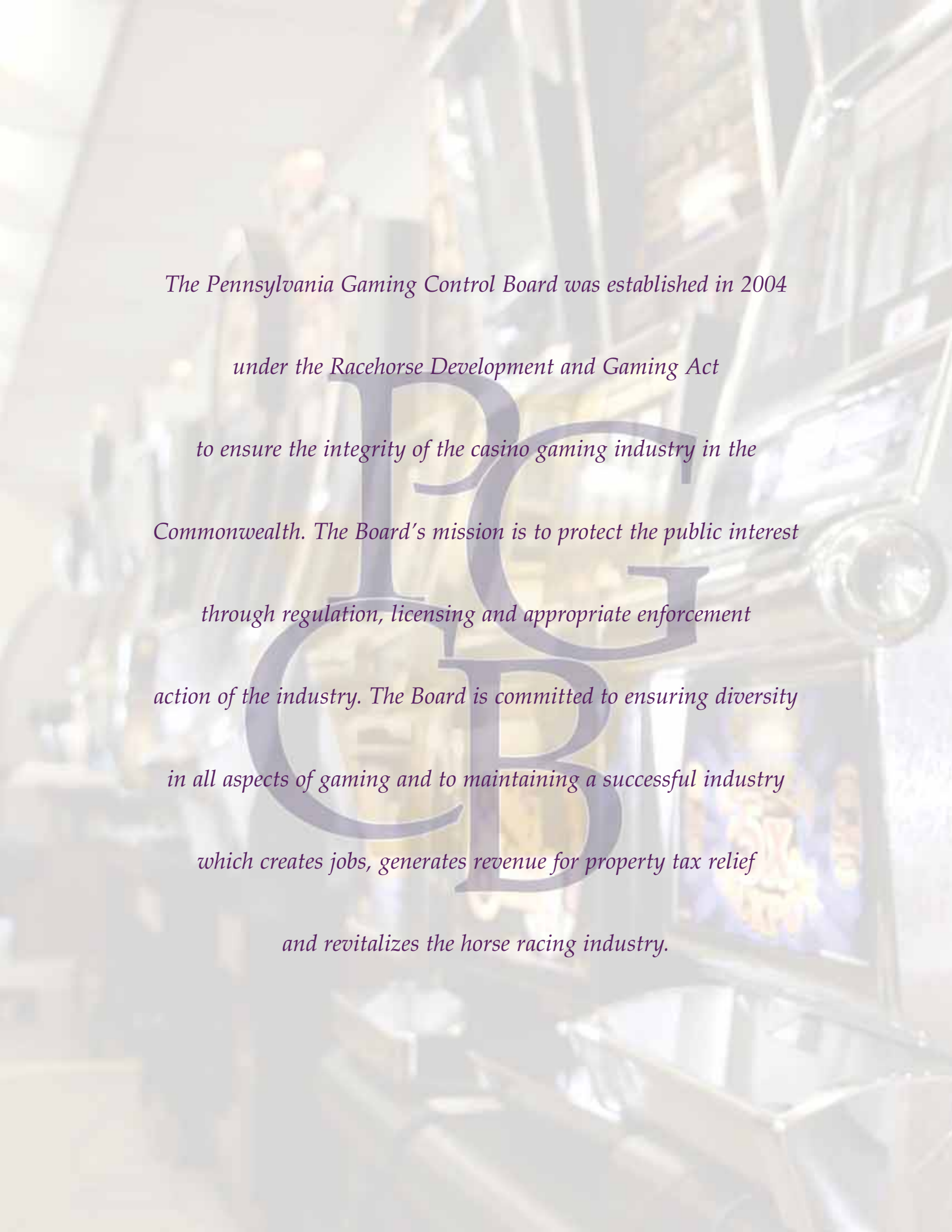


2 0 0 6 A n n u a l R e p o r t



Pennsylvania Gaming Control Board





*The Pennsylvania Gaming Control Board was established in 2004
under the Racehorse Development and Gaming Act
to ensure the integrity of the casino gaming industry in the
Commonwealth. The Board's mission is to protect the public interest
through regulation, licensing and appropriate enforcement
action of the industry. The Board is committed to ensuring diversity
in all aspects of gaming and to maintaining a successful industry
which creates jobs, generates revenue for property tax relief
and revitalizes the horse racing industry.*

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Letter from the Chairman



January 2007

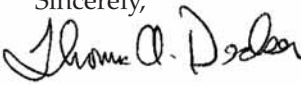
Dear Governor Rendell and
Members of the General Assembly:

Pursuant to Section 1211 (a) of the Pennsylvania Race Horse Development and Gaming Act, or Act 71 of 2004, the Pennsylvania Gaming Control Board is required to submit annually to the Governor and the General Assembly a report on the “general operation of the board and each slot machine licensee’s performance, including, but not limited to, number and win per slot machine at licensed facilities during the previous year, all taxes, fees, fines and other revenues collected and, where appropriate, disbursed, the costs of operation of the board, all hearings conducted and the results of the hearings and other information that the board deems necessary and appropriate.” This document constitutes the Gaming Control Board’s annual report for 2006.

In November 2006, less than two years after the Pennsylvania Gaming Control Board held its inaugural meeting, Pennsylvania’s first licensed gaming facility began operations. In December 2006, a second operator opened its doors to the public. The Board expects that, by the end of 2007, six facilities will be operating, generating significant revenue for statewide property tax relief, creating jobs for Pennsylvanians and reviving the Commonwealth’s horse-racing industry. Five more licensed facilities will open in 2008.

My fellow Board members and I are particularly proud of the outstanding work the Gaming Control Board staff has done in moving gaming implementation forward as this report reflects, and we recognize that considerable additional effort is necessary to complete the introduction of gaming. We also recognize that this agency will in 2007 begin a new phase in its existence as it focuses more on the regulation of the gaming industry in the Commonwealth.

The Pennsylvania Gaming Control Board looks forward to working closely with the Governor and the General Assembly to oversee the implementation of gaming as required by Act 71.

Sincerely,

Thomas A. Decker
Chairman

Board Members



Thomas A. Decker
Chairman
Designated by the Governor



Raymond S. Angeli
Board Member
Designated by the Minority
Leader of the Senate



Mary DiGiacomo Colins
Board Member
Designated by the Governor



Jeffrey W. Coy
Board Member
Designated by the Minority
Leader of the House of
Representatives



Joseph W. Marshall, III
Board Member
Designated by the Speaker
of the House of
Representatives



Kenneth T. McCabe
Board Member
Designated by the President
Pro Tempore of the Senate



Sanford Rivers
Board Member
Designated by the Governor



The Honorable
Gregory C. Fajt
Ex-Officio Member
Secretary of Revenue



The Honorable
Dennis C. Wolff
Ex-Officio Member
Secretary of Agriculture

From the Executive Director



Anne LaCour Neeb
Executive Director,
Pennsylvania Gaming Control Board

In September 2005, I became the first executive director of the Pennsylvania Gaming Control Board. Prior to accepting this new position, I served as Executive Director of the Louisiana Gaming Control Board and prior to that as Director of the Louisiana Attorney General's Gaming Division.

Pennsylvania's emerging gaming industry was just getting off the ground at the time, and I was both honored and excited to bring my experience as a gaming regulator to the Commonwealth and the Gaming Control Board. When I arrived at the PGCB, I found a dedicated Board of seven uniquely qualified commissioners, led by Chairman Thomas Decker, and a talented staff, ranging from veteran gaming regulators to experienced state government employees, law enforcement officials and business professionals.

Over the past 18 months, the Board and its staff have created – from the ground up – the first state agency in almost 30 years, created a comprehensive body of regulations to ensure the integrity of gaming, investigated thousands of individuals to ensure that only the most reputable people are involved in the industry, and licensed 11 casino operators and more than 30 manufacturers and suppliers. On November 14, 2006, Pennsylvania's first slots casino opened in Wilkes-Barre. A second opened a month later in the Philadelphia area.

