

THE COMMONWEALTH OF MASSACHUSETTS
MASSACHUSETTS GAMING COMMISSION
ADJUDICATORY HEARING

IN THE MATTER OF: APPLICATION OF BLUE TARP
REDEVELOPMENT, LLC (MGM SPRINGFIELD) FOR
SUITABILITY DETERMINATION FOR CATEGORY 1 GAMING
LICENSE

December 9, 2013, 9:30 a.m. - 6:07 p.m.
BOSTON CONVENTION AND EXHIBITION CENTER
415 Summer Street, Room 151
Boston, Massachusetts 02210

1 APPEARANCES:

2

3 ON BEHALF OF THE MASSACHUSETTS GAMING COMMISSION:

4 MASSACHUSETTS GAMING COMMISSION

5 Investigations and Enforcement Bureau

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8 BY: Director Karen Wells

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3 WITNESSES (MGM RESORT): ROLAND HERNANDEZ

4 JAMES MURREN

5 JOHN MCMANUS

6 GRANT BOWIE

7 JAMES MEFFORD

8 WITNESSES (ROLLING HILLS TRUST): RONALD GILLIS

9 JOHN BOWMAN

10 VINCENT BARLETTA

11

12 EXHIBITS (Massachusetts Gaming Commission):

13 Exhibit 1.....Notice of Adjudicatory Proceeding

14 for Blue Tarp reDevelopment, LLC

15 Exhibit 2.....Memorandum Regarding Adjudicatory

16 Proceeding for Blue Tarp reDevelopment, LLC

17 Exhibit 3.....11/27/2013 Cover Letter from IEB

18 Director Karen Wells

19 Exhibit 4.....Redacted Version of Report of

20 Suitability of Applicant Entities and Individual

21 Qualifiers for Applicant

22 Exhibit 5.....MGM Mirage Press Release Regarding

23 Christensen Resignation, February 21, 2006

24

1 EXHIBITS (Massachusetts Gaming Commission):
2 Exhibit 6.....9/24/2009 Wall Street Journal
3 Article Concerning Criminal Conviction of Terry
4 Christensen
5 Exhibit 7.....10/15/2009 Letter from James
6 Murren to Justice Dale S. Fisher Regarding
7 Christensen
8 Exhibit 8.....Excerpts from Vincent Barletta
9 Massachusetts Gaming Commission Application
10 forms (redacted)
11 Exhibit 9.....12/6/2013 Screenshot and printout
12 of www.carlettarenewable.com
13 Exhibit 10.....1/11/2007 New York Times Article

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15 EXHIBITS(Blue Tarp reDevelopment, LLC Applicant):
16 Exhibit 1.....90-second MGM Video
17 Exhibit 2.....CR Magazine Responsible CEO Award

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

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3 CHAIRMAN CROSBY: I am pleased to
4 call to order the adjudicatory hearing on the
5 basically MGM, Blue Tarp Development, LLC, MGM
6 proposal for a casino site in Springfield. This
7 is Monday, December 9, 2013 at 9:30 AM.

8 Before I started, I wanted to say
9 that I know many people in the room might be
10 anxious to get my reaction to a big story that
11 ran in one of our papers yesterday. I just want
12 you all to know that I am thrilled that Mike
13 Napoli is coming back to the Red Sox.

14 I don't have the exact steps, but I
15 think we start out with the introduction of the
16 attorneys from each side and then the swearing-
17 in of the witnesses. Is that the right process?

18 COMMISSIONER MCHUGH: Yes.

19 CHAIRMAN CROSBY: So, should we
20 start out with the attorneys representing -- who
21 you are and who you are representing.

22 MR. CASIELO, JR.: Sure. Good
23 morning, Chairman Crosby, Commissioners. My
24 name is Nick Casiello. I am an attorney with

1 the law firm of Fox Rothschild, admitted pro hoc
2 vice. Also appearing from my firm is Pat
3 Madamba also admitted pro hoc vice.

4 MR. NOSAL: Good morning, Chairman,
5 members of the Commission, Jed Nosal also on
6 behalf of the Blue Tarp reDevelopment and MGM.

