

1 THE COMMONWEALTH OF MASSACHUSETTS
2 MASSACHUSETTS GAMING COMMISSION
3 ADJUDICATORY HEARING
4 PUBLIC MEETING #85
5
6 -----

7 RE: APPLICATION FOR STERLING SUFFOLK
8 RACECOURSE, LLC FOR PHASE 1 SUITABILITY
9 DETERMINATION FOR A CATEGORY 1 GAMING LICENSE
10 -----

11 CHAIRMAN

12 Stephen P. Crosby

13 COMMISSIONERS

14 Gayle Cameron

15 James F. McHugh

16 Bruce W. Stebbins

17 Enrique Zuniga

18 October 29, 2013, 9:30 a.m.

19 BOSTON EXHIBITION AND CONVENTION CENTER

20 Room 151B

21 415 Summer Street

22 Boston, Massachusetts
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APPEARANCES:
ON BEHALF OF THE MASSACHUSETTS GAMING COMMISSION:

MASSACHUSETTS GAMING COMMISSION
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WITNESSES: Charles Baker
William Mulrow
Thomas Reilly
Paul "Chip" Tuttle

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Charles Baker Mr. Mackey 70

EXHIBITS (Massachusetts Gaming Commission):

- Exhibit 1..... MGC Notice of Adjudicatory Proceeding
- Exhibit 2.....Memorandum re: Adjudicatory Proceeding
- Exhibit 3.....Cover Letter to MGC from Director Karen Wells
- Exhibit 4.....MGC Investigative Report, Applicant Sterling Suffolk Racecourse, LLC
- Exhibit 5.....October 18, 2013 Sterling Suffolk Racecourse, LLC letter to Caesars Massachusetts Investment Company, LLC and Caesars Massachusetts Management Company, LLC
- Exhibit 6.....October 21, 2013 Caesars Entertainment Corporation letter to MGC

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EXHIBITS (Sterling Suffolk Applicant):
Exhibit 1.....SSR Plan for Finding New Operator
Exhibit 2.....SSR Check-cashing policies and
 procedures

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

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2
3 CHAIRMAN CROSBY: Good morning. I
4 think we're ready to convene, if everybody would
5 take their seats. Because this is an
6 adjudicatory hearing, I handle this a little bit
7 more formally. Today is Tuesday, October 29,
8 2013. This is a Phase 1 suitability hearing
9 before the Massachusetts Gaming Commission
10 relative to the application of Sterling Suffolk
11 Racecourse, LLC.

12 My name is Steve Crosby and I am the
13 Chairman of the Commission. I am joined today
14 by Commissioners Cameron, McHugh, Zuniga and
15 Stebbins. By way of clarification, we also have
16 called at three o'clock this afternoon a special
17 meeting of the Commission to discuss the issue
18 of the referendum in Revere and Boston on
19 November 5, given the changes in circumstances
20 in the last few days and weeks.

21 That is a separate matter, but we
22 will be discussing that at a separate meeting,
23 which will begin at three o'clock this
24 afternoon.

1 The entire Commission will preside
2 over this hearing and the decision of this
3 matter. This is an adjudicatory proceeding
4 which is convened in accordance with 205 CMR
5 115.04, paragraph three and will be conducted
6 pursuant to the formal rules outlined in 801 CMR
7 1.01 subject the clarifications contained in 205
8 CMR 101.03 and chapter 30A of the General Laws.

9 Before we begin, I'd like to explain
10 the procedural history that led us here as well
11 as the process that will govern the proceeding.
12 Sterling Suffolk Racecourse, LLC submitted a
13 Phase 1 application to the Commission. The
14 Commission then instructed the Investigations
15 and Enforcement Bureau to commence an
16 investigation into the suitability of the
17 applicant to hold a gaming license in
18 Massachusetts.

19 The Bureau has conducted such an
20 investigation into the qualifications and
21 suitability of the applicant and its qualifiers,
22 and generated an investigative report of its
23 findings, which it submitted to the Commission.
24 A copy of the report was also provided by to the

1 applicant by the Commission.

2 Based on the report, the Commission
3 has scheduled this proceeding on its own
4 initiative. I see that a number of lawyers are
5 present here today, as usual, on behalf of the
6 applicant and the Bureau. I will ask that you
7 each please identify yourself and advise the
8 Commission as to whom you represent, all lawyers
9 at work.

10 MR. MACKEY: Good morning, Mr.
11 Chairman, Commissioners. David Mackey and Nina
12 Pickering Cook from the law firm Anderson and
13 Kreiger representing the Investigations and
14 Enforcement Bureau this morning.

15 MR. FALBY: Good morning, Mr.
16 Chairman and Commissioners. My name is Bruce
17 Falby from the law firm of DLA Piper
18 representing the applicant, Sterling Suffolk
19 Racecourse, LLC.

20 CHAIRMAN CROSBY: Anybody else?

21 MR. REILLY: Yes, Thomas Reilly from
22 the law firm of Cooney, Manion, Jones
23 representing the applicant Sterling Suffolk.

24 CHAIRMAN CROSBY: Anybody else?

1 Thank you, Counsel. At the conclusion of my
2 opening comments, this proceeding will commence
3 with a recitation and explanation of the
4 investigative report filed by the Bureau.

5 We will ask the Bureau to outline
6 they manner in which the investigation was
7 conducted and outline the findings relative to
8 each qualifier. The Bureau's presentation will
9 largely be made by Karen Wells who is the
10 Director of the Bureau.

11 Director Wells is joined by the
12 consultants from the Spectrum Gaming group who
13 assisted in the conduct of investigation. We
14 will allow the consultants to offer any
15 clarification or answer any questions during
16 Director Wells' presentation. Any Commissioner
17 may ask a question of Director Wells or a
18 consultant at any point during or following her
19 presentation.

20 At the conclusion of the Bureau's
21 presentation, the applicant through its counsel
22 will be afforded an opportunity to cross-examine
23 Director Wells or a consultant relative to any
24 information contained in the investigative

1 report or to which they testified. The
2 applicant may reserve its right to cross-
3 examination until the end of their own
4 presentation if they so choose.

5 Next the applicant will be given an
6 opportunity to present its case. The burden is
7 on the applicant to demonstrate by clear and
8 convincing evidence both its affirmative
9 qualifications for licensure and the absence of
10 any disqualification for licensure. To that
11 end, the applicant has already subjected itself
12 to a thorough background investigation, the
13 results of which are set out in the
14 investigative report. Those findings will be
15 considered in determining whether the burden has
16 been satisfied.

17 For purposes of this proceeding,
18 however, the applicant may call any witnesses
19 and present any other evidence it desires in an
20 effort to satisfy its burden. The Commission
21 has directed that a minimum Joseph O'Donnell,
22 Richard Fields, William Mulrow, Paul Tuttle, John
23 Rizzo and Charles Baker be available to present
24 testimony as to the issues set forth in the

1 notice of this hearing that was provided to the
2 applicant.

3 I understand that counsel for the
4 applicant had an opportunity to meet with
5 counsel for the Bureau and Commission to discuss
6 this proceeding. The purpose in part was to
7 clarify some of the issues that the applicant
8 should address in its presentation. Those are
9 primarily the issues that will be set forth in
10 the written notice of this hearing. Is that
11 correct for all of you?

12 MR. MACKEY: Yes, it is.

13 CHAIRMAN CROSBY: The meeting on the
14 understanding of the issues.

15 MR. FALBY: Yes. There's one
16 slight correction, Mr. Chairman. Mr. O'Donnell
17 unfortunately was unable to be here today. And
18 we had informed Counsel for the Bureau. And
19 they indicated that they understood that.

20 CHAIRMAN CROSBY: And that was
21 acceptable?

22 MS. WELLS: Correct, yes.

23 CHAIRMAN CROSBY: While those areas
24 should be included in the applicant's

1 presentation, it may certainly address any other
2 issues it believes may be relevant to it
3 suitability determination. Similarly, the
4 Commissioners may certainly inquire into any
5 issue that is of interest to us.

6 At the conclusion of each witness's
7 testimony, counsel for the Bureau will be
8 provided an opportunity to conduct cross-
9 examination of the witness. Then each
10 Commissioner will be afforded an opportunity to
11 ask questions of the witness. Any Commissioner
12 may however ask any question of any witness at
13 any time during the examination or at the
14 conclusion of the examinations.

15 We will allow very limited redirect
16 and recross of a witness if it is absolutely
17 necessary. Either party may raise objections
18 they desire at any time. The basis for all
19 objections must be clearly stated.

20 Finally, at the conclusion of all of
21 the evidence, the applicant will be provided an
22 opportunity to make a closing statement summing
23 up why it believes it is suitable to be issued a
24 gaming license and should be allowed to proceed

1 to the Phase 2 portion of the process.

2 Before we begin, I understand that
3 there are a number of premarked exhibits that
4 had been exchanged by the parties in advance of
5 this hearing. I'll now ask the Bureau's Counsel
6 to introduce the Bureau's exhibits.

7 MR. MACKEY: Yes, Sir, Mr. Chairman.
8 We have conferred with the applicant's Counsel
9 and agreed-upon premarked six exhibits, marked
10 Bureau's Exhibits 1 through 6. Exhibit 1 is the
11 notice of the adjudicatory proceeding. Exhibit
12 2 is the memorandum regarding how this
13 proceeding will be conducted. Exhibit 3 is
14 Director Wells' cover letter. Exhibit 4 is a
15 redacted copy of investigative report. Exhibit
16 5 is a letter from the applicant to Caesars
17 Massachusetts Investment Company dated October
18 18, 2013. And the final exhibit premarked
19 Exhibit 6 is a letter from Caesars Entertainment
20 Corporation to Chairman Crosby dated October 21,
21 2013. I do not believe there are objections to
22 the introduction of any these exhibits.

23 CHAIRMAN CROSBY: Are there any
24 objections to these exhibits being marked and

1 moved into evidence?

2 MR. FALBY: No objection.

3 CHAIRMAN CROSBY: Okay. Now if the
4 applicant has any exhibits it would like to
5 introduce, I would like to ask that they be
6 introduced.

7 MR. FALBY: Thank you, Mr. Chairman.
8 We have premarked two exhibits, which I believe
9 there are no objections. Sterling Suffolk
10 Exhibit Number 1 is a plan for finding a new
11 operator. And its Exhibit Number 2 is its
12 check-cashing policy and procedures. And we
13 offer those into evidence.

14 CHAIRMAN CROSBY: Thank you. Are
15 there any objections to these exhibits being
16 marked and entered into evidence?

17 MR. MACKEY: No objections.

18 CHAIRMAN CROSBY: If either party
19 would like to have any additional documents
20 entered into evidence during the course of the
21 hearing, I would ask that they be properly
22 introduced and marked by the court reporter.

23 The Commission anticipates that its
24 inquiry at this proceeding will be limited to

1 the matters addressed in the investigative
2 report. In the event that a line of questioning
3 conducted by the Commission or Bureau moves into
4 an area that has not been included in the report
5 but that is included as part of the
6 investigative file and is material to the
7 suitability determination, the applicant may
8 request a recess in the proceedings so as to
9 review the issue. This would be unlikely
10 happenstance however as the Commission
11 anticipates addressing solely issues covered in
12 the investigative report.

13 No final decision will be made at
14 the conclusion of the hearing today. Instead,
15 the matter will be taken under advisement at the
16 conclusion of the preceding and a written
17 decision issued. If at any point during the
18 Commission's deliberations it determines that
19 further testimonial or documentary evidence is
20 desirable, it reserves the right to ask the
21 applicant to provide such evidence prior to a
22 suitability decision being made.

23 We will now swear all of the
24 witnesses in. Anyone who will be testifying at

1 this proceeding, please stand and raise your
2 right hand.

3

4 WITNESSES, SWORN

5

6 CHAIRMAN CROSBY: Each have answered
7 affirmatively. Thank you all. All have
8 responded in the affirmative.

9 Before we begin, does Counsel,
10 either Counsel have preliminary issues or
11 objections or considerations?

12 With that I'll ask Attorney Mackey
13 to begin the Bureau's presentation.

14 MR. MACKEY: Thank you and good
15 morning. The Bureau will begin its presentation
16 with a summary from Director Wells of the
17 investigative report dated October 18, 2013.

18 MS. WELLS: Thank you, Attorney
19 Mackey. Good morning, Chairman Crosby and
20 members of the Commission. As a preliminary
21 matter, I would like to thank our contract
22 investigators from Spectrum Gaming. Present
23 today here today are Steve Ingis, Mike Lamantia
24 and John Swentkowski. And the IEB staff,

1 particularly Loretta Lillios and the members of
2 the Massachusetts State Police led by Detective
3 Lieutenant Brian Connors and Lieutenant Kevin
4 Condon who worked so diligently on this
5 investigation as I'm sure is evidenced by the
6 comprehensive and thorough report that was
7 provided to the Commission. We took this
8 investigation very seriously as was our duty to
9 the Commission and the people of the
10 Commonwealth of Massachusetts.

11 On January 15, 2013, Sterling
12 Suffolk Racecourse, LLC hereinafter I'll refer
13 to as SSR filed an application for a Category 1
14 gaming license in Region A. SSR was formed on
15 June 30, 1997 for the purpose of acquiring,
16 developing and operating property containing
17 approximately 163 acres with improvements
18 located in Revere and East Boston, known as
19 Suffolk Downs a thoroughbred horseracing
20 facility. The only gambling business that SSR
21 conducts is pari-mutuel wagering on horseracing.
22 Licenses have been granted annually since 1992.
23 They are also a Massachusetts lottery agent with
24 its license in good standing. SSR utilizes a

1 formalized employee code of conduct and also has
2 an employee and vendor background program in
3 place.

