOARD

52 - 79

CLOSING REMARKS

By Chairman

79

E X H I B I T S

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

<u>Number</u>	<u>Description</u>	<u>Page</u> <u>Offered</u>	<u>Page</u> <u>Admitted</u>
---------------	--------------------	-------------------------------	--------------------------------

NONE OFFERED

P R O C E E D I N G S

1
2
3
4
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7
8
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CHAIRMAN:

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

WITNESSES SWORN EN MASSE

OFF RECORD DISCUSSION

CHAIRMAN:

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

ATTORNEY DONNELLY:

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

15 CHAIRMAN:

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

19 ATTORNEY DONNELLY:

20 Yes. I apologize, yes.

21 CHAIRMAN:

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

24 ATTORNEY DONNELLY:

25 Okay. Thank you. Mr. Bluhm flew in

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

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

20 As I told you, we've been watching
21 ourselves. We were over here physically for a day,
22 day and a half. We had people here and then we
23 watched on the feed and we had people over here,
24 e-mails blasting everywhere. We came to the
25 conclusion that what was being presented and what we

1 should present is our facts and not the fiction that I
2 believe has been presented to this Board for the last
3 two and a half days.

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

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

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

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

24 So, this mythical tribe doesn't exist.
25 It's not out there. There are people who like to

1 game, there are people who don't like to game. There
2 are people who like to bowl; there are people who
3 don't like to bowl. Just by building a building or
4 having a location is not going to manufacture players,
5 as if you could print them in some factory.

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

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

25 In 2006 the gross gaming revenue in

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

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

21 What happens when a casino gets in
22 stress? Here's what happens. Casinos are somewhat
23 like human beings; everybody's subject to economic
24 rules. But we all heard, two things you can't avoid
25 are death and taxes. There's three things that a

1 casino cannot avoid. Debt, they have to pay their
2 debt, their taxes, and they have to comply with the
3 regulations. Those are three things that cannot be
4 violated. Everything else, when times get tough, the
5 belt tightens. And that means employees, employee
6 benefits, marketing, which starts a downward spiral,
7 capital, capital improvements, maintenance. Frills;
8 frills like charities and frills like having special
9 events and frills like taking care of the neighborhood
10 and frills like keeping the property clean. Those all
11 go downhill. If you drive down to Atlantic City,
12 that's what you'll see today.

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

21 So, you draw in and draw in and keep
22 conservative. You'll hear from Mary Cheeks, who went
23 through that process in Atlantic City, and she'll tell
24 you why --- that that was part of the reason she came
25 here, to get away from that constant situation of

1 watching every penny, driving in in the morning and
2 thinking, my god, I've got to let somebody else who's
3 a good employee go today.

4 I want to address quickly two issues,
5 because I know they're on everyone's mind. One, if
6 things are so bad here, why are you doing an
7 expansion? That's a pretty easy one. We committed in
8 2005 and 2006 to do a project. We were in a beauty
9 contest. And we agreed that we would do that project.
10 Soon after that, there were appeals, there was
11 litigation, we lost our financing. We had to scramble
12 for new financing, the economic crisis hit.

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

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

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

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

20 And coming on board online,
21 frighteningly, is New York State with another seven
22 casinos. Washington, D.C., or the suburb of
23 Washington, D.C. with a giant mega complex with MGM,
24 and a giant mega complex in Baltimore, Maryland. We
25 are --- as you'll see testimony today, we're

1 surrounded by and drowning in competition. Atlantic
2 City just adopted Internet gaming. No one, no one
3 knows what that's going to mean yet. Mary's going to
4 extrapolate some numbers, but I will tell you no one
5 knows what the impact's going to be.

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

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

22 And I believe and we believe that this
23 decision could end all that. You'll hear testimony
24 from our people that this market just cannot accept
25 and absorb another casino. And if it does, all these

1 unintended consequences will happen to everybody in
2 this market. But they will fall very, very heavily on
3 SugarHouse. And if it happens, we will look back a
4 few years from now and very much regret that decision.