7 CHAIRMAN CROSBY: Anybody else? For
8 the Commission.

9 MR. MACKEY: Good morning, Mr.
10 Chairman and members of the Commission. David
11 Mackey and Mina Makarious to my left from the
12 firm Anderson and Kreiger. And we are
13 representing this morning the Investigations and
14 Enforcement Bureau.

15 CHAIRMAN CROSBY: Okay. And that's
16 it. And now we need everybody who might be a
17 witness today to please stand.

18

19 WITNESSES, SWORN

20

21 CHAIRMAN CROSBY: Note that all
22 witnesses present responded in the affirmative.
23 Thank you.

24 Just to be sure everybody's aware of

1 this, this is not like our regular meetings.
2 This is an adjudicatory hearing. We will take
3 testimony and ask questions. And then the
4 Commission will take that information and
5 deliberate in private and issue a decision once
6 we come to that. We will not be issuing a
7 decision today or whenever we end our testimony
8 today or tomorrow.

9 With that I believe we start with
10 the applicant -- Director Wells, I'm sorry.
11 We'll start with Attorney Mackey.

12 MR. MACKEY: Before we begin with
13 Director Wells' testimony, I'd just like to note
14 for the record that we have marked nine
15 different documents as exhibits for today's
16 proceeding.

17 We have the first four being the
18 notice of the proceeding, the memorandum that
19 will describe the process for this proceeding,
20 Director Wells' cover letter and that the
21 suitability report itself. We have also
22 provided to the applicant five additional
23 documents that we would like marked and
24 introduced into evidence here. And I don't

1 believe there are any objections to any of those
2 documents.

3 CHAIRMAN CROSBY: Is that correct?

4 MR. CASIELLO, JR.: I am not certain
5 that I have seen all of the documents that you
6 are suggesting be admitted. May we confer for a
7 second?

8 CHAIRMAN CROSBY: Certainly.

9 MR. CASIELLO, JR.: We have no
10 objection, Mr. Chairman. It was just that two
11 of those exhibits don't pertain directly to MGM.
12 That's my confusion, sorry.

13 CHAIRMAN CROSBY: Okay. Mr. Mackey
14 anything else?

15 MR. MACKEY: No, Sir. I don't
16 believe there is. Though I believe the
17 applicant also had an additional exhibit that he
18 wanted to introduce into the record and the
19 Bureau has no objection to that exhibit.

20 MR. CASIELLO, JR.: Yes, one
21 exhibit, Mr. Chairman. It's a 90-second video.

22 CHAIRMAN CROSBY: I do understand
23 prior to this, the applicant has had an
24 opportunity to meet with the Bureau, to preview

1 the report and you had an opportunity to have
2 your questions asked and answered before this
3 meeting?

4 MR. CASIELLO, JR.: Yes, we did.

5 CHAIRMAN CROSBY: Okay. I believe
6 we are ready for introduction from Director
7 Wells.

8 MS. WELLS: Good morning, Mr.
9 Chairman, members of the Commission. It is my
10 pleasure to be here this morning. This has been
11 a 10-month investigation, an extremely
12 comprehensive and thorough investigation.

13 I would like to thank the
14 investigators who worked together on this
15 report. I would like to specifically here today
16 acknowledge Ted Grove from Spectrum Gaming,
17 Loretta Lillios from our office and Detective
18 Lieut. Brian Connors for their efforts.

19 As you are aware, given that you
20 have received and reviewed the completed report,
21 this is an extremely comprehensive analysis.
22 And as such, I will not be addressing every
23 point contained in the report since you have
24 already reviewed it. Instead, I will attempt to

1 hit the significant areas, recognizing that the
2 applicant who is before you here today will be
3 providing details to the Commission directly.

4 The applicant before us here today
5 is Blue Tarp reDevelopment, LLC. I would like
6 to initially compliment the applicant here today
7 for their cooperation in the investigation.

8 As I stated previously, this was 10
9 months of interviews, document requests, further
10 interviews, further document requests. And at
11 all times they were cooperative, compliant,
12 willing to work with the IEB in the process.
13 And we found that it was an extremely successful
14 endeavor working together with them on that
15 investigation.