4 Both the applicant and the former
5 qualifier, Caesars Entertainment have notified
6 the Commission that Caesars will no longer be a
7 gaming operator for the proposed casino and that
8 Caesars is withdrawing as a qualifier. As such,
9 my remarks will not detail the substance of
10 concerns regarding Caesars that were addressed
11 in the IEB report and my cover letter to the
12 Commission.

13 Procedurally on October 2, 2013, the
14 IEB met with representatives from the applicant
15 entity as well as the qualifier Caesars
16 Entertainment Corporation to review concerns
17 uncovered during the investigation, and to give
18 the applicant an opportunity to respond before
19 the report was completed.

20 It appeared to me at that time the
21 representative from SSR, Attorney Baker who is
22 present here today, was being apprised of some
23 concerns regarding the Gansevoort matter for
24 this first time during this meeting.

1 On October 9, 2013 the IEB again met
2 with representatives from the applicant entity
3 as well as the qualifier Caesars Entertainment
4 Corporation regarding the identified issues of
5 concern including the Gansevoort matter. At all
6 meetings and in all conversations with the
7 applicant representatives, I emphasized that the
8 report would contain facts and a recommendation
9 only. And that the final decision of
10 suitability rests with the Commission itself.

11 On October 15, 2013, Charles Baker
12 secretary for Sterling Suffolk Racecourse sent
13 and unsuitability notice regarding Caesars to
14 all of its members.

15 On October 18, 2013, I submitted the
16 report and the cover letter to the Commission.
17 That same day on October 18, 2013, Chip Tuttle
18 sent a letter to Caesars requesting they resign
19 as manager under agreement and take such steps
20 as necessary to cause the removal of Caesars
21 from the SSR gaming license application.

22 On October 21, 2013 Caesars
23 submitted a notice of withdrawal to the
24 Commission. That was before the hearing notice

1 was sent.

2 I expect that the applicant will
3 address the withdrawal of the gaming operator's
4 part of their presentation to the Commission.
5 Additionally, as Caesars was to be in charge of
6 compliance, the applicant I expect will address
7 that as well as going forward what the plan is
8 for the proposed casino operation.

9 I expect that once the presentation
10 is made to the Commission, there will be no
11 reason to contest the withdrawal of Caesars. It
12 should be very clear on the record that the
13 Commission itself has taken no action with
14 respect to the suitability of Caesars at this
15 time.

16 The applicant plans to locate the
17 proposed casino at the site of the Suffolk Downs
18 racetrack in East Boston. On August 27, 2013
19 SSR announced that it had reached an agreement
20 regarding the requisite host community agreement
21 with the city of Boston. An election has been
22 scheduled for November 5, 2013 for the host
23 community to vote on whether it favors the
24 issuance of a Category 1 gaming license to the

1 applicant. Discussion about those issues, as
2 the Chairman has indicated, regarding that vote
3 is scheduled for three o'clock today. And that
4 is a separate matter and will not be part of the
5 suitability hearing.

6 The principal entity members
7 involved in SSR include the Coastal Development
8 Ownership Group, which owned and controlled by
9 Richard Fields as well as the O'Donnell Group
10 which is owned and controlled by Joe O'Donnell.

11 Coastal chairman Richard Fields
12 formed the company in 2005 to finance and
13 develop resort properties, entertainment venues
14 and casino gaming facilities. In early 2000,
15 Fields co-developed the Seminole Hard Rock
16 Casino with the Cordish Companies in both Tampa
17 and Hollywood, Florida. His interest has since
18 been bought out by the Seminole tribe of
19 Florida, and he no longer holds any interest in
20 that project.

21 Through the Coastal Group, he is
22 currently the majority shareholder of SSR.
23 Fields intends to grow Coastal through the
24 acquisition, development and repositioning of

1 new and existing properties.

2 The report identifies his net worth
3 is dependent on the successful gaming award of a
4 gaming license to SSR. It is important to note
5 that in the event SSR receives a license, Fields
6 will be up to demonstrate his financial
7 stability. If not the matter actually becomes
8 irrelevant to the Commission.

9 As for the O'Donnell side of the
10 investment group, the six O'Donnell group
11 ownership companies filed applications with the
12 Commission as qualifiers as a result their
13 ownership in SSR are nonoperating entities and
14 do not conduct any gaming business. Similar to
15 Coastal and Fields, these entities are all owned
16 and controlled by Joseph O'Donnell.
17 Accordingly, their suitability is tied to a
18 finding of suitability for O'Donnell.

19 The company started acquiring an
20 ownership interest in SSR in 1997 and acquired
21 their current ownership interest prior to the
22 legalization of casino gaming in Massachusetts
23 in November 2011. The entity pursued their
24 ownership interest in SSR because O'Donnell

1 thought it was a good long-term real estate
2 investment. Through the course of the
3 investigation, Mr. O'Donnell demonstrated the
4 financial stability and integrity, honesty and
5 reputation necessary to qualify for licensure.

6 And the other entities that were
7 investigated as subgroups of these two ownership
8 interests included Coastal Development SSR, LLC,
9 Suffolk CCF, LLC, Fisher WWCD Investors, LLC,
10 Sterling Racecourse Inc., as well as CS SR
11 Investor, LLC, JJO Sterling Suffolk Inc., and
12 Sixth Street Sterling, LLC.

13 Vornado Suffolk, LLC, a percentage
14 of interest, which is presently held in trust by
15 Stephen Kidder, a Boston attorney. Of
16 individuals deemed as Vornado's qualifiers
17 during the scope of licensing process decided
18 not to submit to regulatory filing requirements.
19 Vornado was required by the IEB to place its
20 entire interest into a divestiture trust. And
21 upon doing so was deemed by the Commission to no
22 longer be an entity of the applicant.

23 Stephen Kidder, the trustee however
24 was deemed to be a qualifier and was required to

1 submit to the entire background process. Only
2 Kidder has decision-making authority over the
3 current interest. And there were no issues
4 regarding his background investigation found
5 during the process.

6 Other minority interests in the
7 applicant entity include Dreamport Suffolk
8 Corporation, Ruane Family Trust, MAR Suffolk,
9 LLC and Hall Racecourse Properties, Inc. The
10 IEB waived the qualification requirements for
11 nonvoting entity members of SSR Investment Trust
12 I, SSR Investment Trust II, Dreamport Suffolk,
13 Corporation, Hall Racecourse Properties and MAR
14 Suffolk since they all held a two percent or
15 less interest in the applicant.

16 Additionally, Caesars Entertainment
17 Corporation holds a minority interest in the
18 applicant through a subsidiary company Caesars
19 Massachusetts Investment Company, LLC. The
20 applicant will need to address the issue of that
21 ownership interest as part of their application.

22 For clarification, when the
23 applicant submitted its original business entity
24 disclosure on December 6, 2012, Suffolk CF, LLC

1 was owned 60 percent by Coastal Development SSR
2 and 40 percent by Fisher WWCD Investors. On
3 January 10, 2013, the applicant advised the IEB
4 the structure of Suffolk CCF had changed and was
5 not solely owned by Coastal Development SSR.

6 As a result of restructuring, Fisher
7 is now two percent direct owner the applicant
8 and the IEB waived qualification requirements
9 and removed the entity from the list of
10 qualifiers.

11 The applicant has a board of
12 managers that are appointed by the voting member
13 entities that comprise the applicant. There are
14 currently six managers William Mulrow, he is the
15 chair appointed by Sterling Racecourse, Joseph
16 O'Donnell appointed by Sixth Street Sterling,
17 LLC, Charles Morneau appointed a plurality vote
18 of O'Donnell, Coastal Group and Vornado that
19 voting entity represented by Stephen Kidder.
20 John L. Hall, II appointed by Coastal
21 Development SSR, Robert Vincent appointed by
22 Cambridge Suffolk, LLC, and then Stephen Kidder,
23 a trustee of the Vornado divestiture trust. The
24 applicant will have to address whether or not

1 the new operator will have a seat on the board
2 of managers.

3 Officers of the applicant are John
4 Hall, II, President, Paul M. "Chip" Tuttle, COO,
5 John Rizzo, Treasurer and CFO and Charles Baker,
6 Secretary. SSR's financial stability is
7 depended on the continued funding and support of
8 its members and also rely on the positive
9 outcome of their negotiations with financial
10 institutions to fund their proposed casino
11 project.

12 Investigators concluded that the
13 applicant would possess the requisite financial
14 stability upon the award of the casino license
15 to SSR. SSR anticipates that the budget for the
16 casino project would be approximately \$1.1
17 billion. The project would be funded from the
18 members' equity and the applicant and expected
19 loans from financial institutions.

20 Joseph O'Donnell and CMIC
21 representatives have represented they would
22 cover any unanticipated shortfall in the event
23 another member is unable to meet capital call
24 obligations.

1 The applicant has started
2 preliminary negotiations with financial
3 institutions in order to gauge their interest in
4 funding the casino project. Initial feedback
5 from the preliminary negotiations indicates the
6 institutions will loan up to 3 to 3.2 times that
7 projected EBITDA of the operating casino. Under
8 these parameters, SSR would meet its goal of
9 funding 75 percent of the project from financial
10 institutions.

11 As with all other applicants, any
12 financial sources identified in Phase 2 of the
13 process would need to be fully vetted by the
14 IEB. Given the length of the report and the
15 numerous number of qualifiers, I will defer to
16 the report for the Commission's consideration on
17 the specifics. But each entity and all of their
18 qualifiers were investigated thoroughly. And
19 the investigation did not reveal any significant
20 derogatory information relating to any of the
21 individual qualifiers or other entity qualifiers
22 as the applicant now stands. The entities and
23 qualifiers have demonstrated by clear and
24 convincing evidence that they are suitable for

1 licensure.

2 The IEB recommends that the
3 Commission find the applicant, Sterling Suffolk
4 Racecourse, LLC, suitable for licensing subject
5 to the following conditions: (1) The applicant
6 must identify for the Commission the new
7 operator of the proposed casino project.
8 Obviously, my expectation is not that they would
9 have to do that today, but I would defer to the
10 Commission's consideration on a timetable for
11 that.

12 (2) The new operator and any
13 qualifiers must be found suitable by the
14 Commission.

15 (3) The applicant must present a
16 plan to the Commission for working with the host
17 community to bring on a new operator.

18 As stated in 205 CMR 115.03 through
19 05, the IEB is only providing a recommendation.
20 And the final determination of suitability rests
21 within the Commission's sound discretion.

22 Additionally, as with other
23 applicants the IEB suggests that if the
24 applicant is awarded a Category 1 license, the

1 Commission consider adding the following
2 conditions to the actual license. (1) The
3 applicant shall promptly report any changes
4 relating to their ownership members, managers
5 and/or directors. Any new owners, members,
6 managers and/or directors should be required to
7 submit a PHD, a Mass Supp or BED form to the
8 Commission. And that any other owners, members,
9 managers and/or directors must be found
10 suitable.

11 Additionally -- I won't read the
12 entire recommendation, but given the nature of
13 the casino industry and the concern regarding
14 money laundering, we would ask that they submit
15 any kind of information regarding money
16 laundering practices and compliance with the
17 Bank Secrecy Act to the Commission for approval.

18 That concludes my remarks this
19 morning.

20 CHAIRMAN CROSBY: Just one moment,
21 Michael, would you make sure that the Web feed
22 has identifying facts, what's going on and who
23 is speaking so our Web audience can see it? It
24 hasn't been up on the feed here. So, I just

1 want make sure that our Web audience knows what
2 is going on. Thank you.

3 Mr. Mackey, are there questions?

4 MR. MACKEY: Nothing further from
5 the Bureau at this time.

6 CHAIRMAN CROSBY: Okay. Any
7 questions?

8 MR. FALBY: We have no questions,
9 thank you.

10 CHAIRMAN CROSBY: Nothing from the
11 Commissioners, no back-and-forth? So, I guess
12 we are ready to move to the applicant.

13 MR. FALBY: Thank you, Mr. Chairman.
14 As you know, I represent Sterling Suffolk,
15 commonly known as Suffolk Downs. On behalf of
16 Suffolk Downs, thanks for the opportunity to
17 appear before you. Thank you also to the
18 Commission staff for their cooperation in
19 preparing for the hearing and throughout this
20 process.

21 Four witnesses are seated with me
22 this morning. To my far left is Charlie Baker,
23 longtime secretary of Suffolk Downs. To his
24 right is Tom Reilly former Massachusetts

1 Attorney General, the company's special counsel.
2 He was retained to assist Suffolk Downs as we
3 learned of and took action concerning the
4 suitability issues of our former gaming
5 operator, Caesars Entertainment.

6 To his right is Chip Tuttle, the
7 chief operating officer of Suffolk Downs. And
8 to his right and my left is Bill Mulrow, the
9 chairman of the board of managers of Suffolk
10 Downs.

11 We understand that we have the
12 burden of proving suitability by clear and
13 convincing evidence. Our presentation is
14 focused on the issues listed in the Commission's
15 notice of adjudicatory proceeding. First, Mr.
16 Baker will walk you through the due diligence
17 that Suffolk Downs did with respect to Caesars
18 when Suffolk Downs brought them in as our
19 operator. What we learned about Caesars as a
20 result of the Bureau's investigation and when we
21 learned it. And what we did in response to that
22 information.

23 At that point, to expand on the
24 chronology you will hear from Mr. Reilly. He

1 will report in greater detail on how he was
2 brought in as special counsel to the company as
3 soon as the we learned about Caesars's issues.
4 And he will explain how we handled the Caesars's
5 matter.