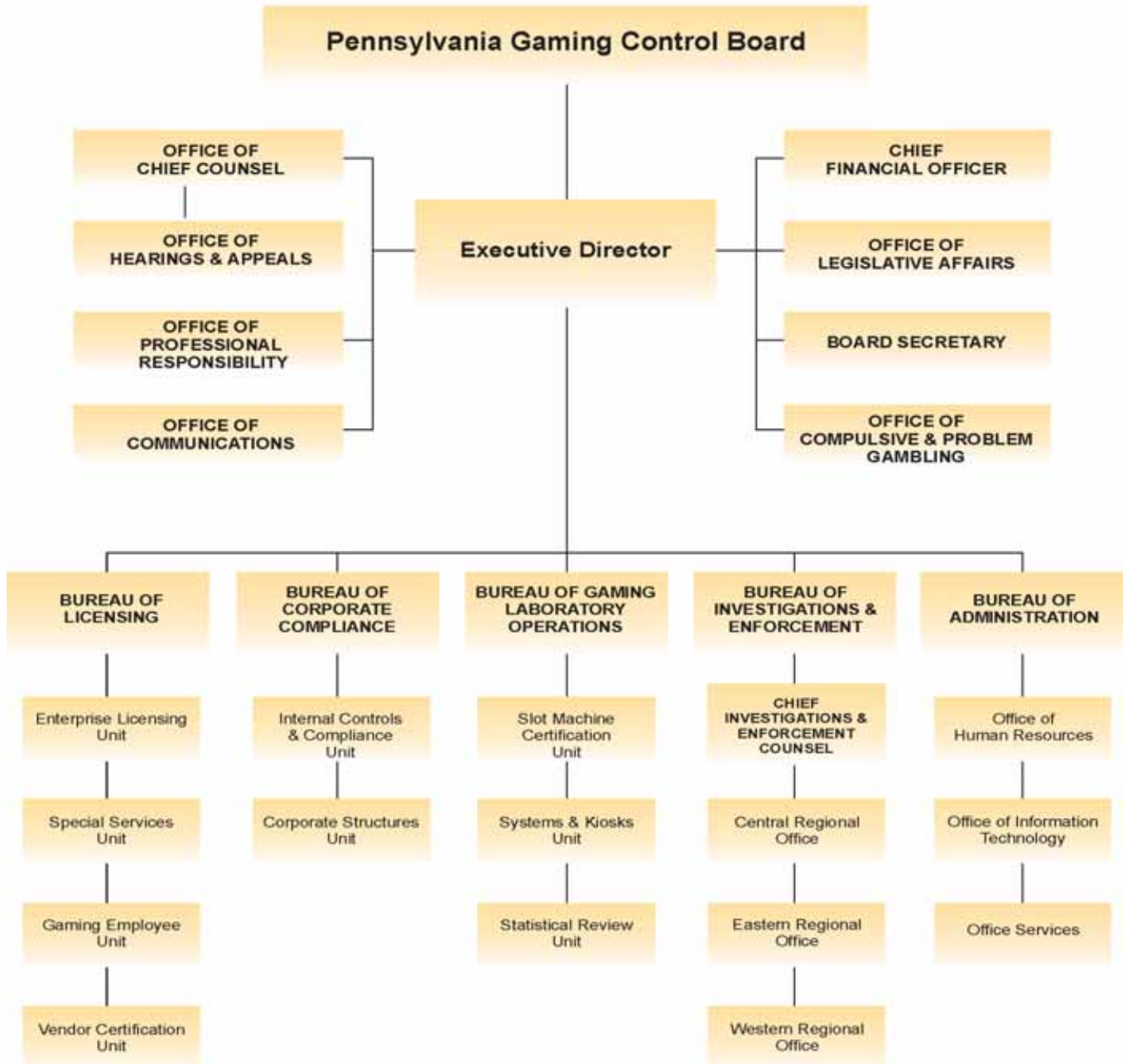
No other gaming jurisdiction in recent memory has moved as quickly from enactment of legislation to issuance of slots licenses collectively and together on a statewide basis. As one of our applicants observed at a licensing hearing recently, Pennsylvania is creating and overseeing an industry the size of Atlantic City's casino district, but over approximately 46,000 square miles compared to just two square miles.

Much of the Board's work to date has involved licensing the operators, manufacturers, suppliers, vendors and employees who will participate in this emerging new industry. With the Board's vote in December to award 11 permanent operator licenses and the opening of two casinos, the Board has now shifted its focus toward regulating and overseeing the industry, which is the agency's long-term role.

As our mission statement says: The Board is here to protect the public interest through regulation, licensing and appropriate enforcement action of the industry. The PGCB is committed to ensuring diversity in all aspects of gaming and to maintaining a successful industry which creates jobs, generates revenue for property tax relief and revitalizes the horse racing industry.

Going forward, the Board will continue to provide strict but fair oversight of the gaming facilities to ensure that the industry thrives while delivering tax revenue for property tax relief, economic development, local communities and revitalization of the horse racing industry.

I expect this report will assist the public and state government officials in better understanding what the Pennsylvania Gaming Control Board does in achieving its mission.



Bureau of Licensing



Susan Hensel
Director, Bureau of Licensing

To set the stage for slots gaming in Pennsylvania, the Bureau of Licensing worked aggressively throughout the year, creating and refining processes and procedures, hiring and training staff, reviewing tens of thousands of pages of applications and related documents, designing and producing licenses and credentials and developing and utilizing technology to increase effectiveness and efficiency. The Bureau expanded from one to four units in 2006 and took on many new responsibilities to ensure the appropriate oversight of the gaming industry. Today, the Bureau of Licensing includes four units: Enterprise License, Employee Licensing, Vendor Certification and Special Services.

Enterprise License Unit: Responsible for the application review process for slots facilities, manufacturers, and suppliers. The unit also assists in facility openings by ensuring that casino, manufacturer and supplier employees are properly licensed and credentialed.

Application Submissions

To be able to award licenses in 2006, application windows were opened for the submission of facility, manufacturer and supplier applications. The first such deadline was August 15, 2005, for manufacturer applications. The PGCB received applications from 12 manufacturers by this deadline. The next deadline was December 28, 2005 for slot operator applicants. By the end of that unprecedented day, the Bureau had received a total of 25 submissions delivered in 620 boxes, numerous shipping tubes, five metal chests and even a shopping bag. The breakdown for these submissions was:

| Category Type | Submissions | Licenses Available |
|----------------------------------|-------------|--------------------|
| Category 1 (racetracks) | 6 | 7 |
| Category 2 (stand alone casinos) | 17 | *5 |
| Category 3 (resorts) | 2 | 2 |

* The Gaming Act requires that two Category 2 licenses, and no more, be awarded in Philadelphia and one, and no more, be awarded in Pittsburgh.

The Enterprise License Unit determined that, of the 25 submissions, 21 met the prerequisite requirements and could be accepted for filing. Three submissions were found statutorily ineligible for filing and were returned by the Board to the applicants. (Three applicants later withdrew from the process).

The next filing deadline of February 28, 2006, was for supplier applicants and a second wave of manufacturer applicants. By this date, the Bureau received an additional 10 manufacturer submissions (bringing the total to 22) and 25 supplier submissions. After a review of the manufacturer and supplier submissions, 21 manufacturer applications and 24 supplier applications were accepted for filing.

| Licenses awarded in 2006 | |
|---|---|
| Category 1 | Category 2 |
| Chester Downs and Marina, LLC Downs Racing, LP Greenwood Gaming and Entertainment, Inc. Mountainview Thoroughbred Racing Association Presque Isle Downs, Inc. Washington Trotting Association, Inc. | HSP Gaming, LP Mount Airy #1, LLC Philadelphia Entertainment and Development Partners, LP PITG Gaming, LLC Sands Bethworks Gaming, LLC |
| Manufacturers | Suppliers |
| Aristocrat Technologies Australia Pty. Limited Aristocrat Technologies, Inc. Atronic Americas, LLC Bally Gaming, Inc. DigiDeal Corporation GTECH Corporation IGT Konami Gaming, Inc. Mikohn Gaming Corporation NRT Technology Corporation Shuffle Master, Inc. Spielo Manufacturing ULC Western Money Systems WMS Gaming, Inc. | Advanced Gaming Associates, LLC Betson Coin-OP Distributing Company, Inc. CGR Gaming Associates, LP Currency Counting Consultants, Inc. Gaming Ventures, LLC KGM Gaming, LLC Liberty Gaming Distributors, LP Modern Gaming Pennsylvania, LLC PA Gaming Supply Co., Inc. PAP Security Printing, Inc. Parkside Gaming, LLC Patriot Gaming & Electronics, Inc. PENNSLOT, Inc. Pennsylvania Coin & Slot, LLC Power Gaming, LLC TDN Money Systems Winner Security, LLC |

Results

On February 28, the Board approved its first manufacturer licenses. On June 28, the Board awarded its first supplier licenses. Under the Act, the Board was required to award an adequate number of manufacturer and supplier licenses before it could consider facility applications. With the award of additional supplier licenses in July, the path was cleared for approval of the state's first slot operators.