16 I believe that is indicative of how
17 they would cooperate with the Massachusetts
18 Gaming Commission going forward.

19 Blue Tarp reDevelopment, LLC is
20 owned 99 percent by MGM Resorts International
21 and one percent by Paul C. Picknelly, a natural
22 person qualifier. MGM Resorts is a publicly
23 held company. Its primary business is the
24 ownership and operation of casino resorts. It

1 operates 15 in the United States. Its primary
2 venue is Las Vegas. They also have casinos in
3 Michigan and Mississippi and have interests and
4 other domestic casinos. They also conduct a
5 significant business from MGM Macau, a special
6 administrative region in China.

7 MGM Resorts International holds 51
8 percent of the common stock of MGM China
9 Holdings, Limited, which wholly owns MGM Grand
10 Paradise, the owner operator of MGM Macau.

11 The scope of licensing process
12 determined the additional entity qualifiers and
13 other subsidiaries identified in the report
14 including Tracinda Corporation, which holds an
15 18.6 ownership interest in the MGM Resorts
16 International as well as Dubai World, which
17 holds a smaller ownership interest and has a
18 seat on the board.

19 Additionally, Rolling Hills Estate
20 Realty Trust was identified as a qualifier along
21 with individual and entities given their
22 contractual agreement with Blue Tarp for a
23 portion of the annual gaming revenue in
24 perpetuity.

1 In all, the Blue Tarp application
2 consists of 13 entity qualifies and 36
3 individual qualifiers all who were vetted and
4 investigated. The investigative report
5 identified three issues pertaining to the
6 applicant's suitability as described in my cover
7 letter, the Christensen matter, matters related
8 to MGM Macau and a matter involving individual
9 qualifiers Vincent Barletta and Ronald Gillis
10 relating to the preparation of Barletta's
11 application.

12 It should be noted that Barletta and
13 Gillis are only contractually related to the
14 application. So, they are separate from the MGM
15 group here today.

16 By identifying these issues, the IEB
17 does not suggest that the Commission is limited
18 in asking questions to those areas. In fact,
19 the Commission is free to inquire as many areas
20 of concern that any Commissioner may have as
21 this Commission has done with the other
22 applicants.

23 Blue Tarp proposes to build and
24 operate a casino gaming facility utilizing

1 approximately 14.5 acres of land over a multi-
2 block area in Springfield, Mass. The planned
3 casino includes a 25-story hotel with 250 rooms,
4 125,000 square feet square of gaming space,
5 integrated residential, retail, dining and
6 meeting space. The projected cost is
7 approximately \$800 million.

8 The MGM officers required to qualify
9 included James Murren, Corey Sanders, William
10 Hornbuckle, Daniel D'Arrigo, John McManus,
11 Robert Baldwin, Phyllis James, Christopher
12 Nordling, William Scott, Rick Arpin, James
13 Freeman, Alan Feldman, Shawn Sani, Robert
14 Selwood, Larry Mefford and Thomas Peterman.

15 The investigation reviewed, which
16 are detailed in the report, significant
17 acquisitions by the company, significant
18 litigation, media coverage, compliance history,
19 their compliance plan and their compliance
20 committee procedures, anticorruption guidelines
21 and anti-money laundering policy.

22 As I indicated earlier, there are
23 three issues note suggested to be suggested by
24 the Commission. The first one is the Terry

1 Christensen matter. Terry Christensen was a
2 member of MGM Resorts International Board of
3 Directors from August 1987 until February 2006.
4 He resigned from the board at the insistence of
5 New Jersey regulators following his federal
6 indictment on illegal wiretapping in aiding and
7 abetting charges.

8 He was convicted in August 2008.
9 Despite his indictment, resignation from the
10 board and subsequent conviction, senior
11 executives at MGM and Tracinda continued to
12 interact with him including on sensitive and
13 nonpublic company matters. His involvement
14 ended on September 29, 2009 after the
15 intervention of New Jersey and Nevada
16 regulators.