6 With the Commission's permission, we
7 will then go back to Mr. Baker who will finish
8 up by addressing the status of Caesars's
9 separation, how the company plans to find a
10 replacement operator. And its plans for working
11 with its host communities during that process.

12 Our third witness will then be Mr.
13 Tuttle, our COO. He will explain in greater
14 detail the community process that we've already
15 undertaken to inform out host communities and
16 their residents about Caesars's departure.
17 Finally, Mr. Mulrow, our chairman will address
18 Suffolk Downs' unwavering commitment to the
19 project and to its host communities.

20 In addition to these witnesses, and
21 in compliance with your notice and the memo
22 about this hearing, several other company
23 representatives are here and available for
24 questions. Present and available are John

1 Rizzo, our CFO, Richard Fields, the principle of
2 Coastal Development and Jeremy Kleinman who is
3 general counsel to Coastal.

4 After you hear from our witnesses, I
5 will give a very brief closing. We understand
6 that the Commission prefers hearing from the
7 witnesses directly, so I'm not going to dispense
8 with questions and answers and simply at this
9 point turn the microphone over to Charlie Baker.

10 MR. BAKER: Thank you, Bruce. Mr.
11 Chairman, members of the Commission, my name is
12 Charles Baker and I'm the secretary of Sterling
13 Suffolk Racecourse, LLC the applicant before
14 you. I've had the privilege of serving in that
15 role since Sterling Suffolk took over Suffolk
16 Downs in 1991.

17 At that time Suffolk Downs had been
18 closed for a year and a half and the country was
19 right in the middle of a recession. By
20 returning thoroughbred racing to the
21 Commonwealth, the owners of Sterling Suffolk
22 were able to put back to work hundreds of direct
23 employees and thousands of other individuals
24 involved in the horseracing industry with no

1 employment prospects during that period.

2 Since then, Sterling Suffolk's
3 owners, mindful of the track's 78-year history
4 as a gaming location, have taken steps to expand
5 and improve its long-term viability including by
6 seeking a game license and being a candidate for
7 suitability before you today.

8 I'd like to thank Director Wells and
9 the Bureau for the very careful and thoughtful
10 investigative report, which they have presented
11 to the Commission in regards to Sterling
12 Suffolk's suitability.

13 As I think you know, Sterling
14 Suffolk was involved prior to the passage of the
15 Gaming Act and the creation of the Commission in
16 the public policy discussions about expanded
17 gaming in Massachusetts. I can say with
18 certainty having followed that debate closely
19 that it is very important that you establish
20 standards that meet the values and beliefs of
21 the people of the Commonwealth.

22 Many have observed that there is a
23 reason that Massachusetts was one of the last
24 states to license casino gaming. The public

1 demands that this be done right. In this light,
2 the Bureau and you should be commended for the
3 diligence with which you pursue your collective
4 role of assuring the integrity of the industry.

5 There are a few items in the report
6 that I'd like to address and then I will be
7 available as we all will for questions that you
8 may have.

9 Until this month, Sterling Suffolk
10 had 62 qualifiers, 27 entities and 35
11 individuals, far and away the largest number of
12 any applicant. Even after the withdrawal of the
13 Caesars qualifiers, we still have 23 qualifiers
14 before you today. This includes 13 entities and
15 10 individuals who have completed the extensive
16 forms, supplied thousands of pages of additional
17 documents and sat through detailed interviews
18 with your investigators. I am pleased to note
19 that all of the other remaining qualifiers
20 received positive suitability reviews.

21 Turning to the Caesars's issues, I
22 will address (1) Sterling Suffolk's due
23 diligence at the time Caesars joined the company
24 as our prospective operator. (2) What we

1 learned about Caesars and when a result of the
2 Bureau's investigation. How we handled that
3 information. How the company plans to find a
4 replacement operator, and the plan for the
5 status of the company's separation from Caesars.

6 As it relates to a more specific
7 timetable of recent events about Suffolk's
8 response to the Caesars's suitability issues, I
9 will defer to Tom Reilly, but will of course be
10 happy to answer any questions on the topic based
11 on my direct knowledge.

12 First, I know there had been
13 inquiries about due diligence Suffolk conducted
14 on Caesars. Back in 2011 when Suffolk was
15 searching for a gaming operator, we talked to a
16 number of high-profile participants in the
17 industry. In regard to Caesars, we obviously
18 understood that Caesars was licensed in all of
19 the major gaming jurisdictions. As the report
20 notes, Caesars operated 52 facilities in 12
21 states in the US and seven other nations as of
22 the end of last year.

23 We also knew that Caesars was
24 engaged in licensure process in Ohio. we

1 insisted that we were updated throughout that
2 process as to their status in that suitability
3 review.

4 Prior to Massachusetts, Ohio was the
5 most recent state that had authorized gaming,
6 and Caesars's suitability review in Ohio was
7 meaningful to us. We also reviewed Caesars's
8 contemporaneous SEC filings for any material
9 information.

10 As it relates to Caesars's financial
11 stability, the business advisors of both
12 principal shareholders, Belmont Capital and
13 Coastal Development, reviewed carefully
14 Caesars's plans to finance the projects that
15 they were undergoing in Ohio. They also talked
16 to relevant investment banking sources.

17 Based on the success of those Ohio
18 transactions, as they were going through at the
19 time, it became apparent that Caesars's
20 financial condition had no negative effect on
21 its ability to do project financing. This was
22 important to us because as the report outlines
23 similar project financing will likely form the
24 basis of the finance plans Sterling Suffolk will

1 present in its RFA-2 response.

2 We also addressed suitability issues
3 in our contracts with Caesars. Both the gaming
4 facility management agreement and the company's
5 LLC agreement have provisions that require
6 Caesars to disclose licensing issues to us. And
7 empower Suffolk to take action in the event
8 suitability arises as it has occurred in this
9 case.

10 Additionally, we informed our then
11 regulator, the Massachusetts Racing Commission
12 of the proposed transaction. We specifically
13 sought approval by the Racing Commission of the
14 addition of John Payne, the Caesars's designee
15 to the company's board of managers, which
16 functions as our board of directors. We
17 submitted Mr. Payne's background information to
18 the Racing Commission's State Police unit. They
19 investigated Mr. Payne's background and
20 recommended approval to the Racing Commission.
21 The Commission acted favorably on that
22 recommendation.

23 The second issue I would like to
24 address is the events leading to the departure

1 of Caesars as a qualifier. As Director Wells
2 noted, in our first formal meeting with the
3 Bureau concerning our suitability report on
4 October 2, we first learned of significant and
5 negative concern around a specific transaction
6 Caesars had entered into. The transaction at
7 issue I should note occurred after Caesars was
8 hired to be our operator.

9 Upon being made aware of the matter,
10 we immediately requested all relevant documents
11 from Caesars. And I was directed by the board
12 of managers to retain Tom Reilly as special
13 counsel to lead our independent review of the
14 matter. For purposes of keeping the chronology
15 intact with the Commission's assent I'd now like
16 to turn the microphone over to Tom.

17 MR.REILLY: Mr. Chairman, members of
18 the Commission, first of all, thank you for the
19 opportunity to appear before you today. I am
20 very mindful of the fact that Caesars is no
21 longer part of this process. So, I will try as
22 best I can to limit my remarks to what Suffolk
23 did, and I'll refer to them as Suffolk, that's
24 how we kind of think of it, as to what they did

1 once they became aware or Charlie became aware
2 that there were some serious concerns about the
3 suitability of Caesars.

4 I believe the record will reflect
5 that Suffolk acted very quickly and decisively
6 and handle this in a very responsible manner.
7 But I understand that's your decision and you
8 will make that decision. Why don't I just tell
9 you what happened at least from my perspective.

10 As Mr. Baker has told you, on
11 October 2 he first became aware that there was
12 concerns and that the Bureau staff had concerns
13 over the Gansevoort matter. The next day I was
14 retained.

15 CHAIRMAN CROSBY: And others.

16 MR.REILLY: Pardon?

17 CHAIRMAN CROSBY: You said
18 Gansevoort, but there were a variety of issues
19 that were on the table at that meeting, right?

20 MR.REILLY: That is correct. And I
21 will get to those. But the next day, I was
22 retained by Suffolk as special counsel to review
23 and frankly given my marching orders by Mr.
24 Fields and Mr. O'Donnell to get the bottom of

1 this, to see whether or not and determine
2 whether or not there was anything to these
3 concerns and then report back to the company.
4 And that's exactly what I did.

5 The next day, the first thing that I
6 did was a telephone call to Director Wells and
7 asked her about the concerns. She at that point
8 flagged certain documents and directed me, not
9 directed me but certainly indicated that I
10 should be familiar with the gold stock report
11 and cache report which were in the possession of
12 the Commission and then formed part of the basis
13 for what their concerns were. Those reports had
14 been requested by Mr. Baker after the meeting on
15 October 2. Caesars for whatever reason did not
16 furnish those documents.

17 I was immediately in contact later
18 that afternoon and evening with Caesars. I
19 requested those documents. And late that night,
20 I received those documents explaining to them
21 exactly what the situation was.

22 First of all, I was not able because
23 of the late hour to address those documents that
24 night. Three hour time difference, they came in

1 very late. But I did have the opportunity the
2 following day on October 5, on Saturday to
3 review the documents, the gold stock and cache
4 report and other related documents from Caesars.

5 I reviewed them thoroughly and it
6 was obvious that there were red flags. There
7 were things that frankly jumped out of those
8 reports at me. At that point, it was clear to
9 me that the concerns that the Bureau had
10 identified were legitimate concerns. These were
11 serious matters and at the very least Suffolk
12 should follow up on these allegations and get as
13 much information as we possibly could as soon as
14 possible.

15 I should note that it was obvious to
16 me in my conversations with Mr. Baker also with
17 the principal owners, Mr. O'Donnell and Mr.
18 Fields, this is the first that they were really
19 hearing about specifics of real legitimate
20 serious concerns.

21 After having that material on
22 October 5 and having the opportunity to review
23 that material, the week of October 7 was an
24 intense experience. When I say I, this wasn't a

1 one-man show. Mr. Baker and his team were part
2 of this. Mr. Manion and Mr. Fazio from Cooley,
3 Manion and Jones were part of this. What we
4 were trying to do is to get as much information
5 as we possibly could to follow up on the reports
6 and concerns of the Bureau.

7 At that time, I became aware there
8 were additional matters, as you have referred to
9 Mr. Chairman, the Wantanabe matter being one of
10 those. I became aware because the Commission
11 advised me that they would be seeking certain
12 internal reports concerning that matter. And
13 they did request that from Caesars. I made the
14 same request but Caesars refused to give us the
15 internal investigations that they conducted.

16 When I say that, in fairness, I was
17 given an oral briefing on Wantanabe by Caesars.
18 In our meeting on October 9 with the Bureau
19 staff that matter was discussed openly.
20 Although I don't have -- we were not given
21 access to the internal reports, I do believe and
22 I am comfortable that I know enough about that
23 situation to be able to do my job and certainly
24 advise the company.

1 During the course of that week,
2 there was a meeting as I said as I've noted on
3 October 9 with Bureau staff. I also became
4 aware of the situation involving Mitchell
5 Garber. In the report it is clear there are
6 some financial concerns as well. I was not
7 involved in any of that. I had numerous
8 meetings and conversations with Caesars
9 involving these matters. I followed up as best
10 I could with your staff and the Bureau staff.

11 I have to say that they were
12 extremely forthcoming to everything and
13 straightforward to everyone. Everyone was on
14 notice that the Bureau had some serious concerns
15 and what those concerns were. Everyone was on
16 notice going into this that the final
17 recommendation had not been made by the
18 Director. And when it was made, it would be
19 conveyed to the Commission first. Although
20 there was no hiding back that there were serious
21 concerns.

22 The third thing that was made very
23 clear to everyone involved in this that this was
24 the Bureau's recommendation and their

1 recommendation only. And that the final
2 decision rested with you. And if anyone
3 disagreed and wanted to challenge or debate it,
4 certainly, they were free to do it. So, as that
5 week neared and end, and I'm talking about the
6 week of October 7, everyone was on notice and I
7 truly believe everyone had the same information.

8 Not only did I continually continue
9 to brief Mr. Fields, Mr. O'Donnell on where
10 matters stood, I briefed a segment of certain
11 members of the Board of Directors of Caesars as
12 well as their management as to my opinion as to
13 where things stood and that was by the end of
14 the week. I think that was on the 11th, I
15 think, in the afternoon of the 11th. But things
16 were still moving and there had been no final
17 decision as far as I know. But there were
18 concerns and I had concerns.

19 Quite frankly, if I didn't mention
20 it, the fact that we were given that information
21 first disclosed really specifics of it on that
22 Saturday for the first time, the details of it,
23 and the fact that Mr. Baker was surprised at
24 that meeting of October 2, were very troubling

1 to me and quite frankly I conveyed that to
2 everyone.

3 In any event, that week drew to a
4 close. I had briefed Caesars. I had briefed
5 everyone. I thought -- You always want more
6 information, but I felt that by the following
7 Monday on the week of October 14 that we had
8 enough information and everyone had enough
9 information on our side to make some decisions.
10 And in terms of the partnership and the
11 principal owners, Caesars was going to make
12 whatever decisions they were going to make but
13 the owners and the principal owners and Mr.
14 Fields and Mr. O'Donnell had to make some
15 decisions on their own. And we had enough facts
16 as to whether or not they wanted to continue
17 this relationship with Caesars as a qualifier as
18 a manager, operator and given everything that
19 had occurred.