On September 27, the Board approved six conditional Category 1 operator applications. The first of these facilities, Pocono Downs, LP opened in November with the second, Greenwood Gaming and Entertainment Inc., opening in December. The Bureau's most significant milestone came on December 20, 2006 when the Board voted to award six permanent Category 1 and five Category 2 slot facility licenses.

Overall in 2006, the Enterprise License Unit reviewed 1,503 applications consisting of more than 250,000 pages of documentation from 374 entities and 1,132 individuals. Throughout 2006, the Board approved 14 manufacturers and 19 suppliers for licensure, although two supplier companies later consolidated and another declined the license.

Employee Licensing Unit: Responsible for receiving, reviewing, sending for investigation and recommending for approval or denial the applications of gaming and non-gaming employee applicants. The Employee Licensing Unit is also responsible for the gaming and non-gaming employees of suppliers, manufacturers, vendors, horsemen's organizations and organized labor organizations.

The Employee Licensing Unit worked with the Office of Information Technology to develop what

is believed to be the first online application system of its type in the gaming industry. The State Licensing Online Tracking System (SLOTSlink), began accepting its first applications in early September 2006 and SLOTSlink is now relied upon by slot facility operators to submit all gaming and non-gaming applications.

Vendor Certification Unit: Registers or certifies companies doing business in excess of \$2,500 with licensed slot facilities or applicants. Vendors include companies ranging from construction contractors building the facilities to the food and beverage providers once the facility is open.

Vendors are required to be either registered or certified, depending on the dollar amount of business being done over a 12-month period with the facility. Vendors whose business will not exceed \$200,000 per year are required to be registered while vendors whose business will exceed \$200,000 per year in one slots facility or will exceed \$500,000 per year in multiple slots facilities are required to be certified.



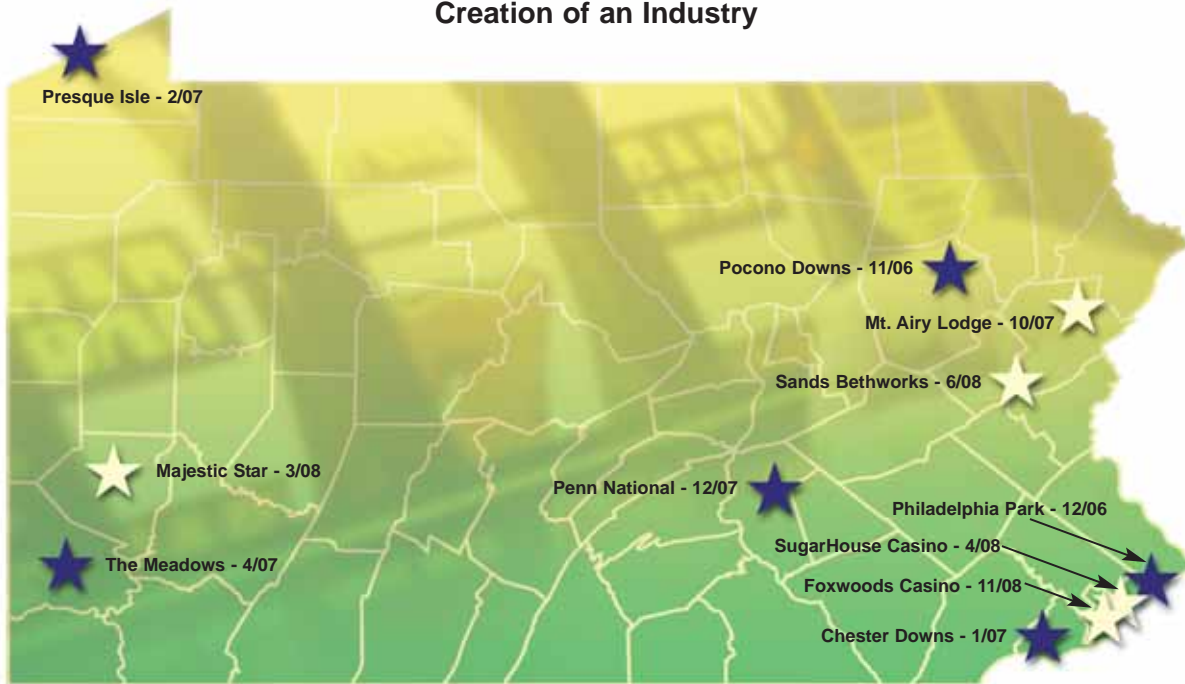
Special Services Unit:

Responsible for producing five types of employee credentials and overseeing document management, among other duties. In 2006, the Special

Services Unit produced nearly 2,000 credential badges, which must be worn in slots facilities by key employee qualifiers, key employees, gaming and non-gaming employees and PGCB staff. The unit works closely with the Pennsylvania State Police to obtain the applicants' photograph, electronic signature and characteristic data.



Creation of an Industry



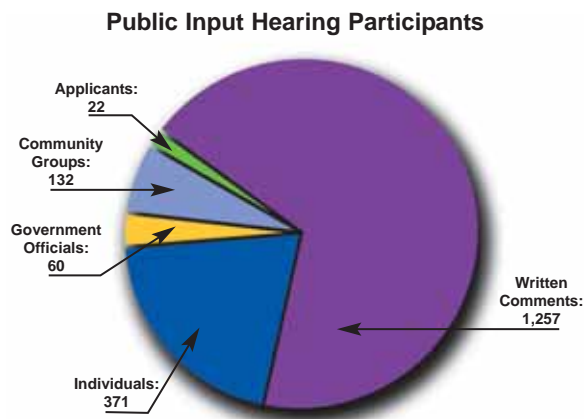
Horse Race Tracks

Stand Alone Venues

Act 71 permits slots gaming at up to 14 sites. Eleven with a maximum of 5,000 slots have been awarded to Horse Race Tracks and Stand Alone Venues. Dates listed indicate either the opening of a facility or the current target opening.

SPOTLIGHT ON...
Public Input Hearings

From its inception, the Pennsylvania Gaming Control Board has been committed to doing the people’s business in public. In this spirit, the Board in April and May 2006 traveled across the Commonwealth holding public forums on operator applications to hear from citizens, community organizations, local elected officials and the applicants themselves. This process was unprecedented in the history of gaming in the U.S., and gave the Board tremendous insight into the desires of the communities visited.



Highlights:

- 18 days of hearings in nine locations in the communities where gaming facilities were proposed. Hearing locations included: Philadelphia, Pittsburgh, Harrisburg, Allentown, Erie, Gettysburg, the Pocono region, Uniontown and Somerset.
- More than 1,800 people participated by testifying in person or submitting written comments.
- All hearings were open in their entirety to the public and the media and many were broadcast statewide on the Pennsylvania Cable Network.

SPOTLIGHT ON...
Licensing Hearings

Pursuant to its statutory mandate of protecting the public by regulating gaming in the Commonwealth, the Pennsylvania Gaming Control Board held extensive public hearings in 2006 in which applicants sought to establish their suitability for licensure as gaming operators in Pennsylvania.

During these hearings, Gaming Control Board members questioned applicants in detail about issues including the financial viability of their proposals, community impact and traffic. PGCB staff reported on the results of their investigations into the applicants.

Highlights:

- 13 days of hearings held in Harrisburg.
- Applicants testify under oath to establish their suitability for licensure.
- PGCB staff report on applicant investigations.
- All hearings open to the public and the media.