17 Regulators in New Jersey Nevada and
18 Nevada requested that MGM and Tracinda provide a
19 written report. Accordingly, corporate counsel
20 conducted a comprehensive internal
21 investigation.

22 The facts of the Christensen
23 criminal indictment are detailed in the report
24 and are obviously very troubling as the

1 prosecution presented evidence that Terry
2 Christensen paid an associate at least \$100,000
3 for a wiretap of Kirk Kerkorian's wife during
4 divorce proceedings. And surreptitious
5 recordings not only concluded extremely personal
6 information but also included litigation
7 strategy between her and her attorneys. I won't
8 review the facts of the investigation as they
9 are detailed in the report. However, some are
10 particularly notable.

11 For example, when Terry Christensen
12 resigned from the board in February 2006, MGM
13 issued a press release expressing confidence in
14 his eventual exoneration. Sworn interviews
15 indicated that there was no independent review
16 of the criminal allegations prior to the
17 issuance of the press release.

18 On March 31, 2006, the MGM
19 compliance committee convened and reported to
20 the compliance committee. The compliance
21 committee unanimously recommended at that time
22 that number (1) MGM should advise the
23 Christensen firm to remove Terry Christensen as
24 a billing partner on the MGM account. (2) Terry

1 Christensen cease any further involvement in any
2 litigation for MGM. And (3) the Christensen
3 firm adopt a policy prohibiting Terry
4 Christensen from being consulted on any matters
5 relating to the law firm's representation of
6 MGM.

7 Later, individuals indicated that a
8 telephone call was received from either Gary
9 Jacobs, the general counsel of MGM at the time,
10 or Bob Faiss, senior partner with Lionel, Sawyer
11 and Collins, asking the compliance committee
12 reconsider its recommendation as they were too
13 harsh and would be detrimental to MGM.

14 The compliance committee reconvened
15 on May 5, 2006 and Faiss addressed the committee
16 at Jacobs's invitation. It was explained that
17 Christensen's institutional knowledge was
18 valuable and precluding MGM from obtaining his
19 advice -- and that precluding MGM from obtaining
20 his advice could substantially harm the company.

21 The compliance committee then
22 altered its recommendations deciding number (1)
23 Terry Christensen should remain as billing
24 partner on the MGM account. (2) Is acceptable

1 for MGM to use Terry Christensen's legal
2 services from time to time on matters of
3 importance. (3) It would continue to the
4 condition that Christensen cannot act as lead
5 litigation counsel. And (4) added a condition
6 that MGM prepare and submit quarterly reports on
7 the status of Christensen's indictment and the
8 amount of services he provided during the
9 preceding matter.

10 Specific examples of Terry
11 Christensen's continued involvement in MGM can
12 be found in the report starting at page 83 and
13 proceeding. Notable is that he attended
14 approximately four board meetings and he was
15 present on a telephonic meeting or meetings and
16 other board members were unaware of it at the
17 time.

18 MGM relied heavily on the advice of
19 then General Counsel, Gary Jacobs. And it was
20 permissible to have continued contact with Terry
21 Christensen despite the fact that Jacobs and
22 Christensen were law partners and friends for
23 decades, an obvious conflict of interest. I
24 could go on in detail about the concerns in the

1 report, however during the course of the
2 investigation no one at MGM disputed the facts
3 or argued that the behavior was somehow
4 acceptable.

5 Rather MGM executives readily
6 admitted that the whole Christensen matter was
7 not handled properly and there was a black mark
8 on the company's history. The investigation
9 then focused on the remedial actions that the
10 company following the Christensen matter. The
11 applicant is prepared today to review those
12 remedial measures with the Commission. So, I'll
13 leave it to them to explain the details of
14 those.

15 Overall, I expect them to explain
16 the changes in policies and protocols with
17 respect to the compliance committee training and
18 other matters including the resignation
19 agreement with Gary Jacobs.