20 On October 15 they made that
21 decision. They made that decision I think
22 decisively. Obviously, there are contractual
23 responsibilities that they had to follow but
24 they filed a notice and gave Caesars a notice of

1 unsuitability declaring there had been a
2 licensing event.

3 That occurred on October 15. There
4 was the time to start making decisions to begin
5 the end of this relationship. And that decision
6 was made by the principal owners.

7 Three days later the Commission --
8 the Bureau, I'm sorry issued its report which
9 speaks for itself. It's very comprehensive and
10 very thorough. You can see it. And I am sure
11 you've read it. Within hours, I think, within
12 perhaps three hours of that there was a letter
13 that was actually sent by Mr. Tuttle asking
14 Caesars to resign in view of what has happened.

15 There have been skirmishes back and
16 forth since then as you would expect in a
17 situation like this. But the bottom line is the
18 bottom line. Caesars is gone and is not part of
19 this application will not be part if Suffolk is
20 fortunate enough to receive a license to be part
21 of any operations.

22 Those are the facts as I know those
23 facts. This is what I know. This is what I
24 believe happened and how it happened. I'm

1 certainly open to answering any questions that
2 you have.

3 And I would just close with this, I
4 want to commend Director Wells and her staff for
5 being up front with everyone in terms of where
6 matters stood. And everyone had to make their
7 own decisions which is has brought us to this
8 point. Thank you for your consideration.

9 CHAIRMAN CROSBY: Anything from the
10 table?

11 MR. MACKEY: I think Mr. Baker was
12 going to provide some more information.

13 CHAIRMAN CROSBY: Let me just ask
14 one thing, Mr. Reilly. First of all, I
15 appreciate you going through the history of this
16 and the timing of this because I think it's
17 important for people to understand who knew what
18 when.

19 The report makes clear that our
20 Investigations Bureau raised the issue at least
21 of the Gansevoort question with Caesars with
22 some significant force in April, six months ago.
23 Did anything transpire? I guess this is for you
24 as well, Mr. Baker. Did any communication

1 transpire between Caesars and Suffolk between
2 the time we raised it, our Bureau raised it with
3 Caesars in April and this October 2 meeting?

4 MR. REILLY: No, and I'm glad you
5 asked that question, because that troubled me
6 greatly. There was actually no question that in
7 April of this year that the Bureau staff, their
8 investigators and State Police, I believe,
9 raised this issue with Gansevoort at a meeting
10 in Las Vegas. And that people were interviewed
11 regarding that. Caesars knew full well that
12 this was a serious matter.

13 Caesars did respond in writing to
14 Spectrum. I'm pretty sure there was a copy to
15 the Bureau. Nothing to Suffolk. Suffolk was
16 totally in the dark as to this matter until Mr.
17 Baker sitting in a meeting on October 2 heard it
18 for the first time. There is no need to be
19 surprised by something like this, but that's
20 exactly what happened. And what happened was
21 that Suffolk was blindsided by this, but acted
22 very quickly to deal with it.

23 CHAIRMAN CROSBY: Okay.
24 Commissioners, before we go back to Mr. Baker,

1 anything else specifically for Mr. Reilly?

2 MR. BAKER: Thank you, Mr. Chair. I
3 know the Commission would like to understand the
4 process the company is undertaking to find a
5 suitable first-class gaming operator.

6 On Friday we sent to General Counsel
7 Blue a written description of that process and
8 it has been made Suffolk's Exhibit 1 in this
9 proceeding. Let me briefly outline it.

10 When Caesars agreed to the company's
11 request on October 18 that they withdraw as an
12 operator, we immediately began contacting and
13 receiving inquiries from many gaming companies
14 from across the country. Some of the companies
15 we have talked to have been found suitable in
16 Massachusetts already. Some have filed here but
17 not yet completed the process and some would be
18 new to Massachusetts.

19 As we talked to each of them, we are
20 guided by four principles. (1) Finding a first-
21 class operator. (2) Honoring our commitments
22 we've made to a variety of stakeholders and most
23 particular our host communities. (3) Ensuring
24 suitability for licensure. And (4) coordinating

1 with our communities in notifying the voters in
2 those communities in real-time.

3 I'll just say a few words about each
4 one. Finding a first-class operator, Sterling
5 Suffolk is committed to finding a first-class
6 operator who will achieve the highest standards
7 of quality, integrity and patron experience.

8 (2) Honoring our commitments, the
9 new operator will have to agree to be bound by
10 Sterling Suffolk's commitments for our host
11 community as expressed in the host community
12 agreements as well as our existing agreements
13 with impacted live entertainment venues, any
14 future agreements with surrounding communities,
15 and all other commitments Sterling Suffolk has
16 made to our community and our stakeholders.

17 We will require disclosure of any
18 existing suitability issues as part of our due
19 diligence and include in our agreements
20 provisions that mandate reporting to us of any
21 issues that arise in the future, whether here or
22 in other jurisdiction where the operator may be
23 licensed.

24 As we go through this search

1 process, we will work in real-time the IEB to
2 ensure that we are appropriately conducting our
3 own due diligence. In regard to that, in real-
4 time when we've been talking to people who are
5 in the process, we've notified the Bureau and
6 the Commission staff. We have sought
7 permission from people who were in the
8 qualifying process but who have not yet been
9 qualified to waive the confidentiality rights
10 they have and to allow us with them present to
11 get a briefing from the Bureau as it relates to
12 suitability. So, in real-time we have knowledge
13 of any underlying matters that would affect
14 things. I guess I will tell you, we've learned
15 from the experience and we are tightening up our
16 procedures.

17 The fact of the Caesars's withdrawal
18 has obviously been a significant news event in
19 our host communities. Nevertheless, between
20 this development and the election on November 5,
21 we will continue to conduct a thorough public
22 outreach effort to inform the residents of our
23 host communities of the development. Chip is
24 going to go into that in great detail because I

1 guess he has been living it for the last number
2 of weeks.

3 What I am going to say is the
4 following, we are not going to ask our host
5 communities to take our word that the new
6 operator will commit to the requirements of the
7 HCA. The city of Boston and the city of Revere
8 have already expressed to us their interest in
9 vetting the new operator so they can satisfy
10 themselves that the agreements will be kept. We
11 will do what it takes to allow them to do that.
12 Along the way, we will consult regularly and not
13 less than weekly with the host communities about
14 the status of our search.

15 Sterling cannot promise that we will
16 be able to find a new operator by the host
17 community elections next Tuesday. But we are
18 confident we will find a new one well in advance
19 of the December 31 RFA-2 deadline. And we will
20 present a joint application for our outstanding
21 resort casino.

22 I was also asked to update you on
23 the current status of Caesars. Yesterday, John
24 Payne notified us and relayed to the Bureau that

1 he's resigned as a member of the board of
2 directors. Yesterday we terminated the GFMA,
3 the gaming facility management agreement with
4 Caesars and removed any control, rights or
5 privileges that they have over the entity. They
6 remain a 4.2 percent owner of the company. And
7 we would respectfully request that we could work
8 with the Bureau and your staff and ultimately
9 get your guidance as to how we can work out an
10 orderly divestiture of that interest.

11 Before concluding, I'd like to
12 mention -- I guess Karen wants me to talk about
13 our ongoing compliance efforts. Three non-
14 Caesar points raised by the Bureau's report and
15 recommendation letter.

16 Let me first talk about our going
17 forward compliance matters. First as I think
18 you may know, just as a racetrack, we have a
19 first-rate compliance officer, Paul Evans who
20 does a really terrific job in my view of working
21 at the facility with your staff with the State
22 Police unit in ensuring compliance. That
23 remains in place. And Paul reports regularly to
24 Chip and to me on any matter that may rise to

1 the level of needing some judgment and action.

2 Our plan for compliance on a going
3 forward basis remains as follows and we're going
4 to need your guidance on this if we are lucky
5 enough to earn your trust in getting a license.
6 The board has authorization of a compliance
7 committee for Sterling. Our view is we would
8 have three independent members of that committee
9 knowledgeable in law-enforcement, finance,
10 accounting, the relevant disciplines. We would
11 seek your approval for the identity of those
12 people.

13 When we get an operator, we are
14 going to need to work out a protocol for
15 coordination between that operator and our
16 compliance committee and the Bureau so that in
17 real-time we can all manage things
18 appropriately.

19 Because we don't have an operator
20 and because we are going to need the Bureau's
21 guidance, that's about as far as we've gone in
22 sort of thinking through this. As I said, the
23 company has taken the necessary corporate
24 actions to implement whatever recommendations

1 the Bureau and you would require.

2 Two other things in the report that
3 I just want to bring to your attention and one
4 of these actually relates to Paul Evans. I was
5 pleased that the Bureau noted on page 37 our
6 implementation of what we think is a first-class
7 employee code of conduct. The code of conduct
8 requires that our business be conducted in the
9 most ethical manner. And that our employees
10 seek to achieve for the company the highest
11 degree of respect and esteem of the public and
12 of those with whom we do business.

13 Second, I note that for all
14 applicants including Sterling Suffolk, the
15 Bureau has recommended that as a condition of
16 licensure not suitability that the applicant
17 submit and adhere to a plan for compliance with
18 the Bank Secrecy Act. I am pleased to be able
19 to report that Sterling Suffolk has already
20 moved proactively to adopt such a policy to
21 address our current operations.

22 Incidental to our racetrack and
23 pari-mutuel wagering business, Suffolk sometimes
24 cashes checks for patrons and employees. Even

1 this incidental check-cashing could conceivably
2 trigger Bank Secrecy Act registration reporting
3 requirements for financial institution, in 2012
4 Sterling had us conduct a review of its check-
5 cashing policy and practices for compliance with
6 the BSA.

7 The review found no indication that
8 the company had run afoul of the statute. And
9 recommended certain controls be implemented to
10 ensure that the future check-cashing would not
11 inadvertently cause the company to become a
12 regulated financial institution under the law.
13 The company adopted that policy which I
14 understand is Sterling Exhibit 2 in this
15 hearing.

16 Additionally, as we are talking
17 about the racetrack and even though it's not
18 quite on point of this hearing, on behalf of
19 Suffolk, our employees and our patrons I'd
20 actually like to thank the Commission, the
21 Racing Division for your solid and cutting-edge
22 role in supporting the heightened safety,
23 integrity and fairness of racing.

24 Chip takes great pride in our trying

1 to do the right thing every day. Your staff has
2 made that an easy job. I'd like to thank you
3 for your time and I'd like to turn this over to
4 Chip.

5 CHAIRMAN CROSBY: Excuse me, if you
6 have any questions Commissioners for Mr. Baker,
7 go ahead. Something has come up, I to take care
8 of for one second. And then we can go ahead
9 with the rest of it.

10
11 (Chairman exists hearing)

12
13 COMMISSIONER ZUNIGA: I actually had
14 a question, Mr. Baker. Could you expound a
15 little bit more on the process you described
16 relative to the vetting by the cities if and
17 when you identify an operator?

18 MR. BAKER: Sure. So, we have two
19 separate host community agreements that each
20 have different requirements. We are obligated
21 to follow each of them and each of their
22 commitments. As a threshold matter, those were
23 very hard negotiated documents. They are very
24 extensive in terms of the commitments.

1 The threshold matter, we are on the
2 hook for honoring all of those commitments and
3 Suffolk is going to do that. In practice, there
4 are certain things, number of employee you're
5 going to hire, local purchasing, the quality of
6 the facility that operator has to be on board
7 and separately covenant.

8 So, our plan and what the cities
9 expect from us is that we will identify the
10 operator, make sure that the operator can assure
11 the cities that they have the capacity and the
12 willingness and the agreement that they will
13 honor those commitments.

14 So, before we sign up anybody
15 formally, we will obviously working with the you
16 all on the qualification standards and working
17 with the cities in terms of making sure that
18 they have the capacity to comply.

19 COMMISSIONER ZUNIGA: And you
20 mentioned you cannot guarantee at this point
21 that that process will culminate prior to the
22 election; is that a fair statement?

23 MR. BAKER: That is a fair
24 statement. We are in negotiations with a number

1 of parties, but this is a complex negotiation,
2 obviously, to find somebody who would be able to
3 fill the shoes and do the first-class job that
4 the Commonwealth expects.

5 COMMISSIONER CAMERON: Mr. Baker, I
6 had a question about your statement that you
7 were going to work with the IEB on orderly
8 divestiture of the 4 plus percent. Does that
9 means that you will be coming to the Bureau with
10 a plan and do you expect Caesars to participate
11 in an amicable manner?

12 MR. BAKER: Yes in both events. We
13 sent a termination notice yesterday because we
14 wanted to assure you today that Caesars had no
15 ability, and Caesars agreed with this, that they
16 had no ability to control or affect the
17 applicant going forward. We are having amicable
18 business negotiations as to an orderly
19 dissolution. Karen and Catherine probably get
20 sort of sick of this, but any time we have an
21 update, we promptly let them know. And we will
22 continue to do that.

23 COMMISSIONER CAMERON: Do you expect
24 that to be done in a reasonable timeframe?

1 MR. BAKER: I hoped we would have
2 had a plan last night. Poor Brian Connelly here
3 was up to three in the morning. I had to get
4 some sleep because of this morning, but we'll
5 continue to work on it, Commissioner.