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

17 Secondly, our expansion will be open in
18 2015. Please, give us a chance to open the expansion
19 and hope that the market will absorb that. And
20 finally, if we take a step back and pause and do what
21 I think a person would do before they pour more water
22 into this bathtub that's overflowing and leaking into
23 your living room. Sit back and say, let's wait and
24 see if this market improves. Gaming market is
25 terrible right now, in large part because of the

1 economic market generally, but also because of the
2 competition. That could improve, the economic market.

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

7 MS. HAMILTON:

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

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

1 smart people running Parx. There are smart people
2 running Chester.

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

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

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

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

12 The fact is the market has spoken. From
13 2012 to 2013, Parx, Chester, SugarHouse gave up a
14 combined \$46 million to allow new entrant Valley Forge
15 to grow by only \$38 million. So, the cannibalization
16 acknowledged by every presenter would be actively
17 inflicted on a declining market that has yet to absorb
18 current supply. We are at the tipping point.

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

24 To the contrary, gaming has been easily
25 available to Philadelphia regional residents for 30

1 years and has become much more conveniently available
2 since 2006. There is no ZIP code within two hours of
3 Philadelphia that is underserved. There are not many
4 ZIP codes in the northeast corridor that are
5 underserved. Not only do our residents have easy
6 access, they have options for every day of the week.
7 So, there are few sustainable revenue streams coming
8 from afar and no new revenue streams in our immediate
9 region.

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

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

1 of our business.

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

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

19 Without exception, each of your
20 applicants cites cannibalizing SugarHouse as a
21 critical fact of their business. Every presenter has
22 stated they will cannibalize SugarHouse to the tune of
23 anywhere from \$36 million at the low end to \$50
24 million to \$114 million per year. We cannot survive
25 this. The year \$36 million in revenue goes poof, we

1 lay people off, raise healthcare premiums, suspend
2 charitable giving, take a hard look at the 401(k) and
3 stop reimbursing tuition. We charge employees for
4 their uniforms and maybe their parking and stop paying
5 service bonuses.

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

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

24 Number two, we are not expanding to
25 service a growing market. We are expanding to stay

1 alive in a stagnant and hyper-competitive one. Our
2 expansion is primarily non-gaming. We're adding a
3 parking garage, event space, multiple restaurants, our
4 first poker and some elbow room. We're increasing our
5 square footage by 150 percent, but increasing our
6 gaming units by only 27 percent.

7 The market has spoken. The region is
8 awash in gaming. Please stop. Take a pause, assess
9 the market impact of our expansion when it opens in
10 2015, await some recovery of the general economy,
11 understand where online gaming will go. The facts we
12 have do not support another casino. And think of all
13 the facts, facts we do not yet have.

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

25 ATTORNEY DONNELLY:

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

3 MS. CHEEKS:

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

15 Sorry. Let's look at Valley Forge and
16 their entrance into the Philadelphia market, comparing
17 2013 results to that of 2012. What happened?
18 SugarHouse declined \$10 million, Parx declined \$6
19 million, Harrah's declined \$30 million, for a total of
20 \$46 million in decline slot and table revenue from the
21 existing Philadelphia market. Valley Forge grew \$38
22 million to contribute --- and contributed to this
23 decline. The four casinos comprising the southeast PA
24 market declined a total of \$8.2 million. So, I just
25 want to restate that. Existing casinos declined \$46

1 million, the new entrant grew \$48 million (sic). In
2 total, we still declined \$8 million.

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

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

1 The Atlantic City market is a perfect
2 example of both saturation and cannibalization. In
3 2006, the AC market generated over \$5 billion in
4 revenues, and now has declined to less than \$3
5 billion. The workforce has experienced a significant
6 reduction, approximately 50,000 employees at its peak;
7 now at around approximately 30,000. AC experienced a
8 40 percent decline in both revenues and employment.
9 The validation of saturation was seen with Revel's
10 performance and the sale of the AC Club for parts.

11 Online gaming was legalized in New
12 Jersey and Delaware in November 2013. Focusing on New
13 Jersey that has the largest gaming population within a
14 30-minute drive to the Philadelphia market, in
15 December reported generating \$8.4 million in online
16 gaming revenue. To annualize this ramp-up period,
17 this means that over \$100 million in revenue will be
18 generated from online gaming in New Jersey in 2014.
19 Just another source of revenue displacement from the
20 Philadelphia market.