20 A review of actions of other
21 jurisdictions with respect to the Christensen
22 matter showed in 2010 Michigan brought an action
23 against MGM Grand Detroit for failure to provide
24 written notification to the MGCB of the

1 Christensen indictment. They had a \$150,000
2 penalty. \$75,000 was held in abeyance pending a
3 one-year probationary period, which they
4 successfully completed and did not have to
5 forfeit that financial money held in abeyance.

6 In 2013, this year, Maryland found
7 that MGM qualified for licensure but required as
8 conditions they not have contact with Terry
9 Christensen. And this year 2013, the state of
10 New Jersey investigation is pending. They
11 actually work collaboratively with Massachusetts
12 on this piece of the investigation.

13 Now turn to the information
14 contained in the report regarding MGM Macau.
15 There is a lot of significant information
16 contained in the report. Given that we're
17 looking to hear from the applicant today, I
18 won't go into too much detail on those. But I
19 would remind the Commissioners there's a
20 significant amount of detail in the report for
21 consideration during deliberations.

22 A significant portion of MGM Resorts
23 International business comes from its operations
24 in Macau. Overall, it has been a financial

1 success. Macau is the top grossing gaming
2 jurisdiction in the world.

3 To understand the concerns
4 surrounding gaming operations in Macau, it is
5 important to differentiate between pre- and
6 post-1999. It has been widely acknowledged that
7 in the 1980s Asian organized crime groups known
8 as triads became prominent in the junket
9 operation of Stanley Ho's casino monopoly at the
10 time.

11 Triad presence remained high
12 throughout the 1980s and the 1990s. In the
13 period of 1995 through 1999, large scale
14 violence erupted between rival Macau-based
15 triads vying for the lucrative junket operation
16 market and its related activities. During this
17 period, Hong Kong-based triads also moved into
18 the area.

19 In December 1999, pursuant to a
20 treaty between Portugal and China, Macau
21 reverted to Chinese sovereignty and became a
22 special administrative region of the People's
23 Republic of China. Casino gaming remained legal
24 in Macau while illegal in the PRC. China took

1 strong measures to curtail triad violence in
2 Macau including dispatching its army to Macau
3 and executing and imprisoning triad members. At
4 that time, there was immediate and drastic drop
5 in violent crime.

6 Since 2000, a period in which there
7 has been a dramatic rise in gaming-related
8 revenue in Macau, Macau has continued to
9 experience a significant decline in violence.
10 Nonetheless, concerns about organized crime
11 persist.

12 In 2001, the government opened a
13 bidding process for three gaming concessions.
14 Those concessions were granted SJM, Wynn Resorts
15 and Galaxy Casino. SJM is owned by STDM,
16 Stanley Ho's company.

17 In 2005, SJM sold a subconcession to
18 MGM Grand Paradise in a partnership between
19 Pansy Ho, Stanley Ho's daughter and MGM Resorts.
20 There's more to follow on the Pansy Ho matter.
21 I'll address that shortly.

22 In December 2007, MGM Macau entered
23 into operation. Currently, the Macau gaming
24 regulatory structure there are six autonomous

1 licenses operating approximately 35 casinos.
2 Three of these are US-based operations Wynn,
3 Sands and MGM.

4 A significant portion of the Macau
5 gaming market is comprised of high-stakes
6 patrons from the PRC who almost exclusively play
7 baccarat in dedicated VIP gaming rooms. VIP
8 gaming rooms are well-appointed suites generally
9 located within a large casino that provide
10 luxury accommodations and privacy exclusively
11 for gaming by top-tier gaming patrons.

12 The gaming promoters rely on a
13 network of collaborators comprised of junket
14 operators, subjunkets and agents. The structure
15 looks like a pyramid as you go down the chain.
16 A paramount benefit offered by gaming promoters
17 is the ability to extend credit to mainland
18 Chinese players, which the casino will not do
19 because gambling debts are not legally
20 enforceable in China.

21 Further, the casino cannot advertise
22 or market the gaming aspects of its casino in
23 mainland China as that is unlawful there. And
24 it relies on the gaming promoters to accomplish

1 this. MGM Macau has eight of these gaming
2 promoters.