SPOTLIGHT ON...**2006 Key Events**

- **January** – PGCB returns three application submissions for being incomplete (three more applicants later withdraw from consideration).
- **February** – PGCB appoints Frank Donaghue Chief Counsel. PGCB awards first Manufacturer Licenses.
- **April-May** – PGCB conducts public-input hearings for 18 days at nine locations across Pennsylvania. More than 1,800 people testify in person or in writing.
- **June** – PGCB awards first Supplier Licenses.
- **September** – PGCB conducts suitability hearings over two days for conditional Category 1 Operator License applicants.
- **September 27** – PGCB awards first conditional Category 1 Operator Licenses.
- **November-December** – PGCB conducts suitability hearings for nine days on applications for permanent Operator Licenses.
- **November 14** – First licensed gaming facility, Mohegan Sun at Pocono Downs, opens near Wilkes-Barre.
- **December 19** – Second licensed gaming facility opens at Philadelphia Park in Bensalem.
- **December 20** – PGCB awards 11 permanent Operator Licenses (six Category 1 and five Category 2).

**SPOTLIGHT ON...****Central Control Computer System**

Pennsylvania's state-of-the-art Central Control System (CCS) monitors slots gaming in the Commonwealth by linking all operational slot machines to one central computer system.

The CCS is capable of supporting up to 61,000 slot machines throughout the Commonwealth – the maximum number of machines allowed by law – and will eventually be the largest such system in the world. It allows state regulators to monitor individual slot machines, in real time, to help ensure the integrity of slots gaming and to ensure that state taxes on gaming are collected.

The system supports the most widely used gaming industry communications protocol, SAS 6.01, thereby permitting almost all slot machine

manufacturers to offer machines to Pennsylvania operators. The system is capable of supporting additional protocols if they become available.

The system also provides many redundancies and disaster recovery capabilities so that each component of the network is capable of operating independently if any component fails.

The PA Department of Revenue manages the CCS and uses it to accurately account and collect the many different revenues due to the Commonwealth from slots operations.

Pennsylvania's central control computer system is operated by GTECH Corporation, of West Greenwich, R.I., a global leader in gaming technology.

Bureau of Corporate Compliance and Internal Controls



Denyse Miskin
Director of Corporate Compliance and Internal Controls

The Bureau of Corporate Compliance and Internal Controls is responsible for the planning, implementation and administration of a compliance and internal control monitoring program that provides continuous assessment of the financial performance, accounting practices and internal control procedures for all holders of slot machine facility licenses in the Commonwealth.

In 2006, the Bureau was assigned to assess the initial and ongoing financial suitability of all Category 1, 2 and 3 applicants for a slot machine facility operator license. To accomplish this significant task, the Bureau established a Financial

Suitability Task Force to compile and analyze all of the information received from the applicants. A standard assessment process was developed to ensure a highly consistent approach for all applicants which was primarily focused on numerical analyses of the financial statements utilizing common analytical tools such as ratio analysis, trend analysis and benchmarking to study historical and estimated financial performance.

The Task Force examined and analyzed corporate structure ownership, reviewed financial statements, determined sources and uses of funds, and determined that financial control was accurately disclosed. In addition, it examined and analyzed scores of entities, hundreds of individuals, and spent thousands of hours completing the assigned task. A final report was compiled to assist Board members during their deliberation process and the information obtained through the analyses was an integral part of this report.

Post licensure, the Bureau of Corporate Compliance and Internal Controls is responsible for ensuring compliance with the regulations pertaining to financial information reporting, tax revenue analysis, and continual approval and review of accounting and internal control procedures. This includes maintaining a consistent presence within the licensed slot machine facilities. It will work with the slot machine facility operators when necessary to achieve compliance, yet maintain an appropriate professional separation so that the Bureau's objectivity is not jeopardized.

SPOTLIGHT ON... Racetrack Gaming

Recognizing the importance of a strong relationship between gaming and the horse race industry, the Gaming Control Board established in 2006 a Racetrack Gaming Bureau to serve as the primary liaison between these two industries including:

- Regularly participating in monthly meetings of the Horse and Harness Racing Commissions.
- Serving in negotiations on any issues which may arise with respect to the distribution of funds to the horsemen with the Department of Revenue.
- Assuring that the horsemen comply with reporting requirements including an annual audit, quarterly reports on the receipt and distribution of funds received from gaming, and documents showing upgrades to the backside area of the racetracks.
- Implementing the regulatory schemes envisioned in the gaming law.



By the end of 2007, it is envisioned that there will be six racetrack casinos in operation:

1. Mohegan Sun at Pocono Downs in Wilkes-Barre/Scranton
2. Philadelphia Park Casino and Racetrack in Bensalem
3. Harrah's Chester Casino and Racetrack in Chester
4. Presque Isle Downs in Erie
5. The Meadows in Washington County
6. Penn National in Grantville



SPOTLIGHT ON...

Diversity

The Pennsylvania Gaming Control Board is committed to promoting and ensuring diversity in all aspects of gaming as required by the Race Horse Development and Gaming Act.

To achieve this, the Board has appointed a Chief Diversity Officer who works closely with applicants and licensees to support them as they recruit, hire and train employees. The Board's Diversity Officer also closely monitors the interaction between licensees and their suppliers and vendors.

In late 2005, the Board held gaming diversity forums in Philadelphia and Pittsburgh to promote the inclusion of women and minority-owned businesses in the Commonwealth's emerging gaming industry.

Following the success of the diversity forums in the eastern and western parts of the state, the Chief Diversity Officer and Director of Human Resources participated in the Business Diversity Works Conference, which was held in September 2006 in Hershey. This event helps women and minority-owned businesses gain access and opportunity to compete for significant contracts with large corporations.

Over the past year, the Chief Diversity Officer was an active participant in the slot machine operator licensing process, joining forces with fellow Office of Chief Counsel attorneys in the preparation of suitability reports used by the

Board to make decisions concerning the fitness of applicants for licensure. The CDO reviewed, summarized and assessed each diversity plan submitted to the PGCB by applicants.

The CDO also met with representatives for the various applicants to discuss the diversity initiatives contained in the diversity plans and prepared diversity plan assessments for each of the applicants seeking licensure.

In 2007, the Chief Diversity Officer will engage in the following activities to achieve the diversity goals as set forth in the Gaming Act:

- Review quarterly diversity reports from licensees.
- Hold licensees' management teams responsible for implementing and disseminating their diversity initiatives.
- Make unannounced visits to the various facilities and construction sites to ensure compliance with the Act's diversity requirements.
- Monitor diversity activities of licensees relating to construction and supplier contracts.
- Meet regularly with licensees to discuss employee recruitment and retention.
- Visit other gaming jurisdictions to observe their diversity initiatives.



25¢

New Gaming Ind




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CASINO



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regulate slot machine industry



**MOHEGAN
SUN**
AT POCONO DOWNS



ING UP
SLOTS CASINOS IN PENNSYLVANIA

THE GAMES BEGIN

Pa. licenses racetracks as first cas

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**Slots hearing
hit high gear
this week**



Bureau of Investigations and Enforcement



David Kwait
Director, Bureau of Investigations and Enforcement

The primary mission of the Bureau of Investigations and Enforcement (BIE) is to ensure the integrity of the Commonwealth's gaming industry through suitability investigations of gaming operators, their key employees and key employee qualifiers to determine their business viability and suitability for licensing. In addition to suitability of casino entity applicant investigations, BIE also conducts suitability investigations for manufacturers, suppliers, casino employees, vendors and other businesses interested in conducting business within the Commonwealth's gaming industry. BIE performs this function in cooperation with the Pennsylvania State Police, Department of Revenue and private investigative background companies.

BIE conducted a comprehensive investigation into the background and suitability of applicants, affiliates, entity qualifiers, key employees, and key employee qualifiers. All applicants were

interviewed at length, as were employees, neighbors, personal references, educators and law enforcement agencies. Additional elements of these business and personal background investigations were inquiries concerning the applicant's regulatory history in other jurisdictions, criminal checks, tax record examinations, and database checks regarding both political contributions and court records for pending and concluded civil litigation.

As casinos prepared to open, BIE assigned casino enforcement agents to each facility to ensure an immediate response to patron complaints and on-site investigations. These agents are present at all times while the casinos are open, which allows them to ensure compliance with state law and PGCB regulations.

Following the award of slots operator licenses, focus for BIE turned to the voluminous background investigations to license casino employees, registered vendors and certified vendors.

Presently, BIE and the Bureau of Licensing, in conjunction with the Office of Information Technology are working on a project to enable the SLOTSlink computer system to access registered vendor applications. By the end of 2006, 102 registered vendor applications have been received, but it is anticipated over 12,000 will be ultimately submitted through this proprietary online system.