21 So, these five reasons I spoke about
22 make me very, very concerned about the Philadelphia
23 market. I'm in great fear that it will become like AC.
24 I left AC three years ago because my job almost
25 primarily dealt with cost cutting. I lived and

1 breathed reducing costs from marketing spend,
2 operating supplies, cost of sales and jobs.
3 Unfortunately, the most controllable cost is payroll
4 and marketing spend, and of course you cut deeper in
5 payroll than what you would do your marketing.

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

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

22 I urge you to be extremely cautious in
23 your decision of a second Philadelphia license to
24 avoid weakening southeast PA. To conclude, I appeal
25 to the Board to strongly consider not making a

1 decision on the second Philadelphia license until the
2 following events take place. Wait for a complete
3 understanding of online gaming's impact and the
4 overall state of the gaming market. Wait for the
5 opening of SugarHouse expansion and allow for
6 stabilization of the market. Thank you for your time
7 and consideration.

8 ATTORNEY DONNELLY:

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

15 MS. CHEEKS:

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

23 ATTORNEY DONNELLY:

24 Thank you. I now call Steven Rittvo.

25 MR. RITTVO:

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

3 ATTORNEY DONNELLY:

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

6 MR. RITTVO:

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

15 ATTORNEY DONNELLY:

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

19 MR. RITTVO:

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

23 ATTORNEY DONNELLY:

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

1 ATTORNEY PITRE:

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

6 ATTORNEY DONNELLY:

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

9 CHAIRMAN:

10 I'm sorry, what was that, Cyrus?

11 ATTORNEY PITRE:

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

16 ATTORNEY DONNELLY:

17 We've agreed to that condition.

18 CHAIRMAN:

19 He can testify.

20 ATTORNEY DONNELLY:

21 Thank you, Your Honor.

22 MR. RITTVO:

23 Thank you. I guess I've been really
24 familiar with the Pennsylvania market and the
25 Pittsburgh market now probably longer than anybody

1 else. And I'm going to say this, there are times when
2 I've sort of felt like a ping-pong ball here. I did
3 the initial work for the Senate Democratic Caucus that
4 put the legislation together. And at that point we
5 projected a gaming revenue for the State of
6 Pennsylvania, generally in the realm of about \$2.8 to
7 \$3 billion. And nobody believed us because they said
8 it was too big.

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

18 We did the work for the analysis for
19 Treasurer McCord that was done in about 2010. And our
20 findings at that point, and you know, they're
21 well-documented in the report, was that we felt, you
22 know, that particularly the Philadelphia, the south
23 Pennsylvania market was fully developed or was going
24 to be fully developed with the expansion of SugarHouse
25 at that point. And our recommendation was to not put

1 a casino in Philadelphia, but look for potential in
2 another location in the central part of the state that
3 candidly was going to open up some new markets for the
4 area. We had a hard time defending that in sort of
5 saying, put it someplace in a smaller market than
6 Philadelphia. But we still strongly believe it.

7 We made a report to you; I believe my
8 partner Tom Zitt came in and presented, you know, a
9 report that was cited in --- the most recent thing to
10 you. We made it in May of 2013. And we basically
11 said our forecast for the Philadelphia market was
12 about \$1,175,000; currently it looks like it's about
13 \$1,146,000. Our numbers have been consistent
14 throughout this process, and I think --- take it for
15 what it is, but I think that's an important aspect.
16 We haven't created numbers to make a client happy,
17 made them bigger, made them smaller. We've evaluated
18 them, they've been consistent and it's there.

19 I got to tell you, I'm in a tough
20 position today. I don't have a whole lot of time and
21 I'm not sure you should believe me per se that my
22 analysis is better than somebody else's analysis.
23 You've gone through three days of a number of
24 qualified people making presentations and analyses to
25 you. I sure won't disparage them, because a number of

1 them used to work for me. And so I have respect in
2 them and I hope they respect us.