3 Although US casino concessionaires
4 doing business in Macau maintain control of the
5 actual games, the gaming promoters are
6 responsible for certain cage, cash transaction,
7 reporting and credit issuance and collection
8 functions.

9 Extremely notable is that while the
10 official gaming promoter is licensed by the
11 DICJ, the Macau gaming regulatory authority, the
12 licensing and vetting requirements do not extend
13 to the network of collaborators, subjunkets
14 behind the gaming promoter.

15 As outlined in the report, there
16 exists concern that because this network is not
17 subject to licensing and vetting there is an
18 increased risk that criminal triads or other
19 unsuitable persons may infiltrate or resume a
20 foothold in Macau's casinos through this
21 collaborator network. It is the role of the
22 gaming promoter not the government to determine
23 the suitability of the gaming promoters'
24 partners.

1 The United States China Commission
2 report, which was recently released,
3 acknowledges ongoing concerns about organized
4 crime in Macau casinos today. Although it
5 should be noted there are differences between
6 the US-based casino operations and other casino
7 operations, and the USCC report acknowledges
8 that.

9 As detailed in the report, these
10 concerns I have mentioned remain about the
11 potential susceptibility of gaming operations to
12 this involvement by unsuitable persons. There
13 has been no suggestion in the investigation that
14 MGM would knowingly associate with unsuitable
15 persons.

16 However, it was with this backdrop
17 that MGM sets its practices with respect to the
18 scope of due diligence it considers to be
19 commensurate with the known risks in Macau. And
20 that is part of the reason for the discussion
21 here today.

22 As to the MGM Macau gaming promoter
23 system, as I stated previously, MGM Macau has
24 eight gaming promoters. MGM Macau provides all

1 of the game personnel such as dealers and game
2 supervisors as well as security personnel and
3 surveillance monitoring. However, consistent
4 with Macau's legal and regulatory scheme, the
5 cage or financial center of that gaming room is
6 operated exclusively by employees of the gaming
7 promoter.

8 The promoter is also responsible for
9 anti-money laundering efforts. MGM does provide
10 training to the AML coordinators in these gaming
11 operation rooms in the gaming promoter VIP
12 rooms. The gaming promoters are responsible for
13 recruiting and supplying gaming customers to
14 their respective rooms. This is accomplished
15 through this network of collaborators and
16 subjunks. Depending on the size of the gaming
17 promoters operation, there may be multiple
18 levels of these collaborators and subjunks
19 numbering in the many hundreds or even a
20 thousand.

21 MGM Macau advances credit in the
22 form of nonnegotiable gaming chips exclusive to
23 a particular gaming VIP room, which are then
24 advanced to the customer through the

1 collaborator distribution system. MGM Macau is
2 not involved in the gaming promoter customer
3 credit issuance and the collection process.

4 There are MGM Macau policies
5 applicable to credit for their mass gaming floor
6 and in their own high-limit gaming rooms but
7 they are not applied to these gaming promoter
8 rooms.

9 This credit system comports with
10 DICJ regulations, nonetheless MGM Macau is
11 unaware of the manner in which credit is
12 extended to and collected. Therefore, not aware
13 of the interest rate, if any, is charged or the
14 manner in which debt collection is undertaken in
15 a jurisdiction that does not recognize gambling
16 debts as legally enforceable obligations.

17 The USCC annual report cited a 2007
18 University of Nevada study that stated the
19 extent to which extra legal means of debt
20 collection, i.e. threats, intimidation,
21 violence, etc. occurs is an obvious concern for
22 regulators especially those from outside Macau
23 that oversee companies which are
24 concessionaires, subconcession holders in Macau.

1 Investigators reviewed the due
2 diligence that MGM Macau performs on their
3 gaming promoters that is detailed in the report.

4 I expect that Larry Mefford and
5 Grant Bowie may address the Commission on that.

6 While the MGM Macau does due
7 diligence on the promoters, it does not conduct
8 due diligence on the collaborators citing the
9 overwhelming numbers. It also does not rank the
10 collaborators and do due diligence on the top-
11 level of the pyramid below the promoter. But it
12 should be noted that is not required by the
13 Macau government.