6 COMMISSIONER CAMERON: Thank you.

7 COMMISSIONER ZUNIGA: Is the
8 divestiture dependent identifying a new operator
9 or a replacement?

10 MR. BAKER: It is not.

11 COMMISSIONER ZUNIGA: That will be
12 independent?

13 MR. BAKER: It's completely
14 independent.

15 COMMISSIONER STEBBINS: Mr. Baker,
16 picking up on Commissioner Cameron's question,
17 as you're going through the search process,
18 ensuring license -- ensuring suitability for
19 license for a new operator in partnership with
20 you, you're going to work in real-time with the
21 IEB, which we appreciate. You're appropriately
22 conducting your own due diligence.

23 Understanding the matter you just
24 went through, are there additional steps in your

1 due diligence that you're taking, obviously
2 beyond working through the IEB if anybody has
3 been found suitable or was in the suitability
4 review process. Any additional steps you're
5 taking with respect to your due diligence over
6 review of a new operator?

7 MR. BAKER: As you might not be
8 surprised, I spent a lot of nights sort of
9 thinking about what we could do have done
10 differently in this event. And given that,
11 there are some things we are doing that are a
12 little different.

13 When we signed up Caesars at the
14 beginning, this Commission didn't exist. So,
15 who we could have vetted things with was a
16 different matter. For people who are in the
17 pipeline now, we are going to insist that they
18 let us deal with the Bureau. And we are going
19 to insist that all relevant documents be turned
20 over to us so that we can independently evaluate
21 them.

22 For people who aren't in the
23 pipeline, we're going to make sure that they get
24 into the pipeline right away if we get to the

1 level of serious consideration. Other little
2 protocol matters, given to make sure the notice
3 we received, I will work out a protocol with the
4 Bureau where if one of our qualifies sends them
5 a matter related to suitability that they know
6 that we are required to get a copy of it. So
7 that this matter could not happen again.

8 COMMISSIONER MCHUGH: Mr. Baker
9 there are references, undertakings really in the
10 host community agreement involving World Series
11 of Poker. They appear in a number of places in
12 the agreement and in the appendices. How are
13 you going to deal with that?

14 MR. BAKER: So, there are a number
15 of references to Caesars and to Caesars's
16 standards in the agreement.

17 COMMISSIONER MCHUGH: There's
18 actually a commitment to build a World Series of
19 Poker room or rooms or table.

20 MR. BAKER: Right. We have talked
21 the city of Boston about that. And they
22 understand that we are not going to be doing
23 that. And we will have a poker room that will
24 be of that standard and of that quality but it

1 won't be branded as a Caesars's product.

2 We are going to notify the voters of
3 that in writing, along with other matters that
4 were notified in the summary this week. We can
5 make a copy of that notification available to
6 you today, obviously.

7 COMMISSIONER MCHUGH: Did the
8 existence -- the World Series of Poker is a
9 highly recognizable brand in that segment of the
10 industry. Did the existence of that brand and
11 the ability to use it play a role, a significant
12 role in the financial projections for the
13 operation of the facility?

14 MR. BAKER: Not to my knowledge.
15 Actually, I would say no. To the extent that
16 there was any relevance in the financial
17 projections Caesars's experience. But I think
18 this would be true for any operator in an urban
19 environment which is more table game revenue
20 generally, not just poker and less slot machine
21 revenue. And we would anticipate that that
22 would occur with any operator.

23

24 (Chairman Crosby re-enters hearing

1 room.)

2

3 COMMISSIONER MCHUGH: There are also
4 references in the agreement and the appendices
5 to Caesars facility in Las Vegas as a measuring
6 stick, if you will, for the quality of the
7 development at Suffolk. How are you going to
8 deal with that?

9 MR. BAKER: We're going to meet that
10 standard. We assured the city in our
11 negotiations that that was a minimum benchmark
12 and that we would meet or exceed it. And we
13 still plan to do that.

14 It's a little tricky in the sense
15 that you're designing a project that is based on
16 somebody -- superior to somebody else's brand.
17 We have all the drawings, all the specs. I
18 guess you might not be surprised given how long
19 Suffolk's been at this, but we are very far
20 along in design and construction drawings that
21 we're actually showing in real-time to our
22 permitting authorities in the city of Boston.

23 Those design and construction
24 drawings and the related operating covenants we

1 will meet or exceed those standards. And we
2 retain possession of those design and
3 construction documents. They are our property,
4 and we are going to use them.

5 COMMISSIONER MCHUGH: So, the
6 withdrawal then, if I understand you, of Caesars
7 doesn't affect the physical plant envisioned.

8 MR. BAKER: It does not affect the
9 physical plant. I can't tell you that another
10 operator won't want a different sign or might
11 want the fountain to look differently, but in
12 general the quality will remain the same, Sir.

13 COMMISSIONER MCHUGH: Thank you.

14 CHAIRMAN CROSBY: Others?

15 COMMISSIONER ZUNIGA: Just one more
16 on timeline, do you expect that you will have an
17 operator identified prior to the next Commission
18 deadline which is the end of December?

19 MR. BAKER: Yes. We fully expect
20 that we will have an operator identified who
21 will be our partner in finalizing the RFA-2
22 submission that we will make to you.

23 CHAIRMAN CROSBY: I don't think this
24 was asked in my absence, but the Bureau's report

1 talked a lot about the process at Caesars and
2 their compliance process about how particularly
3 the Gansevoort issue was reviewed.

4 You were delegating to Caesars the
5 role of compliance for this facility. What did
6 that tell you about the compliance process? Is
7 there anything to be learned? How are you going
8 to delegate that now? To whom will you delegate
9 that now? Are there issues that you saw in
10 their compliance process that need to be
11 addressed that would maybe be for others besides
12 you?

13 MR. BAKER: So, yes we have learned
14 from that. We learned a lot from that. We'll
15 work out a protocol we'll submit to the Bureau
16 and you as to how we do this going forward. I'm
17 not going to presume we are going to get it all
18 right, which is why we're going to need some
19 guidance.

20 We're going to have our own
21 independent compliance committee. We'd
22 recommend that it be three people who are
23 completely independent, who have knowledge and
24 background in law-enforcement, finance and

1 accounting, related disciplines.

2 We are going to tighten up in real-
3 time the reporting that happens between the
4 operator and us and the Bureau. We are going to
5 insist that any written correspondence to the
6 Bureau from our operator of any of our
7 qualifiers that gets to the Bureau we are
8 immediately notified about.

9 We were working with Caesars, the
10 issue really is at what level when an operator
11 learns something do we need to be told. So, we
12 are going to make sure that that's a pretty low
13 level so that we and the Bureau have every
14 ability to react in real-time to any issue that
15 occurs at the facility.

16 CHAIRMAN CROSBY: And there's
17 something about the makeup of a complaints
18 committee and how it works. And we dealt with
19 this with other conversations. I have two
20 points. One is number one, I am very mindful of
21 not sounding holier than thou in these
22 conversations. I've been in business. I've
23 been in government. I've been in politics.
24 I've made mistakes. I understand how when you

1 are in the midst of operations of business or
2 government or politics or whatever, pressures
3 are intense. I totally get that.

4 But this is a uniquely vulnerable
5 industry. And any industry banking, medicine,
6 certainly politics gets insular. And standards
7 become sort of what we all talk about to one
8 another. And they therefore tend to slide. And
9 it just goes with the nature of things.

10 But having people in the compliance
11 committee role whose job it is to say the
12 unpopular thing, as a lifetime CEO it's a pain
13 in the butt, but there's nothing more valuable
14 than somebody whose job it is to say the
15 unpopular thing. And going out of one's way to
16 make sure that you structure an environment
17 where you empower such people is the only way
18 given how insular all our worlds are that you
19 can protect against slipping.

20 And as I read the compliance report
21 -- As I read the Bureau's report, the compliance
22 committee itself would have -- now they knew the
23 full story would've had be done differently.
24 But somehow there wasn't the intensity of the

1 rigor that was there.

2 We would simply ask you as we have
3 talked about with other applicants that that's a
4 really critical part of the process of catching
5 what to the public might appear problematic
6 things never mind might be problematic things.
7 So, all of us learning from that and trying to
8 implement it in our operations as we have to do
9 it in ours.

10 I hope we have people in our
11 operation who are empowered to tell us when I'm
12 making mistakes. But it is a critically
13 important part of this process in this very,
14 very vulnerable industry.

15 MR. BAKER: We couldn't agree more,
16 Sir.

17 MR. MACKEY: Mr. Chairman, with the
18 Commission's permission, the Bureau has just a
19 very few questions about the due diligence
20 process that Sterling Suffolk went through
21 before they first contracted with Caesars if
22 that would be appropriate at this time.

23 CHAIRMAN CROSBY: Yes, it is.

24 MR. MACKEY: I think the questions

1 are most appropriately addressed to Mr. Baker.

2
3 EXAMINATION BY MR. MACKEY:
4

5 Q. You described briefly in your
6 testimony this morning, Mr. Baker, that the due
7 diligence exercise that Sterling Suffolk
8 initially went through before it first entered
9 into an agreement with Caesars in 2011. And you
10 reference that Sterling Suffolk knew that
11 Caesars was licensed in dozens of jurisdictions?

12 A. Yes.

13 Q. And you testified that you were
14 aware that they were currently going through a
15 suitability type proceeding in Ohio that you
16 were able to follow?

17 A. Correct.

18 Q. And that you had also reviewed
19 Caesars's SEC filings to learn more about
20 Caesars's financial viability to undertake this
21 project?

22 A. Right and also as you know that if
23 there is a material issue in compliance that
24 should also be disclosed the SEC filing.

1 Q. It would be found there, correct.
2 So, you mentioned briefly the comments in the
3 report about Sterling Suffolk's compliance plans
4 on page 37 of the report. There is a compliance
5 plan, an employee code of contact. It looks
6 like also there is a process that Sterling
7 Suffolk had in place as of 2007. I'm presuming
8 had in place as of 2011, correct?

9 A. Correct.

10 Q. To vet not only employees but also
11 potential business partners?

12 A. Correct.

13 Q. Can you describe to me what that
14 would involve, the vetting of a potential
15 business partner for Sterling Suffolk during
16 this timeframe?

17 A. Sure. So, anybody who we're
18 planning to contract with -- I think we ask
19 pretty much anybody we have a contract with, but
20 the standard is \$50,000 we put through a vet,
21 which basically means we do a record check in
22 terms of LexisNexis search for any sort of
23 questionable information. Anything we can find
24 from public records relating to those kind of

1 people. That's what we've been doing. So,
2 whether it's the contractors we're hiring, the
3 architects, any of the vendors on a go-forward
4 basis we're using.

5 Q. Did that happen in connection with
6 your initial vetting of Caesars back in 2011?

7 A. Yes.

8 Q. Who at Sterling Suffolk would have
9 been responsible for that?

10 A. I would have.

11 Q. I take it that when Sterling Suffolk
12 was initially contemplating the relationship
13 with Caesars, Sterling Suffolk didn't hire a
14 third-party investigator or consultant to do a
15 review?

16 A. We did not.

17 Q. I take it that Sterling Suffolk
18 didn't prepare a written due diligence report or
19 compliance report on Caesars either?

20 A. We did not.

21 Q. And the first agreement with Caesars
22 was signed in March of 2011. That was the
23 subscription agreement at that point, correct?

24 A. Correct.

1 Q. Following that point, was there an
2 effort to do any continuing due diligence of
3 Caesars on the part of Sterling Suffolk?

4 A. Not really until we started the
5 suitability process, although I would say in
6 real-time John Payne who is our board member,
7 Sue Carletta who is the director of compliance,
8 Paul O'Gara --

9 Q. These are people associated with
10 Caesars?

11 A. Yes. -- would regularly inform us
12 of various matters that were going on. We had a
13 protocol once we started the suitability review
14 that each of the qualifiers would report. We'd
15 have a weekly call where they'd be reporting
16 about any issue that might or might not be
17 proceeding.

18 Q. I'll stop you there for a second.
19 So, a report about any issue that would be the
20 qualifiers would report in on this call about
21 who maybe they got interviewed or there was a
22 request for documents or material or the like?

23 A. Correct.

24 Q. Did that happen with respect to

1 Caesars when the suitability investigation
2 began? Did Caesars volunteer to the Sterling
3 Suffolk team issues that were ongoing in the
4 investigation?

5 A. Yes, but obviously not in a complete
6 one.

7 Q. Who was it at Caesars who was
8 participating in these regular briefings
9 conference calls?

10 A. It would depend. Regularly Sue
11 Carletta and Paul O'Gara, from time to time Tim
12 Donovan, Scott Weigand. I can't say there
13 weren't others but those would be the principal
14 participants.

15 Q. Mr. Baker, would you be the person
16 at Sterling Suffolk who would most regular
17 participate in those briefings?

18 A. Yes. Bruce Barnett or I would be on
19 every one of those calls.

20 Q. I take it from the Chair's earlier
21 question that this issue with respect to the
22 Gansevoort license agreement never came up in
23 any of those calls?

24 A. It did not. I won't say that. At

1 some point, before this we were told that there
2 was some issue about Gansevoort but it was not
3 described in any detail.

4 Q. Do you recall when that was?

5 A. I don't actually. It was not
6 anywhere near that May/April timeframe.

7 Q. I think in an earlier question, the
8 Chair referenced an April meeting at which the
9 Bureau had expressed strong concerns about the
10 Gansevoort issue. I understand that Sterling
11 Suffolk -- I'm sorry. Let me rephrase that.

12 There was some due diligence done by
13 the Bureau's investigators of Caesars back in
14 April at which the Gansevoort licensing
15 agreement was the subject of some conversation?

16 A. Right.

17 Q. I take it what you're saying is that
18 the reference in these periodic briefings to
19 Gansevoort when it happened wasn't in April or
20 May? It was sometime later than that?