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

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

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

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

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

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

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

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

23 There's been a lot of discussion over
24 the last couple of days on the gravity model, and
25 people have told you, you know, they used the gravity

1 model. Some people have done it on a ZIP code basis,
2 some people have done it on a region basis. I saw
3 somebody that did a sub-ZIP code basis. I have to say
4 this, I'm a guy that applied the gravity model to the
5 casino industry the first time 18 years ago. It's a
6 transportation model. I'm actually a traffic engineer
7 by education going way back. And so I think I
8 understand it really pretty well.

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

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

25 And so I saw people who said, okay,

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

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

21 But again, that number has almost maxed
22 out in urban areas at about 36 or 38 of the population
23 very proximate to the casino. I've not seen 40
24 percent. I've not seen 46 percents really occur in
25 urban areas. And we do primary research, we go back

1 and we look at databases. But it's relatively easy to
2 say the market's going to grow, because when I put
3 another casino in, now instead of 38 percent of the
4 people in a given ZIP code coming, 43 percent are
5 going to come. And then we distribute them.

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

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

25 Coming back to, I guess, what my

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

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

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

1 than growth into the marketplace.

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

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

15 ATTORNEY DONNELLY:

16 Thank you. I call Neil Bluhm.

17 MR. BLUHM:

18 Mr. Chairman Ryan and members of the
19 Board, I'm Neil Bluhm. I am the chairman of
20 SugarHouse and my family and I are the principal
21 owners of SugarHouse. I am also a partner in Walton
22 Street Capital, which is the controlling partner of
23 the Rivers Casino and also an investor in the Rivers
24 Casino in Pittsburgh. As you know, we developed both
25 these casinos in extremely difficult times. You've

1 heard about that. And we also, of course, rescued the
2 Pittsburgh casino, which was on the verge of
3 bankruptcy during its development.

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

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

1 First, it is absolutely clear that we
2 expected that there was going to be a new casino in
3 2005 when we first appeared before you, but I want to
4 discuss that in some detail. All right. The world
5 and the economy has totally changed, as you know. And
6 the regional casino business is nothing like it was
7 when we appeared before you in 2005.

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

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

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

11 And I'd like to point out one other
12 thing, and that is the difference between Philadelphia
13 and an underserved market. We have a casino in the
14 Chicago market in Des Plaines which is right next to
15 O'Hara Airport. It's the first casino ever built in
16 Cook County where Chicago is. But the Illinois law
17 limits each casino to effectively about three ---
18 1,350 positions. So, the market is underserved.

19 We do \$800 per slot machine of win per
20 day. We do \$300 win, which is the highest here,
21 because we have --- in Pennsylvania I believe, because
22 we don't have many slots either. We run 1,600. But
23 my point is that if this market was so underserved,
24 we'd be doing a lot more than \$300 per day. I'm doing
25 \$800 per day in Illinois. That is an underserved

1 market.

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

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

23 The main thing that I want to point out
24 to you is that we have taken the information that we
25 have heard today --- not today, but over the last two

1 days, dealing with the amount of cannibalization that
2 would occur. We've heard cannibalization running ---
3 there's one outlier on the down side around 30 some
4 odd percent, but all the others are talking about
5 cannibalization of 50, 60 plus, and two of them have
6 said that the markets --- that SugarHouse, we're
7 talking about just SugarHouse, will be cannibalized by
8 over \$200 --- by over \$100 million.

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

20 On the other hand, we should be able to
21 --- if our volume is down such a large percentage,
22 \$100 million, we should be able to cut some of our
23 salaries by reducing staff, firing people. That'll
24 probably run another maybe \$10 million, maybe a little
25 more. So, maybe we'll only lose \$45 to \$50 million.

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

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

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

21 So, the bottom line is that anything
22 near the numbers that the proponents have used, I'm
23 using their numbers, would result in our property not
24 being worth its debt. And that would result in severe
25 financial problems when we have to refinance the debt

1 or service our debt. The lenders only loan you a
2 certain amount of your EBITDA. Call it five and a
3 half, six, sometimes less depending on the market.
4 They wouldn't loan us anywhere near the amount of
5 money that our existing loans would then be at.