The year 2006 also witnessed long range planning to best meet the demands of a growing industry with locations across the Commonwealth. BIE initiated and completed the set up of offices designed to position staff in a manner that would ensure the ability to efficiently address investigations. Along with the Central Office in Harrisburg, PGCB established Eastern (Conshohocken) and Western (Pittsburgh) Regional Offices.

Investigations Conducted by BIE

| Applicant | Facility | Entity Qualifiers | Key Employee Qualifiers | Key Employees | Affiliates | Management Companies | Total | Permittees | Non Gaming | Total |
|---|-----------|-------------------|-------------------------|---------------|------------|----------------------|------------|-------------|-------------|-------------|
| Downs Racing, LP | 1 | 0 | 19 | 27 | 6 | 0 | 53 | 465 | 298 | 816 |
| Mountainview Thoroughbred Racing Assoc. | 1 | 3 | 14 | 2 | 3 | 0 | 23 | | | 23 |
| Keystone Redevelopment Partners, LP | 1 | 9 | 49 | 1 | 18 | 0 | 78 | | | 78 |
| Riverwalk Casino, LP | 1 | 5 | 19 | 0 | 11 | 1 | 37 | | | 37 |
| Chester Downs & Marina, LLC | 1 | 4 | 103 | 31 | 4 | 1 | 144 | 537 | 680 | 1361 |
| Greenwood Gaming & Entertainment, Inc. | 1 | 3 | 9 | 33 | 5 | 0 | 51 | 339 | 498 | 888 |
| HSP Gaming, LP | 1 | 2 | 24 | 1 | 14 | 0 | 42 | | | 42 |
| Mt. Airy #1, LLC | 1 | 0 | 3 | 3 | 0 | 0 | 7 | | | 7 |
| Philadelphia Entertainment & Development Partners, LP | 1 | 1 | 23 | 0 | 12 | 0 | 37 | | | 37 |
| PNK PA, LLC | 1 | 1 | 31 | 0 | 1 | 0 | 34 | | | 34 |
| Boyd PA Partners, LP (Withdrawn) | 1 | 1 | 35 | 0 | 2 | 0 | 39 | | | 39 |
| Presque Isle Downs, Inc. | 1 | 2 | 15 | 15 | 2 | 0 | 35 | 114 | 85 | 234 |
| Washington Trotting Association, Inc. | 1 | 5 | 42 | 9 | 13 | 1 | 71 | 5 | | 76 |
| PITG Gaming, LLC | 1 | 3 | 9 | 0 | 3 | 0 | 16 | | | 16 |
| IOC Pittsburgh, Inc. | 2 | 5 | 26 | 9 | 2 | 0 | 44 | | | 44 |
| Station Square Gaming, LP | 1 | 7 | 77 | 0 | 8 | 1 | 94 | | | 94 |
| Crossroads Gaming Resort & Spa, LP | 1 | 1 | 30 | | 20 | 1 | 53 | | | 53 |
| Pocono Manor Investors, LP | 1 | | 17 | 2 | 4 | | 24 | | | 24 |
| Sands Bethworks Gaming, LLC | 1 | 3 | 30 | | 8 | | 42 | | | 42 |
| Tropicana Pennsylvania, LLC | 1 | 7 | 16 | 3 | 5 | | 32 | | | 32 |
| | 21 | 62 | 591 | 136 | 141 | 5 | 956 | 1460 | 1561 | 3977 |

SPOTLIGHT ON...**Compulsive and Problem Gambling**

Pennsylvania has demonstrated its commitment to understanding and lessening the devastating effects of pathological gambling by establishing an Office of Compulsive and Problem Gambling (OCPG). This office is dedicated to ensuring that every slot machine operator has established, and continues to comply with, an approved compulsive and problem gambling plan which includes:

- Training of employees.
- Procedures for the dissemination of materials and outreach programs.
- Heightening of public awareness of the dangers of compulsive, problem, intoxicated and underage gambling.
- Development of prevention programs and harm reduction tools for gamblers.
- Establishment of education programs for residents of all ages.
- Working with the Department of Health and the Horse, Harness and Lottery Commissions.
- Directing of problem gamblers and their families to compulsive gamblers assistance organizations' toll-free helplines for crisis counseling, referral services and treatment.

As in all jurisdictions, the OCPG launched a Self-Exclusion program—a voluntary program to

assist problem gamblers to be excluded from participating in legalized gaming activities at facilities under the jurisdiction of the Board. In addition, the Self-Exclusion program blocks individuals from participating in ancillary gaming programs that may be a temptation for problem gamblers such as check cashing privileges, player club memberships, complimentary goods and services, targeted mailings and promotional materials related to gaming activities. A trained Board employee personally conducts an intake interview which creates an opportunity to also discuss prevention, education and treatment options. Staff also uses the opportunity to collect data that will allow for continued expansion and improvement of compulsive and problem gambling programs.

In November and December 2006, the Director of OCPG reviewed and approved the compulsive gambling plans, training procedures, internal controls and signage for Mohegan Sun at Pocono Downs and Philadelphia Park, respectively, prior to each facility's opening.

The OCPG has begun and will continue to explore creating a consortium with the Commonwealth's other gaming related agencies and commissions in an effort to have a consistent and comprehensive approach to the prevention, education, treatment and research of gambling problems.

WHEN IT'S NO LONGER A GAME

When it's no longer a game, call
The Council on Compulsive Gambling
of Pennsylvania toll free

1.800.GAMBLER
(1.800.848.1800) or
1.215.398.4008 (Out of State)

SPOTLIGHT ON...
Technology

The PGCB's task of investigating, licensing and coordinating the opening of casinos required the need for storage and sharing of a tremendous amount of information. Led by the Office of Information Technology, two key systems were developed to handle this task.

In 2006, the Gaming Control Board developed what is believed to be the first online system of its type in the gaming industry. The State Licensing Online Tracking System, or SLOTSlink, allows casino employees to submit their applications electronically and expedite a process that previously involved paper applications. This secure online tool steps the applicant through each applicable section of their background information. Once the applicant completes all required information, the automated interface sends the appropriate data to state agencies to gather the required background information and verifications.

Through the end of 2006, SLOTSlink transmitted information electronically to BIE that enabled review and approval of 2,150 casino employee applications, 1,240 of which were for gaming employees and 910 for non-gaming employees. As more casinos open, the number of employees investigated will greatly increase and

casino employee applications will continue during the operation of the facilities.

For the future, the PGCB is developing a module for the licensing of registered vendors. SLOTSlink will also be expanded to address the ongoing monitoring and tracking of regulatory compliance.

Once applications were received and reports were needed, it became very apparent that BIE would need a case management system capable of storing, tracking and retrieving voluminous amounts of information contained in the applications, addendums, supplements, investigative files and additional requested information. The Office of Information Technology utilized the framework of the Microsoft Office Sharepoint program as this case management system to track the documents received and produced during the course of investigations. This case management system has allowed BIE to streamline the process of planning, developing and conducting investigations, enabling investigators to resolve cases more rapidly and in a more efficient manner as well as maintain an archive of each individual investigation.

SLOTSlink



SharePoint



Office of Enforcement Counsel

The Office of Enforcement Counsel operates as a separate office within the Bureau of Investigations and Enforcement. This office, headed by the Chief Enforcement Counsel, provides legal advice to the Bureau for investigations and initiates proceedings for violations of the act to seek civil fines and penalties, imposing licensing conditions, or suspending or revoking a license.

The office reports directly to the Board's Executive Director on administrative and operational matters, and remains separate from the Board so that prosecutorial and adjudicative functions are never commingled.