21 A. Yes. I don't even know if it was
22 even a reference in those things. I would be
23 talking to Paul O'Gara frequently. So, I can't
24 tell you when. I guess the point I would make

1 on this, having reviewed the letter that was
2 sent to the Bureau in May.

3 Q. This is the May 31 letter from Mr.
4 Donovan to Spectrum?

5 A. Correct. We had no indication when
6 that letter was sent or at any time up until
7 October 2 of the weight or the seriousness of
8 the underlying issues.

9 Q. Do you believe, and again, I want to
10 go back to the reference to Gansevoort that
11 someone associated with Caesars may have made,
12 do you believe it was prior to May 31?

13 A. No. I'm sorry. I don't recollect
14 that.

15 Q. Sometime during the summer of 2013?

16 A. I'd be guessing, but I bet that
17 would be my guess see.

18 Q. So, your best recollection for this
19 Commission is that at some point prior to
20 October 2, there was a reference to you by
21 Caesars about Gansevoort, but that's all you can
22 recall?

23 A. That's all I can recall.

24 Q. Do you have a copy of the

1 suitability report handy? Thank you, Karen.

2 I just want to draw your attention
3 to pages 247 to 250. This is a description in
4 the report of the Terrance Wantanabe matter that
5 you had spoken about briefly. Are you there?

6 A. Yes.

7 Q. Did you read that section of the
8 report when it became available to you?

9 A. Yes, I did.

10 Q. There's a reference in the report.
11 This is on page 247 in the last full paragraph,
12 a reference in the report to the fact that -- in
13 the last full paragraph, second line, Wantanabe
14 accumulated unpaid gambling markers in the
15 amount of \$14.7 million during the period of
16 September and December 2007. Do you see that?

17 A. What page, I'm sorry?

18 Q. I'm sorry, 247.

19 A. Yes.

20 Q. The Wantanabe incident described in
21 the report is referring to something that took
22 place back in 2007, correct?

23 A. Yes.

24 Q. And there is a reference on the next

1 page -- I'm sorry there's reference on that page
2 in the following sentence to a December 5, 2009
3 article in the Wall Street Journal about Mr.
4 Wantanabe's gambling at Caesars?

5 A. Yes.

6 Q. Then on the following page, there is
7 a reference to a November 2009 civil suit filed
8 by Mr. Wantanabe against Caesars alleging a
9 variety of misconduct?

10 A. Yes.

11 Q. Before you saw the report from the
12 Bureau, were you aware of the Wantanabe
13 incident?

14 A. Chip and I actually talked about
15 this. I think we were aware of the Wall Street
16 Journal article.

17 Q. Do you recall when you became aware
18 of it?

19 A. I think we became aware of it when
20 we were vetting Caesars.

21 Q. Initially, back before you signed
22 the subscription agreement?

23 A. Yes.

24 Q. Do you recall how it came to your

1 attention?

2 A. We were just doing an Internet
3 search available to the public and we just do
4 that whenever we are -- Before we do a meeting
5 with somebody, we tend to research them see
6 something about them.

7 Q. Did you then follow up and talk to
8 anybody at Caesars about the Wantanabe incident?

9 A. I can't recollect whether we did
10 that before or during or after. But yes, we did
11 talk to people at Caesars about what happened
12 with Wantanabe. And we were assured that -- Tom
13 actually managed this matter from October 2 on.
14 So, all of the information that the Bureau had
15 available to it about the internal reviews of
16 Caesars, we weren't privy to any of that until
17 this window.

18 What we knew was -- So, a number of
19 the matters in here that relate to the nature of
20 what happened we were unaware of. We knew that
21 there was this guy who had these unpaid markers.
22 We knew there was a lawsuit. They told us that
23 they were resolving these matters with their
24 regulators in Nevada and New Jersey. That was

1 the extent of my knowledge.

2 Q. Again, these are conversations that
3 took place prior to March 2011?

4 A. Correct, well contemporaneous I
5 would say.

6 Q. How about the Mitchell Garber
7 episode that is addressed in the report as well.
8 When was the first time you became aware of
9 that?

10 A. We were aware of Mitchell Garber in
11 one of the calls that we did prior to the
12 October 2 meeting. So, it was a weekly call. I
13 couldn't tell you when. I don't know when the
14 Garber interview occurred. But it was probably
15 around then.

16 I asked on the call whether any of
17 the qualifiers had anybody sworn in their
18 interview. Because that would have to me
19 indicated a level of seriousness in terms of the
20 Bureau's investigation. Caesars informed me
21 that Mr. Garber had a sworn interview.

22 Q. The conversation that took place
23 sometime in the of 2013?

24 A. That's my recollection.

1 Q. In connection with your vetting of
2 potential current partners moving forward, you
3 talked about partnering in real-time with the
4 Bureau once you've identified another partner.
5 What about as you are reviewing the candidates
6 that you'd like to team up with before the
7 Bureau gets involved, do you do anything
8 differently than you did in the vetting of
9 Caesars in 2011?

10 A. Yes. Look, one of the things that
11 guides us here is -- We are very much benefited
12 by the fact that the Commission exists, the
13 Bureau exists with their standards and rules
14 now. And we believe the way Chip runs the
15 racetrack, we believe that you work with your
16 regulators in real-time. When we have any
17 question about anything there's a back-and-forth
18 between us and the operator and the Bureau and
19 the Commission staff. And we continue to do
20 that.

21 I also think that a lesson I learned
22 is that we would require people to deliver us
23 copies of actual real documents and not just
24 take --

1 Q. -- the public record.

2 A. Yes. I take everybody at their
3 word. So, I am not saying that anybody
4 deliberately misinformed us. But I think that
5 being able to get actual copies of submissions
6 would have made a difference then. And we will
7 insist on that going forward.

8 MR. MACKEY: No further questions.

9 CHAIRMAN CROSBY: Anybody else?

10 COMMISSIONER MCHUGH: I want to pick
11 up on the Wantanabe matter for a minute. So,
12 you read, if I understand you correctly, the
13 Wall Street Journal article as you were vetting
14 Caesars. You saw in that article not only that
15 the unpaid markers were \$14.7 million but that
16 Wantanabe in the space of about 13 months had
17 lost \$127 million at Caesars, correct?

18 MR. BAKER: Correct.

19 COMMISSIONER MCHUGH: And you read
20 about his allegations that he was provided
21 alcohol and drugs even during the course of this
22 losing streak, right?

23 MR. BAKER: Right.

24 COMMISSIONER MCHUGH: And you talked

1 to Caesars about that?

2 MR. BAKER: Yes.

3 COMMISSIONER MCHUGH: What did you
4 say to Caesars and what did they say -- Let's
5 back up. Did you also read in that report that
6 at the time the Wall Street Journal article was
7 written that there was investigation of this
8 incident being conducted by the Nevada Gaming
9 Commission?

10 MR. BAKER: I am not trying to not
11 answer your question. It's hard for me to
12 remember what I knew then and versus what I
13 might have known --

14 COMMISSIONER MCHUGH: At some point
15 did you learn during the vetting process did you
16 learn that there was an investigation being
17 conducted by the Nevada Gaming Commission?

18 MR. BAKER: We either learned it
19 during the vetting process or it might have been
20 months after, but in that window.

21 COMMISSIONER MCHUGH: Did you learn
22 that the investigation was ongoing and it had
23 not been concluded?

24 MR. BAKER: I can't remember.

1 COMMISSIONER MCHUGH: Do you know
2 whether it's been concluded today?

3 MR. BAKER: We were told it was
4 concluded. We were told that it was resolved to
5 the satisfaction of the Commission in both
6 Nevada and New Jersey by Caesars.

7 COMMISSIONER MCHUGH: Did you learn
8 when you read the article that with respect to
9 the \$14.7 million in unpaid markers in addition
10 to civil proceedings, Caesars had instituted or
11 caused to be instituted criminal proceedings for
12 unpaid debts against Wantanabe?

13 MR. BAKER: That specific fact, I
14 don't recollect.

15 COMMISSIONER MCHUGH: Would that
16 have been of concern to you if you had learned
17 it?

18 MR. BAKER: Yes, Sir. It's not
19 anything we would engage in.

20 COMMISSIONER MCHUGH: Is it the kind
21 of conduct you would want your partner to engage
22 in?

23 MR. BAKER: No, Sir.

24 COMMISSIONER MCHUGH: At some point,

1 after reading the article, you made a decision
2 after the vetting process was concluded that you
3 would place Caesars in charge of compliance?

4 MR. BAKER: That's not the way --
5 That I guess I don't agree with. Our plan
6 always had been, and we feel really strongly
7 about this. The applicant is Sterling Suffolk.
8 And we always expected that this Commission
9 would hold us responsible for anything that
10 happened. So, we always recommended, Jeremy
11 Kleinman and myself, we always recommended to
12 our board that we needed some kind of separate
13 mechanism to ensure compliance of the licensee
14 and the applicant.

15 As a practical matter, we needed
16 there to be a Caesars's compliance function at
17 the facility. But we always then and continue
18 to insist that there be some protocol where a
19 Sterling compliance committee would get reports
20 in real-time and would separately evaluate and
21 make recommendations and report to the
22 Commission and the Bureau.

23 So, yes, because Caesars was the
24 operator we expected that they would -- By the

1 way, they insisted they have their own
2 compliance function. They said look, we have
3 our own compliance function we have to follow
4 it. We are going to our internal reporting up
5 the Caesars's chain. And we said great, but
6 when something gets to the level where it's
7 getting reported up that chain, you have to
8 report it to our compliance committee. So, that
9 was the plan even when Caesars was the operator.

10 COMMISSIONER MCHUGH: But if I
11 understood you today, you are saying that your
12 intention is to form a compliance committee and
13 you're going to need the Commission's assistance
14 to form that committee.

15 MR. BAKER: I wouldn't say
16 assistance.

17 COMMISSIONER MCHUGH: Not
18 assistance --

19 MR. BAKER: Guidance yes, Sir.

20 COMMISSIONER MCHUGH: So, that
21 committee remains an inchoate idea at the
22 moment.

23 MR. BAKER: Correct. I will take
24 any advice you all have to offer seriously. But

1 I think our thought would be to lay out
2 something in the RFA-2 process that you could
3 react to.

4 COMMISSIONER MCHUGH: What
5 documentation or plans or other information did
6 you get from Caesars to assure you that a
7 Wantanabe-type incident would not recur?

8 MR. BAKER: We were told that they
9 had reviewed the incident. They had self-
10 reported. That they learned many lessons from
11 that incident. That they had put new procedures
12 in place to deal with incidents like that. That
13 they had resolved their lawsuit with Mr.
14 Wantanabe. My recollection is at some point
15 they just said look, we have put procedures in
16 place that that could not happen again in this
17 company.

18 COMMISSIONER MCHUGH: Did you probe
19 to see what those procedures were?

20 MR. BAKER: Yes. In terms of the
21 hierarchy of reporting, the fact that
22 businesspeople had check with the compliance
23 people and the general counsel. It was a long
24 time ago but the answer is yes, we did.

1 COMMISSIONER MCHUGH: Did you get
2 documentation with respect to the procedures?

3 MR. BAKER: I don't believe so.

4 COMMISSIONER MCHUGH: Thank you,
5 Sir.

6 MR. BAKER: Thank you.

7 COMMISSIONER STEBBINS: One other
8 quick question, Mr. Baker. I think the question
9 was raised earlier. In finding a new operator
10 do you expect that new operator to have the same
11 percentage of ownership and also a seat on your
12 board? Obviously, I don't expect you to speak
13 for the whole board.

14 MR. BAKER: That's been a basis of
15 some of the negotiations, but it could be
16 another format. We are ready to making sure
17 that somebody honor our commitments, make sure
18 that everything we're promising happens. Make
19 sure that the vision we have occurs. It may be
20 that governance is not a factor, although I
21 would say the assumption is that that would
22 occur.

23 CHAIRMAN CROSBY: Anybody else?
24 Before we get to the next speaker, we'll take a

1 quick break and try to be back in five minutes
2 or so.

3

4 (A recess was taken)

5

6 CHAIRMAN CROSBY: We will go to
7 Counsel, it's your turn.

8 MR. FALBY: Thank you, Mr. Chairman.
9 At this point, I present Chip Tuttle, our COO.

10 CHAIRMAN CROSBY: Excuse me. If we
11 could have everybody silence, please and take
12 your seats. Yes.

13 MR. FALBY: Our third witness this
14 morning is Chip Tuttle, Suffolk Downs COO.

15 MR. TUTTLE: Thank you. Good
16 morning, Chairman Crosby, Commissioner
17 Stebbins, Commissioner Zuniga, Commissioner
18 Cameron, Commissioner McHugh, members of the
19 Gaming Commission staff.

20 I'm Chip Tuttle. I'm the chief
21 operating officer of Suffolk Downs, a position
22 I have held since 2007. As Charlie mentioned
23 in his introduction, I plan to give you an
24 overview on our public communications efforts

1 since we began the process of removing Caesars
2 Entertainment as our gaming operations manager
3 on October 18.

4 First, it may be help to tell you a
5 little about our approach since we began
6 talking in earnest about developing our 78-
7 year-old racetrack into a world class
8 destination resort. We began our efforts to
9 earn a gaming license with a commitment to set
10 the standard for gaming development in the
11 Commonwealth. Whatever the competitive
12 environment, we knew that by setting the
13 highest possible standards and focusing on the
14 merits of our own project, we could be
15 successful.