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

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

24 In that context, let me mention a couple
25 of other things. The first is --- I've asked myself

1 this question. Am I here trying to scare you guys
2 about bankruptcy? Is this a bunch of hogwash? I have
3 just a list of some of the firms that have gone
4 bankrupt in the last few years in the regional market.
5 You may know some, but I just want to read a few of
6 them. You've heard all about Revel. Atlantic Club
7 went bankrupt; they went to sell it out of bankruptcy,
8 nobody would buy it. Two competitors bought it for
9 junk value, pennies on the dollar, to tear it down and
10 keep the equipment and own the land, and fired all the
11 people.

12 Two casinos in Vicksburg, Mississippi in
13 2012 got into financial trouble. Two casinos in
14 Indiana were in high profile bankruptcies in 2010 and
15 2011. The Majestic Star in Gary, Indiana went
16 bankrupt after the Ham and Horseshoe, which we compete
17 with in Indiana, which is near Chicago, greatly
18 expanded its facility and Majestic Star went broke.
19 You all know about Trump; he's had four bankruptcies
20 on his casinos.

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

1 2007. And two casinos, one in St. Louis and one in
2 Denver have gone bankrupt. So, this is not --- I'm
3 just throwing this out. I'm being very straight with
4 you. Anything near these projections that we've
5 heard, all right, would result as a severe financial
6 crisis for us, and I believe for two other casinos in
7 the Philadelphia market.

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

20 So, some of these fellows are real
21 estate developers who have never been in the casino
22 business. They look at the casino projections and
23 think this is --- oh, this is great because they may
24 do better than a five or six or seven percent return
25 which is what a prime piece of real estate may sell

1 for today. So, why can they get financing? Well, we
2 are in a financing market today that is very, very
3 hot. Arguably a bubble as far as junk debt. It's
4 common knowledge. The first lenders, the banks, are
5 quite conservative. But there's a tremendous demand
6 for high yield debt that's selling at all-time low
7 yields because of the demand for yield.

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

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

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

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

20 So, in conclusion, we are asking you to
21 wait and see what happens in this economy, what
22 happens with our expansion and not do something that I
23 am concerned is going to obviously hurt us, but hurt
24 our employees, but hurt your market and hurt this
25 Board, who has done a fantastic job to date. You

1 don't want to have a situation where a bunch of your
2 casinos are in financial trouble and I think that's
3 what will happen with all of this cannibalization.
4 Thank you, and I guess we'll answer any questions any
5 of you may have.

6 ATTORNEY DONNELLY:

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

12 CHAIRMAN:

13 Okay. Any questions from the Board?
14 Greg?

15 MR. FAJT:

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

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

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

4 MR. BLUHM:

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

10 MR. FAJT:

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

13 MR. BLUHM:

14 We need I think a permit from the Army
15 Corps.

16 MR. FAJT:

17 Okay.

18 MR. BLUHM:

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

23 MR. FAJT:

24 Thank you.

25 MR. MCCALL:

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

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

20 MR. BLUHM:

21 Okay, sir. You've asked a good
22 question. First, let's go through what the people ---
23 are they really putting up their money or are they
24 raising money from somebody else? Basically the way
25 these deals are financed, okay, the investment banks

1 go out and sell the paper. They don't invest any
2 money. They get a fee, you pay their expenses up
3 front, and if the deal closes and they raise the
4 money, great. And we've seen though history, there
5 are periods when things work out and there are periods
6 when they don't. And the investors have short
7 memories.

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

17 But they'll go the market and try to
18 raise the money. And if the market is good, I'm not
19 saying they won't, because you got a hot market now.
20 But that doesn't mean the deal won't be in trouble.
21 And some of those lenders may not think it's so bad if
22 they end up owning the property and wipe out the
23 equity of the owner. But it's not good for anybody to
24 have the lender own those properties and then have to
25 figure out how to get out of them later, and there's

1 no growth or anything good happening.