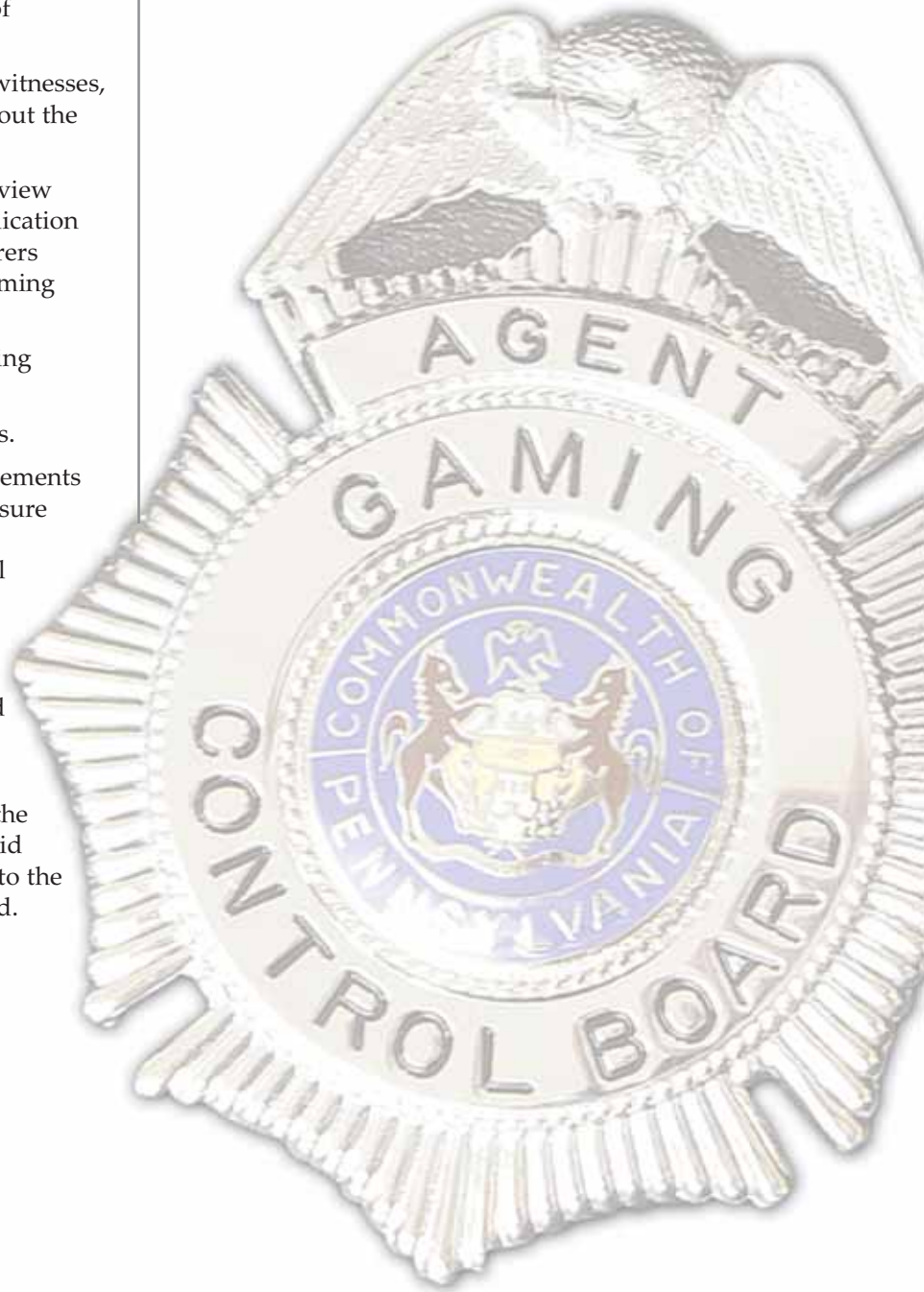
During 2006, the Office of Enforcement Counsel expanded beyond its Harrisburg Central location and established an Eastern and Western

| 2006 Fines | | | |
|---|----------|----------------------------------|-----------------|
| Names | Date | Infraction | Fine |
| Mountainview Thoroughbred Racing Assoc. | 9/27/06 | Officers Political Contributions | \$50,000 |
| Harold Cramer | 9/27/06 | Political Contributions | \$2,500 |
| Robert P. Levy | 9/27/06 | Political Contributions | \$3,306 |
| Phila. Entertainment & Development Partners, LP | 12/4/06 | Officer Political Contributions | \$100,000 |
| Peter D. DePaul | 12/4/06 | Political Contributions | \$100,000 |
| HSP Gaming, LP | 12/4/06 | Officer Political Contributions | \$5,000 |
| Daniel J. Keating, III | 12/4/06 | Political Contributions | \$1,000 |
| Riverwalk Casino, LP | 12/4/06 | Political Contributions | \$5,000 |
| Herman Wooden | 12/4/06 | Political Contributions | \$1,000 |
| Michael A. Serluco | 12/13/06 | Political Contributions | \$1,000 |
| Crossroads Gaming Resort & Spa | 12/13/06 | Officer Political Contributions | \$5,000 |
| Peter J. Ressler, Sr. | 12/13/06 | Political Contributions | \$1,000 |
| Samuel Staten, Sr. | 12/13/06 | Political Contributions | \$1,000 |
| Joseph T. Ashdale | 12/13/06 | Political Contributions | \$1,000 |
| | | | TOTAL \$276,806 |

*In accordance with the Racehorse Development and Gaming Act, fines are deposited into the Commonwealth's General Fund within the State Treasury.

office, each staffed with a Deputy to more easily coordinate investigations with the Bureau staff at those locations. In addition, the Office of Enforcement Counsel:

- Took sworn statement of applicants, witnesses, and other persons of interest throughout the operator licensing process.
- Worked hundreds of man hours to review investigations on each and every application for operator, supplier and manufacturers license, as well as vendor and non-gaming employee permits.
- Participated at hearings and pre-hearing conferences for license applications.
- Refined Bureau and Board regulations.
- Drafted and negotiated Consent Agreements with operator license applicants to ensure that no applicant was permitted to circumvent the prohibition of political contributions.
- Compiled information and drafted addendums for operator applicant suitability reports necessary for Board licensing action.
- Reviewed all petitions to withdraw applications to ensure the legality of the request and that all fees have been paid and received prior to recommending to the Board that the withdrawals be granted.



Bureau of Administration



Michael Walsh
Director, Bureau of Administration

The Bureau of Administration provides administrative services and policy direction to the newly created Pennsylvania Gaming Control Board.

A dedicated staff with both public and private sector experience assist with the information technology, human resources and office services support that is required to help more than 200 employees carry out their duties in a highly visible regulatory environment.

Human Resources:

More than 135 employees joined the PGCB in 2006. Human Resources staff assist with candidate recruitment and selection and work alongside the Office of Professional Responsibility to ensure

that background investigations, including drug screening tests, are conducted on all candidates as mandated by the Board and Act 71. In 2006, the Human Resources Office helped create the organizational framework for the agency, including a classification and compensation system, employee handbook and policy manual and the new employee orientation and training program.

Information Technology:

In addition to providing the desktop and LAN support for agency employees, the staff in the IT office help each bureau meet their business goals by providing project management on numerous IT endeavors. One example is the SLOTSlink online application system. In addition, as 2006 saw the opening of two regional offices and two casinos, the IT staff were hard at work to ensure the connectivity of voice/data systems wherever a gaming employee is located.

Office Services:

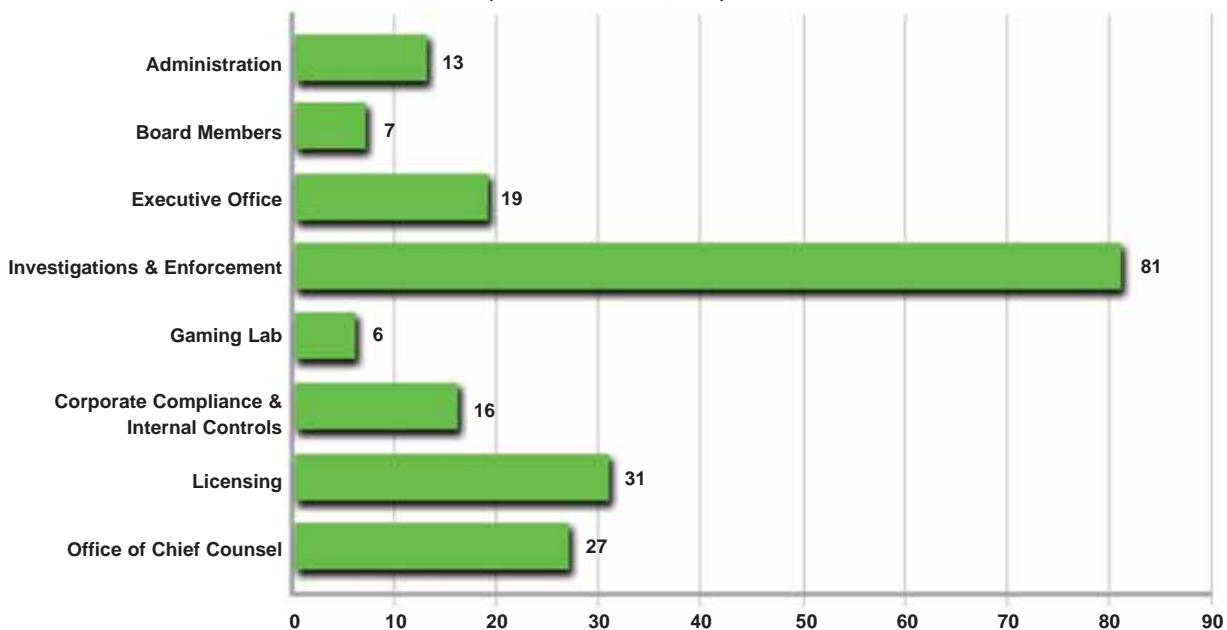
As the staff grew in 2006, so did the demands for space. The PGCB opened regional offices in Pittsburgh and Philadelphia, as well as expanded its presence in downtown Harrisburg. The Office Services staff worked with the Department of General Services to advertise for space and negotiate leases. Staff worked to plan the build-out of these new locations and the procurement of furniture, IT systems and office supplies. Additionally, the general procurement and travel/conference planning needs of the entire agency are handled by the Office Services staff.