16 From the beginning, we worked to set
17 the standard for community involvement and an
18 inclusive process. I was at a public meeting
19 last week in East Boston where the president of
20 East Boston Chamber of Commerce mentioned that
21 it was the 55th public meeting or forum she had
22 attended on our proposal. I don't have the
23 exact number, but if she has been to 55
24 meetings I am fairly certain that I have been

1 to more than twice that many.

2 These meetings and this dialogue
3 with our neighbors have helped shape our plans.
4 We also strive to set the standard for design,
5 for creating an unparalleled guest experience
6 and for our commitment to sustainability to our
7 natural environment that is reflected in our
8 goal to be the greenest gaming development in
9 the United States if not the world.

10 We are working to set the standard
11 for ensuring that our host communities and the
12 surrounding areas share in the economic
13 benefits of our proposal by partnering with
14 local businesses and attractions and by signing
15 the most comprehensive and generous host
16 community agreements in the Commonwealth.

17 We have used the same guiding
18 principle since we asked Caesars Entertainment
19 to withdraw as our gaming manager on October
20 18, launching an aggressive public
21 communications program to inform local
22 residents and voters of the change.

23 Here are some details of that
24 program. Having sent the letter to Caesars

1 asking the company to formally withdraw,
2 shortly after 9:00 PM on Friday, October 18, we
3 distributed a copy of that letter with an
4 accompanying statement by me to our media list,
5 which include all of the major local news
6 outlets and community leaders in Boston, East
7 Boston and Revere.

8 That same evening, we sent 12,046
9 emails to individual addresses in our email
10 database. We posted a notice and a letter to
11 the homepage of the Suffolk Downs website, to
12 the homepage of the website of our campaign
13 organization, Friends of Suffolk Downs. We
14 utilized social media as well with postings on
15 the Suffolk Downs Facebook page, the Friends of
16 Suffolk Downs Facebook page and the Spanish
17 language Amigos de Suffolk Downs Facebook page.
18 We tweeted from the Friends of Suffolk Downs
19 account. And I tweeted from my personal
20 Twitter account with a link to the website and
21 the notice. That tweet was re-tweeted by
22 others including members of the local media.

23 On Saturday, October 19 at 10:00 AM
24 I attended a public meeting at Revere City Hall

1 that was also simulcast on local public access
2 cable and has been replayed since then where I
3 explained in detail our decision to ask Caesars
4 to withdraw. That same day we posted a video
5 explaining the change in gaming managers to our
6 affiliated websites Suffolk Downs, Friends of
7 Suffolk Downs and Amigos de Suffolk Downs and
8 on YouTube. In the one week period after it
9 was posted that video was viewed more than
10 40,000 times in one week.

11 In addition to the letter and the
12 statement to the media released on October 18,
13 in the days after we conducted several
14 briefings with members of the media and granted
15 print, radio and television interviews to local
16 and national media outlets including the local
17 ABC, CBS, NBC and Fox affiliates, New England
18 Cable Network, Univision, WBZ radio, WBUR
19 radio, the Boston Globe, the Boston Herald and
20 the Wall Street Journal.

21 We held a briefing at Suffolk Downs
22 on Monday, October 21 for the editors and
23 reporters of our local weekly newspapers, the
24 Revere Journal Transcript and the East Boston

1 Times, to ensure that they had the most up-to-
2 date and accurate information to report to
3 their readers on our change in gaming managers.

4 On Monday the 21st, I was a guest at
5 the Orient Heights Neighborhood Association
6 monthly meeting where I again covered in detail
7 our decision to sever our ties with Caesars,
8 including a chronology of the steps that we
9 took in the month of October once we became
10 aware of issues regarding its suitability.

11 I attended three other public forums
12 last week where we discussed the issue in depth
13 and another last night in Revere. We started a
14 local television campaign on Tuesday, October
15 22 with a 60-second commercial on both cable
16 systems that cover East Boston and Revere to
17 continue to let local residents know of the
18 change. We supplemented that cable campaign
19 with a Spanish-language spot on Univision and
20 UniMas Hispanic TV and with local network spots
21 in Fox pregame coverage of the World Series.

22 On Wednesday October 23 and Thursday
23 October 24 we ran print ads in the East Boston
24 Times, the Revere Journal, the Revere Advocate,

1 El Planeta and El Mundo newspapers to ensure
2 that their readers were informed of our change.

3 Those same two days we leafleted
4 6242 households in East Boston and 10,896
5 households in Revere specifically targeting
6 9370 voters in East Boston and 17,230 in Revere
7 respectively. We mailed 19,497 postcards to
8 residents in both communities.

9 This past weekend, we released to
10 the media our plan and guiding principles that
11 Charlie covered as we work with you in a timely
12 manner to secure a new gaming operations
13 partner. This week we are mailing a formal
14 notification to East Boston voters on the
15 removal of Caesars as our partner to ensure
16 maximum awareness of this prior to our
17 scheduled ballot questions November 5.

18 Since taking action on October 18,
19 we have worked to communicate that action to
20 the public and to ensure that local residents
21 and stakeholders have the benefit of an open
22 inclusive dialogue that we've tried to maintain
23 throughout the multiyear process of working to
24 earn a gaming license in here the Commonwealth.

1 I will now, if you don't have any
2 further questions, I'll take questions or turn
3 it over to Chairman William Mulrow for the next
4 phase of our presentation. Thank you

5 CHAIRMAN CROSBY: Any questions from
6 the table, Counsel?

7 MR. MACKEY: No questions from the
8 Bureau.

9 CHAIRMAN CROSBY: Commissioners?

10 COMMISSIONER ZUNIGA: I do have a
11 question, the community meetings or the public
12 meetings that you just described would you
13 characterize the questions that you may get at
14 those meetings?

15 MR. TUTTLE: Commissioner Zuniga,
16 yes, thank you. The questions come in two
17 forms, basically. I think people, our
18 residents want to be reassured that even though
19 we are seeking a new gaming management partner
20 that our commitments remain the same, that our
21 commitments in our host community agreements
22 and the commitments we have made to our
23 neighbors since we started this discussion in
24 the summer of 2007 that those all remain in

1 place. And I am happy and able to reassure
2 them that that's the case.

3 I do think there is a little bit of
4 confusion occasionally because other developers
5 in the Commonwealth, the gaming company is the
6 owner, is the developer. And in our case,
7 Suffolk Downs is the entity seeking this
8 license not Caesars.

9 The other question comes in the form
10 of wanting to be sure that the brand standards
11 that were discussed earlier remain consistent.
12 And I happy and able to reassure people that
13 those remain consistent that the project is
14 still in excess of \$1 billion. That all of the
15 drawings, all of the renderings, the plans that
16 we have presented in the community since June
17 2012 remain in effect. That we are in fact in
18 the state permitting process and started the
19 process with the DRA and that our commitments
20 to the level of quality remain completely
21 intact and in force.

22 COMMISSIONER STEBBINS: Mr. Tuttle to
23 this point, how much money do you think you've
24 spent on advertising, leafleting kind of

1 getting the word out about the change just in
2 the last few weeks?

3 MR. TUTTLE: The budget on this in
4 particular is \$50-, \$60,000 just since we
5 started the process of severing our ties with
6 Caesars on the 18th. It ultimately will be
7 more than that once we are finished with the
8 process.

9 COMMISSIONER STEBBINS: I have
10 another question that is somewhat not
11 necessarily related to the topics you just
12 touched on but can you just give me a quick
13 update as to Suffolk's consent decree with the
14 EPA just in terms of progress, any issues that
15 have arisen. How long is the consent decree, I
16 guess number of years?

17 MR. TUTTLE: Commissioner Stebbins,
18 I'm going to defer to Charlie Baker on that and
19 let him take that question.

20 MR. BAKER: There's an ongoing
21 monitoring, Commissioner, but the consent
22 decree is basically resolved. As you may know,
23 we were first approached by them in 2007. It
24 took us and the EPA a while to figure out how

1 to deal with this issue. That having 1000
2 horses in a place makes you a combined animal
3 feeder operation. Almost universally the
4 combined animal feed operations around the
5 country are stockyards.

6 There are very specific rules for
7 pigs, chickens, other kinds of livestock. They
8 had no specific rules for horses. So, it took
9 us a long time to work out a mechanism and a
10 plan to do this. The EPA signed off on that
11 plan in 2012. The only obligations we have on
12 a going forward basis with them is reporting
13 and monitoring, which we do quarterly.

14 COMMISSIONER STEBBINS: I know there
15 was a fine paid but there were some other
16 projects that you had to invest money in on the
17 site. What was the total amount of those
18 projects if you know off the top of your head?

19 MR. BAKER: I think it is \$2.1
20 million.

21 COMMISSIONER STEBBINS: Is the
22 monitoring for the foreseeable future or is it
23 for a certain period of time?

24 MR. BAKER: It is for the

1 foreseeable future until the EPA tells us to
2 stop. We report both to the EPA and to the
3 NWRA.

4 CHAIRMAN CROSBY: Commissioners? Do
5 we have a copy of the leaflet that you
6 distributed? Is it one of our exhibits?

7 MR. TUTTLE: It's not one of the
8 exhibits currently, Mr. Chair, but we are happy
9 to get you copies of all the materials that we
10 have used in our public communications.

11 CHAIRMAN CROSBY: Particularly the
12 door-to-door leaflet, as you know, we are
13 talking about a related issue at 3:00. And I'd
14 be interested in seeing that if we can get
15 copies of it by then, anything that's gone out
16 really directly to the citizens.

17 This is a little bit similar to the
18 question that I think Commissioner Zuniga asked
19 you. If you put yourself in the mind of a
20 voter in East Boston who knows what they tend
21 to know not terribly strongly on either side,
22 just kind of trying to figure out what to do
23 here, what is there substantive or is there
24 anything substantive that that voter won't

1 know? Is there anything under these new
2 circumstances that impedes that voter to make a
3 good judgment on November 5, an informed
4 judgment on November 5?

5 MR. TUTTLE: I don't believe so, Mr.
6 Chair. And I have had hundreds of direct
7 conversations with those folks since October 18
8 including knocking doors this past weekend.

9 The community, because of our 78-
10 year legacy in the community they are very
11 familiar with Suffolk Downs as an entity and as
12 a neighbor. So, being able to reassure people
13 that our commitments have not changed, I guess
14 one conversation may sum it up, but this was
15 with a gentleman that lives in the Orient
16 Heights neighborhood. If you thought 4,000 job
17 with local hiring preferences was a good idea
18 two weeks ago, you probably still think it's a
19 good idea this week. If you thought all of the
20 other commitments that we've made to local
21 spending, to the quality of the facility, and
22 preserving the 78-year-old sporting landmark in
23 the neighborhood, all of those things -- the
24 change in operators has not seemed to change

1 anybody's point of view.

2 CHAIRMAN CROSBY: Okay. Next?

3 MR. FALBY: Next, is our chairman,
4 William Mulrow.

5 MR. MULROW: Chairman Crosby,
6 members of the Commission. My name is Bill
7 Mulrow and I serve as chairman of Sterling
8 Suffolk Racecourse. On behalf of the company
9 let me add my thanks for giving us the
10 opportunity to appear before you today.

11 As the person who is ultimately
12 responsible for day-to-day corporate governance
13 matters, I thought it would be helpful for me
14 to tell you something about my background. For
15 the past three decades, I have served in senior
16 executive positions in both the financial
17 services sector and government. I'm presently
18 a senior managing director and partner at the
19 Blackstone Group, which is the world's largest
20 alternative asset manager in the areas of
21 private equity, real estate, credit and hedge
22 funds.

23 Before that I served in senior
24 positions at CitiGroup, Paladin Capital Group,

1 Rothschild, the Global Investment Bank and
2 Donaldson Lufkin and Jenrette, a securities
3 corporation.

4 In addition to that work in the
5 financial sector, I've had deep experience in
6 government. I've been an appointee of four
7 separate governors. I've run for statewide
8 office myself. And I am currently the Chairman
9 of several housing agencies that are the
10 largest issuers of taxes and bonds to finance
11 affordable housing, actually the largest
12 financiers of affordable housing in the country.

13 Additionally, I was blessed with a
14 good education first and foremost from my
15 parents, both of whom were immigrants from
16 Ireland who came to this country in the late
17 40s. My mother was a waitress, my father a
18 machinist. I grew up in a five-story walk up
19 apartment building. I was benefited through
20 their eyes of learning about the importance of
21 hard work, of working every day with integrity
22 and honesty.

23 And with their encouragement and
24 support, I was able to get a more formal

1 education. I received my graduate degree at
2 the Kennedy School of Government at Harvard and
3 my undergraduate at Yale.

4 Since 2007, I've been the chairman
5 of this company. And every day we have striven
6 to do the best job we can with the highest
7 integrity and the most transparency. We have
8 every intention of continuing to do that in the
9 future.

10 You've heard already from Charlie,
11 from Tom Reilly and Chip. And I do not want to
12 repeat what they said. But I do want to
13 emphasize that this company and I personally
14 take matters of compliance, integrity and
15 transparency very seriously. I believe this
16 company as long as I have been involved in it
17 has a demonstrated history of working closely
18 and cooperatively with our regulators and
19 community partners, the cities of Boston and
20 Revere and have generally been a good neighbor.

21 When I first became involved in this
22 project in 2007, I learned about the great
23 wealth-spring of community support Suffolk
24 Downs had engendered over the year and which

1 still exists today. Nothing has changed. As
2 we have gone about the plan to bring this last
3 New England thoroughbred racetrack into the
4 next generation of gaming as a resort
5 destination casino, what I have learned is that
6 people want to know that we're going to build a
7 first-class project, employ people at good
8 wages and integrate the project into the fabric
9 of the community. We have assured them that we
10 will.