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

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

17 MR. MCCALL:

18 Great. Thank you.

19 CHAIRMAN:

20 Dave?

21 MR. WOODS:

22 Just looking for two specific numbers.
23 First, you've quoted the four of the five applicants'
24 number regarding cannibalization range. Where do you
25 put that number for SugarHouse, with another applicant

1 being successful and if we select that? What number
2 do you place on that?

3 MR. BLUHM:

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

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

20 MR. WOODS:

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

25 MR. BLUHM:

1 The only thing we ---.

2 MR. WOODS:

3 A range?

4 MR. BLUHM:

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

9 MR. WOODS:

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

13 MR. RITTVO:

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

20 So, I mean again, looking at what's out
21 there and not knowing who, if anybody, and my
22 recommendation is to not --- there not to be anybody.
23 But out of the range that's there, I'm not sure that
24 their cannibalization numbers are not normative.
25 That's the range that's there. We don't know. And

1 it's not being evasive. I mean I think it's really
2 being --- we don't know what the competition would be
3 and how they would operate it. Nothing seemed out of
4 line to me, you know, in what people are saying.

5 MR. WOODS:

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

8 MR. RITTVO:

9 And I think that's really the validity
10 of it.

11 MR. WOODS:

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

16 MR. BLUHM:

17 I don't --- we think that they will all
18 hurt significantly. We don't know how much. I would
19 say this to you. All right. When we first heard
20 about this, when you first started considering this,
21 this was maybe a year ago or whatever. I don't
22 remember the exact date. Our thoughts of what impact
23 this would have were a lot less than what we think
24 today based upon what a bunch of experts are saying,
25 the candidates for new casinos themselves are saying,

1 what he is now saying, and we're extremely worried.
2 And we're undertaking \$155 million expansion.

3 So, somewhere that number's going to be
4 \$50, \$60 to \$100 million. I don't know what it's
5 going to be. We just don't know. I do know, and I
6 don't want anybody to think that the number isn't
7 significant if it's in the sports stadium area where
8 the three casinos are, because we have a huge amount
9 of business that comes from South Philly. So, those
10 people --- if we're getting just cannibalization, it's
11 a closer drive to go there. You're just moving the
12 deck chairs around.

13 MR. WOODS:

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

20 MR. RITTVO:

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

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

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

20 Would that change if unemployment rates
21 went down? We've run models, okay, and gaming
22 revenues significantly are related to unemployment
23 rates. If every drop in unemployment of one percent,
24 we actually see gaming revenues basically be going up
25 two to two and a half percent. We've run the Russian

1 models on that. Now we got a little bit of a goofy
2 thing here, because I think that we're not necessarily
3 reporting full unemployment because people have left
4 the labor force and we haven't figured out how that's
5 worked, you know, its way through the economy.

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

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

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

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

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

24 And I think it's somewhat naïve to
25 assume that it won't impact the market somewhat. Does

1 it impact it 20 percent? No. Does it impact it two
2 percent? I think that's a real potential. And again,
3 I think that has the opportunity to blunt the growth,
4 you know, for another year. It's another \$60 million
5 that comes out, and it's offset maybe by a little bit
6 of growth in the economy and a little bit of growth in
7 population. You got a lot of stuff that's in a state
8 of flux right now. And I'd be happy to take them
9 point by point with you, but ---.

10 MR. WOODS:

11 I get your drift.

12 MR. RITTVO:

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

15 MR. WOODS:

16 I just have one more question for you.

17 MR. RITTVO:

18 It's okay.

19 MR. WOODS:

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

1 numbers?

2 MR. RITTVO:

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

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

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

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

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

18 But people that are going to a casino
19 sort of want to feel --- I want to say this. It's an
20 aspirational business. People want to feel rich. I
21 mean that's what we're selling. We're selling this
22 opportunity that's the only place in the world that
23 somebody will valet park your car, they'll call you
24 yes, ma'am, and no, sir, and potentially give you a
25 complimentary drink. And somehow getting on public

1 transit doesn't make that happen.