2006 Workforce Report

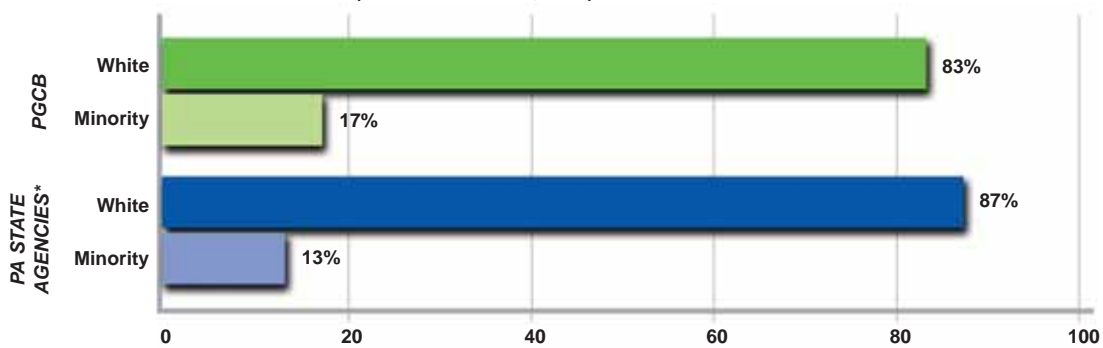
Employees by Bureau

(as of December 31, 2006)



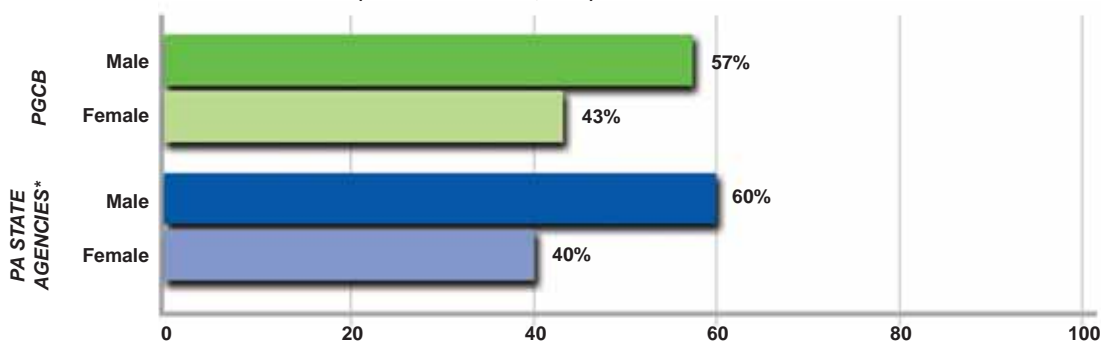
Minority Representation

(as of December 31, 2006)



Gender Representation

(as of December 31, 2006)



*Governor's Annual Workforce Report - 2006

Office of Chief Counsel



Frank Donaghue
Chief Counsel

The Office of Chief Counsel serves as legal counsel to the Gaming Control Board on issues of policy and procedure including administration, personnel, budget, operations, gaming, licensing and enforcement. The separation between the Board's adjudicatory functions and the investigative and prosecutorial roles of gaming law enforcement are maintained through a Bureau of Investigations and Enforcement which is counseled by a Chief Enforcement Counsel who does not report to the Office of Chief Counsel.

Licensing: The Office of Chief Counsel was instrumental in preparing the Board for licensing slot machine operators, manufacturers and suppliers. This included reviewing and evaluating applicants for compliance with applicable laws, licensing in other jurisdictions or by their regulating bodies, diversity plans and commitments to assuring diversity and equal opportunity to all Pennsylvanians.

Hearings: OCC developed a hearing procedure and process for the Board to utilize for the final licensing hearings to determine which applicants for operator licenses would be selected. The culmination of these hearings marked the

completion of the development of the full evidentiary record for each license applicant.

Regulatory Review: The Office of Chief Counsel drafted temporary regulations, encompassing more than 550 pages, which are now under review by the Independent Regulatory Review Commission for inclusion as the final Regulations of the Gaming Control Board. This comprehensive body of regulations serves as the framework for which the Board ensures the integrity of the casino gaming industry.

Diversity: The Deputy Chief Counsel of Administration also serves as the Chief Diversity Officer for the PGCB, charged with the responsibility of promoting and ensuring diversity in all aspects of gaming authorized under Act 71. Consistent with this duty, the Chief Diversity Officer also monitors the internal diversity initiatives of the PGCB.

Litigation: The Office of Chief Counsel also has responsibilities for maintaining a defense to statutory and regulatory challenges relating to the Gaming Act as permitted within the confines of the Commonwealth Attorneys Act and defending administrative law claims against the Gaming Control Board including under the Pennsylvania Human Relations Act, the Unemployment Compensation Act, the Right to Know Act and other relevant laws. During 2006, the Office of Chief Counsel was involved in the defense of two actions against the Board in the Pennsylvania Supreme Court: *Casino Free Philadelphia v. Commonwealth*, No. 153 EM 2006 (a state constitutional challenge to the gaming Act) and *Citizens Against Gambling Subsidies v. Pa Gaming Control Board*, No. 90 WM 2006 (an appeal of the grant of a Conditional Category 1 license to Presque Isle Downs). Both actions were pending disposition at the end of 2006.

Administration: The Office of Chief Counsel also drafts internal policies of the Gaming Control Board to assure compliance with applicable federal and state laws and assisted in drafting the Board's Ethics Code, Employee Handbook and other forms and policies used daily by the PGCB.

Bureau of Gaming Laboratory Operations

The primary function of the Bureau of Gaming Laboratory Operations is to ensure the performance and integrity of slot machines and associated equipment used in Pennsylvania casinos. All products are thoroughly tested in a state of the art lab at the Harrisburg office to certify regulatory compliance with all minimum design standards regarding security and 85 percent minimum payback. In addition to testing done at the lab, the Gaming Lab is also responsible for compliance of the slot machine floor, the IT room, the count room, and the cashier's stations of every casino in Pennsylvania. The lab also works closely with other state agencies such as the Department of Revenue, whose central control system is used to perform vital tests such as the daily authentication of every machine on the slot floor.

Gaming Laboratory staff played an important role in the opening of Pennsylvania's first two slots casinos, checking each of the nearly 3,200 slot machines for compliance with the statute and the Board's regulations.