14 Based on the investigation, MGM's
15 procedures continue to evolve even based on our
16 inquiries and the collaborative efforts between
17 investigators and folks at MGM.

18 MGM executives has consistently been
19 forthright acknowledging the history of triad
20 involvement in Macau's casino industry as well
21 as acknowledging the legitimacy of ongoing
22 concerns about triad infiltration. MGM Macau is
23 fully compliant with DIC's regulatory
24 requirements has not only at times gone beyond

1 what the DICJ requires but has expressed a
2 willingness to adopt additional measures in
3 order to satisfy its own concerns as well as the
4 anticipated concerns of domestic regulators.

5 I'm just now going to turn to the
6 section in the report which deals with MGM's
7 partnership with Pansy Ho. In the early 2000s,
8 MGM desired to enter the emerging Macau gaming
9 market. Originally, they considered an
10 opportunity to operate under SJM's concession
11 whose entities were connected to Stanley Ho.
12 MGM abandoned that idea after Nevada regulators
13 raised concerns about Stanley Ho's suitability
14 given that Stanley Ho had long faced allegations
15 of business ties as to persons associated with
16 organized crime.

17 Instead MGM proceeded with a
18 partnership with Pansy Ho, Stanley Ho's
19 daughter, and obtained a subconcession from
20 Stanley Ho's SJM in 2005 in exchange for a one-
21 time payment of \$200 million. The resulting MGM
22 Macau opened in December 2007.

23 In 2007, Nevada regulatory
24 authorities issued a finding of suitability for

1 MGM's association with MGM Paradise Limited. In
2 2009, New Jersey DGE issued a special report on
3 its investigation of MGM's partnership with
4 Pansy Ho. The DGE recommended that Pansy Ho was
5 unsuitable mainly out of concerns that she was
6 acting as a front for her father. It should be
7 noted that she is not a qualifier before DGE at
8 that time.

9 The DGE report is attached to the
10 Massachusetts report as an exhibit. It is a
11 public document, the redacted version. So, I
12 will not recite at this time all of the facts
13 and findings in that report. The matter was
14 never subject to a hearing before the New Jersey
15 Casino Control Commission as MGM entered into a
16 stipulation of settlement with New Jersey
17 regulators.

18 This required a withdrawal of the
19 MGM casino license. No admission of culpability
20 by MGM and required the sale by MGM of its 50
21 percent interest in the Borgata. I believe that
22 was allowed to be put into a divestiture should
23 trust. Terms later amended to allow MGM to
24 reapply in New Jersey, which it did in February

1 2013. That application and investigation is
2 pending now.

3 Pansy Ho's status as an equal joint
4 venture changed in June 2011 when MGM China
5 Holdings went public on the Hong Kong stock
6 exchange. MGM went to a 51 percent majority
7 interest and Pansy Ho's interest was reduced to
8 29 percent.

9 Additionally, Stanley Ho's health
10 has greatly deteriorated and is believed he is
11 not physically or mentally able to influence his
12 daughter with respect to MGM Macau at this time.

13 Pansy Ho was interviewed as a part
14 of this investigation and denied that in gaining
15 her concession with MGM she operated under her
16 father's influence. That position is consistent
17 with her testimony before the Nevada Casino
18 Control Commission but inconsistent with the DGE
19 special report.

20 As to financial stability of the
21 applicant, details contained in the report and
22 our financial investigators confirmed that MGM
23 Resorts International has the financial
24 resources and stability to support the casino

1 project before you here today.

2 As I indicated, MGM Resorts
3 International has a 99 percent interest in Blue
4 Tarp reDevelopment. The other one percent is
5 owned by Paul Picknelly. The investigation did
6 not reveal any derogatory information that would
7 impact his suitability for licensure.

8 As I indicated, there were other
9 entity qualifiers based on the percent of
10 ownership of the MGM's stock including Dubai
11 World. Investigators at Spectrum completed a
12 separate report regarding Dubai World which was
13 attached for your consideration, and their
14 related entities and natural person qualifiers.