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

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

17 MR. WOODS:

18 I appreciate your answer.

19 MS. HAMILTON:

20 If I ---.

21 MR. WOODS:

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

24 MS. HAMILTON:

25 I just wanted to add one quick comment

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

3 MR. WOODS:

4 Saturation, yeah.

5 MS. HAMILTON:

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

16 MR. WOODS:

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

19 CHAIRMAN:

20 John?

21 MR. MCNALLY:

22 Thank you. You've intervened for the
23 purpose of talking about cannibalization and
24 saturation, but as I read the Act, we also have an
25 obligation as a Board to fulfill that Act. And part

1 of that is to provide for economic development for the
2 citizens of the Commonwealth. And we have had
3 considerable testimony the last two and a half days
4 about economic development that their casinos will
5 spur outside of their walls, the jobs that they will
6 create not only inside of their walls, but outside of
7 their walls. Don't we as a Board have an obligation
8 to take that into consideration in awarding a second
9 license?

10 MR. BLUHM:

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

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

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

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

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

15 MR. RITTVO:

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

22 I think on the other side you really
23 have to look at what happens to the ongoing type
24 activities. And I think, you know, as Wendy touched
25 on, if you start having such decreases in revenue that

1 you really start to lay off and you send less vendors,
2 you're spending less money with vendors and other
3 pieces, will you have an impact? Yeah. I don't think
4 you're going to lose as many jobs as you would gain in
5 a new facility. I mean, you know, one plus one might
6 not equal two; it might equal 1.2.

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

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

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

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

17 MS. HAMILTON:

18 Well, not only that, but making sure
19 that the Commonwealth is capturing all available
20 revenue doesn't have to feel like a car accident. The
21 existing operators, you know, we like to make more
22 money. So, if there's a couple of points of growth
23 left in the market, we're pretty good at making plans
24 to say, hey, we want to add 100 slots. We want to add
25 a couple dozen table games. I think you can count on

1 our competitors and us to do that. If there's a
2 couple points left out there, we're going to bring it
3 to you.

4 MR. RITTVO:

5 That is different than your question
6 about job creation.

7 MR. BLUHM:

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

23 MR. MCNALLY:

24 I have no further questions. Thank you.

25 CHAIRMAN:

1 Tony?

2 MR. MOSCATO:

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

9 MS. CHEEKS:

10 Poker was up by \$48,000. Poker was up
11 year over year \$48,000.

12 MR. MOSCATO:

13 Okay.

14 MS. CHEEKS:

15 So, it's really no impact.

16 MR. MOSCATO:

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

21 MS. CHEEKS:

22 Yes.

23 MR. MOSCATO:

24 What did you mean by that?

25 MS. CHEEKS:

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

3 MR. MOSCATO:

4 Thank you.

5 MS. CHEEKS:

6 You're welcome.

7 CHAIRMAN:

8 Greg?

9 MR. FAJT:

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

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

1 CHAIRMAN:

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

4 MR. RITTVO:

5 Hope so.

6 CHAIRMAN:

7 And in southeastern Pennsylvania ---

8 MR. RITTVO:

9 Yes.

10 CHAIRMAN:

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

13 MR. RITTVO:

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

17 CHAIRMAN:

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

22 MR. RITTVO:

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

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

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

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

23 And so it sort of --- if you can't beat
24 them, join them, sort of philosophy. I can't tell you
25 that that's the answer but I can tell you that it's

1 what I saw in Connecticut. It's what I've seen, if I
2 look at Harrah's, in Indiana and Illinois. It's just
3 not that uncommon a phenomenon to say somebody's
4 coming, and it might as well be me. So, I can make it
5 the best I can for my total company, my total
6 operation as opposed to my single facility.

7 CHAIRMAN:

8 Thank you. Anybody else?

9 MR. BLUHM:

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

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

1 the issues that Steve has mentioned.

2 CHAIRMAN:

3 Okay. Thank you. Anything from you,
4 Cyrus?

5 ATTORNEY PITRE:

6 No, I'm ---.

7 CHAIRMAN:

8 Okay.

9 ATTORNEY PITRE:

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

12 CHAIRMAN:

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

25 * * * * HEARING CONCLUDED * * * *

CERTIFICATE

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

Sami Zeka