11 I am here today to say to you that
12 if given the opportunity, we will keep those
13 promises. As I have mentioned, I've spent some
14 time in the public arena and in businesses
15 where trust, integrity and confidence are
16 crucial. I want to assure this Commission, our
17 city partners, Boston and Revere, our
18 surrounding communities and our other
19 stakeholders that this company will honor every
20 commandment it has made in our host community
21 agreements and in our partnership commitments
22 to local vendors and organizations if we are
23 successful in earning your trust in being
24 granted a gaming license.

1 We at this table and our other
2 qualifiers who are here in attendance today are
3 available to answer any remaining questions.
4 Thank you.

5 CHAIRMAN CROSBY: Counselor?

6 MR. MACKEY: No questions.

7 CHAIRMAN CROSBY: Commissioners?

8 COMMISSIONER CAMERON: I had a
9 follow-up question for Mr. Baker. The question
10 I asked you earlier, Sir, regarding the
11 divestiture of the four plus, all of the
12 interest retained by Caesars presently, I know
13 it's important to the Bureau. And I think it
14 would be important for us as well to have some
15 kind of certainty before we consider
16 suitability with this matter.

17 I know that you stated that you had
18 hoped today to have a resolution to this
19 matter. I'm just wondering if we could
20 consider a plan where, for example, within a
21 week you can have a report to the Bureau on
22 this matter. I don't think we can let it hang
23 out there indefinitely frankly. And I think
24 that the next step would be considering a

1 divestiture trust if in fact the matter isn't
2 resolved in a timely manner.

3 MR. BAKER: The answer is yes.

4 COMMISSIONER CAMERON: We talked
5 about it and you said in general that you were
6 moving quickly, but I just think that this is a
7 serious matter that we need to have some
8 certainty.

9 CHAIRMAN CROSBY: You're talking
10 about the formal, final disassociation of
11 Caesars?

12 COMMISSIONER CAMERON: Yes, this is
13 the fact that Caesars is still a four plus
14 percent.

15 MR. BAKER: So, we hope to have a
16 voluntary agreement with Caesars. We hope to
17 have it very soon. We know that they have
18 withdrawn as a qualifier. We know that their
19 board member has been resigned. We know that
20 we have removed them as a gaming operator and
21 removed any special control rights that they
22 had.

23 Obviously, I'll continue updating on
24 that. So, the remaining issues are equity and

1 their other financial arrangements with the
2 company. We are negotiating with them today.
3 I just don't want to promise you something I
4 can't deliver. I know you don't want me to do
5 that either. I'm not trying to --

6 Here's what I can tell you. The
7 minute we have a voluntary agreement, whether
8 it's today, tomorrow, whatever, we will
9 immediately get a copy of that to you. If we
10 don't have a voluntary agreement within a week,
11 what I will pledge to you is that we will tell
12 you the action steps that we would recommend
13 that you consider with us in terms of a
14 divestiture trust and how we would direct that.

15 COMMISSIONER CAMERON: I would say
16 it is important for you to have a report ready
17 within a week for the IEB. And at that time,
18 next steps could be reported to us. I just
19 think we need it to be more certain. When you
20 say they are not a qualifier, they are not a
21 qualifier because they would be completely
22 divested and that hasn't occurred yet.

23 MR. BAKER: Happy to do that. Let
24 me just say, I speak for myself. I'm not

1 perfect. And through some guidance or some
2 direction that you feel we need to take, I
3 would welcome any guidance. I think you have
4 given me enough on this matter, but I would
5 just speak about that generally.

6 MS. WELLS: And I'm happy to work
7 with the applicant to make sure that that takes
8 place, because I agree with Commissioner
9 Cameron that there needs to be some certainty
10 as to that matter, not only for their 4.2
11 percent but also their preferred shares. So,
12 that needs to be addressed.

13 I just want to clarify one thing for
14 the record. In my remarks, I mentioned Joseph
15 O'Donnell, I said CMIC represented they would
16 cover any unanticipated shortfall, but was
17 Caesars out now and this divestiture, it would
18 rest with Joseph O'Donnell, which is still
19 sufficient, but I just wanted to clarify that
20 for the record.

21 COMMISSIONER CAMERON: Okay. Thank
22 you.

23 MR. BAKER: Thank you.

24 CHAIRMAN CROSBY: Anything else,

1 Commissioners? That segues to a question I
2 wanted to ask Mr. Mulrow. One of the things
3 that we're getting at here, obviously, is the
4 nature and quality of the process by which this
5 applicant makes partnerships. You have had,
6 sort of have and had, a partner, I think, for
7 some number of years, Vornado, who knew that
8 you were going to be going into be an applicant
9 for the gaming business, presumably knew what
10 that meant. Then along comes the background
11 check process and all of the Vornado throws up
12 its hands and says, no this is unacceptable.
13 We're not going to do this. What were you
14 thinking? What happened? How could that come
15 about?

16 MR. MULROW: Well, we had every
17 intention of believing that Vornado was going
18 to go through the background check process. We
19 were equally surprised at the I'd say the
20 eleventh hour when they had decided that they
21 were not going to participate. So, we had
22 every intention from them that believing they
23 were going to so.

24 CHAIRMAN CROSBY: So, they were

1 aware of the process and they had led you to
2 believe they would participate in it?

3 MR. MULROW: Yes. So, this had gone
4 on, obviously, for several months I believe it
5 was. And we all had plenty of time to prepare
6 and put our own financials together. At the
7 very, very last moment they decided not to go
8 forward.

9 CHAIRMAN CROSBY: Okay. Anybody
10 else? Are you done in your presentation? Do I
11 see something else?

12 MR. FALBY: One moment please.

13 CHAIRMAN CROSBY: Sure. Do you have
14 any further witnesses?

15 MR. FALBY: We have no further
16 witnesses. I have a brief closing.

17 CHAIRMAN CROSBY: Right. Is there
18 any further cross, recross, redirect? Would
19 the applicant like to make a closing statement?

20 MR. FALBY: Yes, Your Honor. Yes,
21 Mr. Chairman. Members of the Commission, thank
22 you for your attention. Again, we appreciate
23 the opportunity to appear this morning. We
24 believe that Suffolk Downs as the applicant has

1 met its burden of proving its suitability by
2 clear and convincing evidence. As you heard
3 from the Bureau, there are no issues of
4 suitability with respect to the applicant or
5 any of the current qualifiers.

6 The only conditions raised by the
7 Bureau with respect to Suffolk Downs relate to
8 identifying and bringing on a new operator of
9 the proposed casino project. And the matters of
10 interest in your notice and memo about this
11 hearing also pertain to removing and replacing
12 Caesars as operator of the project.

13 We believe that our witnesses have
14 adequately addressed the matters that were
15 listed in your notice. We believe that the
16 evidence before the Commission demonstrates
17 that Suffolk Downs has responded to the results
18 of the Bureau's suitability review of Caesars
19 with the integrity, the honesty and the good
20 character that the suitability standard of the
21 gaming statute requires.

22 As you heard from Mr. Baker, when
23 the company performed its initial due diligence
24 of Caesars in 2011, it was vetting a public

1 company licensed in many jurisdictions. It
2 relied in particular of the then recent finding
3 of Caesars suitability in Ohio. The company
4 did the best it could with its due diligence
5 with the sources of information available to
6 it.

7 It didn't have the benefit of the
8 Bureau's assistance, because the Gaming Act
9 hadn't been passed. The Commission didn't
10 exist nor did the Bureau. It did work with its
11 then current regulator, the Massachusetts
12 Racing Commission, to inform them of Caesars's
13 involvement. And to get them to vet and
14 approve Caesars's representative to the board
15 of managers.

16 Thereafter, as the company's
17 qualifiers went through the suitability
18 process, the company relied on self-reporting.
19 It relied on Caesars's contractual obligation
20 to keep us apprised of any suitability issues
21 that arose. And we had, as you heard from Mr.
22 Baker, weekly telephone conference calls where
23 those matters were discussed.

24 Unfortunately, those obligations

1 were not met. There was also an element of
2 trust here with a business partner.
3 Unfortunately, that trust was not honored.

4 As a result, the company learned of
5 the issues identified by the Bureau and of the
6 gravity, their seriousness only at the
7 beginning of this month. At that point, the
8 company immediately retained Mr. Reilly as
9 special counsel, relying on his well-known
10 integrity and reputation for good character.

11 As you heard from Mr. Reilly, the
12 company proceeded to act as quickly and as
13 responsibly and decisively as it could in the
14 face of very upsetting information by which I
15 think Mr. Reilly fairly used the word
16 blindsided. It took appropriate action as more
17 and more information became known.

18 Consequently, the status today is
19 that Caesars has withdrawn as a qualifier at
20 our request. Mr. Payne has resigned from the
21 board of managers. We have taken the
22 additional affirmative step of terminating the
23 gaming facility management agreement. And we
24 have officially removed contractually their

1 seat on the board so that no one can replace
2 Mr. Payne from Caesars. And we have taken away
3 their voting rights. All that does remain is
4 their 4.2 percent equity interest in the
5 company. And we are going to work just as
6 quickly with the Commission as we can to
7 resolve that issue.

8 But responding to Commissioner
9 Cameron's suggestion that a finding of
10 suitability be delayed until that 4.2 interest
11 is resolved, we would respectfully urge the
12 Commission not to delay, but instead to issue
13 its decision before the elections next week so
14 that the voters can have the benefit of your
15 view of the suitability of the applicant before
16 the election takes place.

17 As you've heard, this is a crucial
18 issue now for us. Mr. Tuttle has been living it
19 as he told you. Working with the host
20 communities and with voters to make sure that
21 they know what is happening here. Because as
22 Mr. Mulrow testified that Suffolk Downs remains
23 absolutely committed to its host communities
24 and to honoring all of its commitments under

1 all of its agreements.

2 As we go through our efforts to
3 replace Caesars, we will as the evidence
4 indicates learn lessons from what happened
5 before. As you heard from Mr. Baker, the
6 company will require the replacement operator
7 to waive confidentiality with respect to its
8 suitability review with the Bureau so that we,
9 in Mr. Baker's words, in real-time can be
10 apprised of any issues of suitability.

11 We've learned also from this
12 experience with Caesars that trust is an
13 honorable virtue but you can't rely on it
14 entirely. And that compliance measures must be
15 taken in strength and increased. As you heard
16 from our witnesses, the company will do that.

17 We believe that the evidence that
18 you have heard and the people that you have
19 heard from should give you every confidence
20 that the officers and managers of Suffolk Downs
21 will honor all of their agreements with their
22 host communities. And that they will in every
23 instance strive to meet the very highest
24 standards of conduct that you rightly demand

1 from a potential casino operator.

2 So, we urge that Suffolk Downs be
3 approved as suitable as an applicant, subject
4 to the conditions related by the Bureau, which
5 are one, that the applicant identify for the
6 Commission the new operator of the proposed
7 casino project. That they be found suitable
8 and that we present a plan for working with the
9 host communities to bring a new operator on
10 board.

11 But again, I would urge the
12 Commission on behalf of Suffolk Downs to make
13 its decision with those conditions and find
14 that Suffolk Downs is qualified as an
15 applicant. And to make that decision with
16 those condition just as soon as possible so
17 that we can apprise our host communities of
18 that decision. And they could have the benefit
19 of the decision hopefully favorable before the
20 election. I think that is fair to the voters
21 and fair to us, and I think would benefit the
22 process.

23 COMMISSIONER CAMERON: If I could
24 just clarify, Mr. Falby, I was not suggesting

1 we delay suitability. I just thought it was
2 important that we have a plan in place as we
3 proceed. And I believe we came to that
4 agreement.

5 MR. FALBY: And I overreacted or
6 misunderstood. Thank you.

7 COMMISSIONER CAMERON: I may not
8 have been clear.

9 MR. FALBY: I'm very glad to hear
10 that and I thank you for your attention.

11 CHAIRMAN CROSBY: Any final things,
12 thoughts, questions, Commissioners? Thank you,
13 Mr. Falby.

14 With that we will conclude this
15 portion of the suitability hearing. The
16 Commission will deliberate about the matter in
17 private and issue a written decision. The
18 proceeding at this point however remains open.
19 If at any point during deliberations, the
20 Commission determines that further testimonial
21 or documentary evidence is desirable, it may
22 send notice of such to the applicant and
23 provide instructions as to how to proceed.

24 Further, all applicants of course

1 have a continuing duty to provide updated
2 information to the Commission and the Bureau.

3 So, we will temporarily adjourn. I
4 do want to remind folks that we have a separate
5 meeting at three clock. There is no obligation
6 for the applicant to attend that meeting,
7 although it might not be a bad idea in case we
8 have questions. We would like to have any
9 materials delivered directly to voters enough
10 before that so we have a chance to take a look
11 at it. With that, we will break for lunch.

12
13 (Hearing suspended at 11:50 a.m.)
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C E R T I F I C A T E

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I, Laurie J. Jordan, an Approved Court Reporter, do hereby certify that the foregoing is a true and accurate transcript from the record of the proceedings.

I, Laurie J. Jordan, further certify that the foregoing is in compliance with the Administrative Office of the Trial Court Directive on Transcript Format.

I, Laurie J. Jordan, further certify I neither am counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken and further that I am not financially nor otherwise interested in the outcome of this action.

Proceedings recorded by Verbatim means, and transcript produced from computer.

WITNESS MY HAND this 30th day of October, 2013.



LAURIE J. JORDAN
Notary Public

My Commission expires:
May 11, 2018