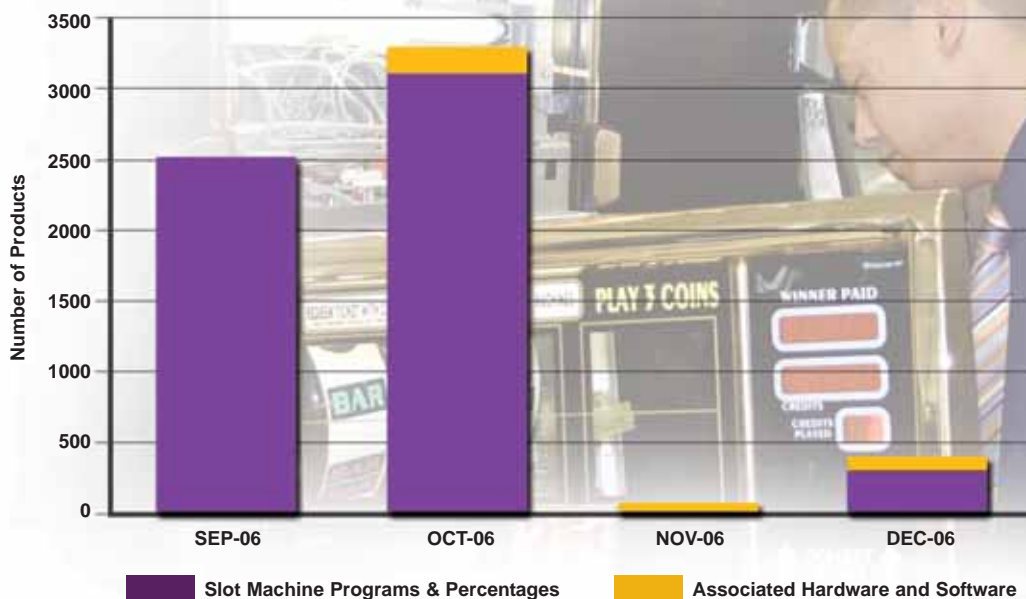
The Bureau of Gaming Laboratory Operations consists of three units.

Statistical Review: Responsible for evaluating the theoretical return for each gaming theme submitted for review, analysis of progressive award payouts and random number generator analysis.

Systems and Kiosks: Responsible for evaluating the communications between slot machines and both the central control system and the casino's slot monitoring systems, analysis of voucher redemption machines and evaluation of count room equipment.

Slot Certification: Responsible for evaluating gaming devices for compliance with Pennsylvania's minimum design standards, modifications to gaming devices, ancillary equipment and conducting investigations of regulatory violations.

Gaming Lab Products Analyzed



Board Budget



Eileen McNulty
Chief Financial Officer

With the passage of Act 71 of 2004, the Commonwealth issued a \$36.1 million loan to the Gaming Control Board, the Pennsylvania State Police and the Department of Revenue to fund the start-up costs associated with Pennsylvania's emerging new gaming industry.

The Department of Revenue received \$21.1 million and the Gaming Control Board and State Police each received \$7.5 million.

Over the past 30 months, the Board's revenue has come from six primary sources:

- \$7.5 million loan from the General Fund
- \$7.3 million interagency loan from the Department of Revenue in 2005-06

- \$6.6 million interagency loan from the Department of Revenue in 2006-07
- \$3.85 million interagency loan from the Pennsylvania State Police in 2006-07
- \$11.3 million in investigative fees and deposits paid by applicants and licensed entities
- \$1.6 million in license fees paid by manufacturers, suppliers and management companies

The Gaming Act requires licensed slots operators to deposit \$5 million into a restricted account two days prior to opening. The Department of Revenue is authorized to withdraw funds from those accounts on a weekly basis to reimburse the PGCB, State Police, DOR and the Office of Attorney General for the regulatory costs associated with gaming.

In this way, the regulatory activities of PGCB, State Police, DOR and OAG will be funded entirely by casino operators and at no cost to taxpayers. The gaming oversight costs are in addition to state taxes and assessments totaling 55 percent of Gross Terminal Revenue.

In addition to approving its annual budget, the PGCB also approves the gaming oversight budgets for the State Police, the Department of Revenue and the Office of Attorney General. All budgets are subject to review and approval by the General Assembly.

Gaming Delivers for Pennsylvania

In 2004, the Commonwealth issued a \$36.1 million loan from the General Fund to fund the start-up costs associated with gaming. In less than two months, slots have returned more than \$117 million in gaming revenue, satisfying the initial loan of tax dollars and contributing a significant amount toward property tax relief and other initiatives. By July 1, 2007, gaming is projected to generate a total of \$501.5 million for the Commonwealth

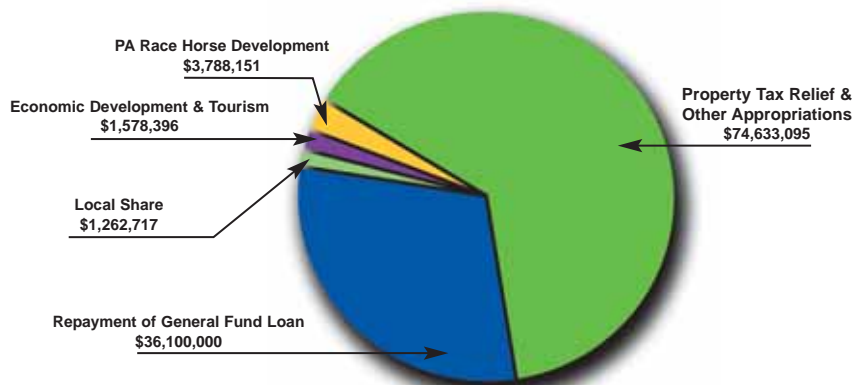


2006 Gaming Revenue & Results
November 14 through December 31, 2006

| | Mohegan Sun | Philadelphia Park | Total |
|--------------------------|---------------|-------------------|---------------|
| Slot License Fee | \$50,000,000 | \$50,000,000 | \$100,000,000 |
| Wagers | \$216,671,831 | \$113,642,773 | \$330,314,604 |
| Payouts | \$195,016,798 | \$103,729,875 | \$298,746,673 |
| Promotional Plays | \$0 | \$5 | \$5 |
| Gross Terminal Revenue | \$21,655,033 | \$9,912,893 | \$31,567,926 |
| Tax (55%) | \$11,910,268 | \$5,452,091 | \$17,362,359 |
| Operator Share (45%) | \$9,744,765 | \$4,460,802 | \$14,205,567 |
| Authorized Slot Machines | 1,099 | 2,076 | 3,175 |
| Operating Days | 48 | 12 | NA |
| Slot Win Per Day | \$411 | \$398 | \$407 |

*The Authorized Slot Machine number is an average and can vary slightly day to day. Tax revenue and operator share are esstimated by PGCB. Promotional plays are not taxable by statue.

Distribution of Gaming Revenue
Total \$117.4 million



Charities Benefit from Gaming

When the Gaming Control Board oversees the final practice runs for new slots facilities called “test nights”, the amount from Gross Terminal Revenue that would normally go to the operator is gifted as a charity. The licensed operator designates the charitable organizations that will receive the funds and may also add additional charitable dollars to its amount.

| | Charities | Contribution |
|--|--------------------------------------|-------------------|
| Mohegan Sun at Pocono Downs | United Way of Wyoming Valley | \$42,025 |
| | Philadelphia Heroes Scholarship Fund | \$77,120* |
| Philadelphia Park Casino and Racetrack | Bucks County Heroes Scholarship Fund | |
| | Living Beyond Breast Cancer | |
| Total | | \$ 119,145 |

*Philadelphia Park donated an additional \$22,880 to raise the total donations to these charities to \$100,000.

| PGCB Budget 2005-06 | |
|---|---------------------|
| REVENUE | |
| Act 71 Appropriation Carry Forward | \$4,645,573 |
| Transfer from DOR | \$7,300,000 |
| Application Fees/Investigative Deposits | \$3,864,379 |
| Manufacturer License Fees | \$450,000 |
| Total Revenue | \$16,259,952 |
| EXPENDITURES | |
| Personnel Expenditures | |
| Salaries & Wages | \$6,694,602 |
| Benefits | \$2,096,902 |
| Payouts & Allowances | \$48,134 |
| Total Personnel Expenditures | \$8,839,638 |
| Operating Expenditures | |
| Travel | \$387,423 |
| Training | \$21,335 |
| Communications | \$408,185 |
| Other Operating Expenses | \$188,259 |
| Services | \$1,856,596 |
| Rentals/Lease | \$503,848 |
| Supplies | \$247,677 |
| EDP Software | \$66,699 |
| Computer Equipment | \$211,782 |
| Furniture/Fixtures | \$467,300 |
| Other Equipment | \$8,334 |
| Total Operating Expenditures | \$4,367,437 |
| Total Expenditures | \$13,207,075 |
| Revenues over (under) Expenditures | \$3,052,877 |



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