15 Generally, the investigation did not
16 reveal any derogatory information that would
17 call for a finding of unsuitability with respect
18 to this application. Investigators confirmed
19 that Dubai World was found suitable by gaming
20 regulators in Nevada, Michigan and Mississippi.
21 And no adverse actions exist in those
22 jurisdictions.

23 An application before the gaming
24 regulators in New Jersey was withdrawn in 2010

1 as part of the Pansy Ho issue I described before
2 as part of the settlement agreement previously
3 described, and a reapplication is pending.

4 The report also details the
5 investigation into the Tracinda Corporation also
6 investigated issues pertaining to Christian
7 matter should be noted in that part of the
8 report.

9 In addition, the investigators
10 completed an investigation of Rolling Hills
11 Estates Realty Trust as well as their additional
12 entity qualifiers and natural person qualifiers.
13 It was deemed a qualifier because it has a
14 contractual right in perpetuity to receive
15 monetary payments from the gaming revenues of
16 the proposed casinos. It also receives two
17 success fees.

18 There are two trustees and managing
19 partners both qualifiers on the side of the
20 trust, David J Callahan and Vincent F. Barletta.
21 That goes into the Callahan group is the entity
22 is Cal Rolling Hills that includes David
23 Callahan, Janet Callahan, Charles Callahan, John
24 Callahan and Julie Callahan, all determined to

1 be qualifiers.

2 On the Vincent Barletta side, aside
3 from him being a qualifier, they have the VFB
4 Dynasty Trust, Ronald Gillis, Timothy Barletta
5 and John Bowman. As to Vincent Barletta and
6 Ronald Gillis as is detailed in the report,
7 Vincent Barletta's application, the
8 investigation determined that it contained
9 factual errors.

10 He answered in the negative whether
11 his driver's license had ever been suspended
12 when in fact it been suspended on five
13 occasions. And two, he had answered that he
14 graduated from Northeastern University when in
15 fact he had not.

16 He admitted in his sworn interview,
17 Ronald Gillis filled out the form who had placed
18 Barletta's initials on each page. Barletta then
19 signed the statement of truth but did not review
20 the completed application for content or
21 accuracy.

22 Gillis also signed Barletta's name
23 on the waiver of liability release form. This
24 form was then notarized by Gillis himself who as

1 a notary attested that the signature was
2 Barletta's. Gillis indicated he was under
3 pressure to complete the form by a certain time
4 and Barletta was out-of-state at the time the
5 document was completed.

6 In addition, Timothy Barletta was
7 initially identified as a qualifier. However,
8 the investigation revealed a statutory
9 disqualifier for him. This is not being
10 contested by Mr. Timothy Barletta. And
11 according to his attorneys, his interest is
12 going to be bought out, therefore eliminating
13 his perpetuity interest in the gaming operation.
14 Therefore, there is not a contested issue before
15 the hearing today. The IEB will update the
16 Commission as appropriate on that matter, but we
17 can take care of that issue.

18 With respect to the Barletta and
19 Gillis issues, there is a contractual remedy
20 with Blue Tarp if there are suitability
21 problems. And the IEB recommends that any
22 action by the Commission be consistent with that
23 contractual remedy. And we can provide
24 documentation necessary for the Commission's

1 consideration if that becomes an issue.

2 Ultimately, the IEB recommends that
3 the Commission find the applicant, Blue Tarp
4 reDevelopment suitable for licensing subject to
5 the following conditions: number (1) the
6 applicant should satisfy the Commission at the
7 hearing today that the applicants and relevant
8 qualifiers' response to the Christensen matter
9 and subsequent remedial measures adequately
10 demonstrate the applicant's and relevant
11 qualifiers' suitability under 23K.

12 (2) The applicant should satisfy the
13 Commission at a hearing that the applicant's
14 business practices in Macau meet the statutory
15 requirement of responsible business practices in
16 any jurisdiction.

17 And (3) the applicant should present
18 evidence at a hearing to satisfy the Commission
19 that Vincent Barletta and Ronald Gillis meet the
20 statutory criteria for suitability given the
21 concerns outlined in the report.

22 So, that completes my summary of the
23 report for your consideration. I'm available
24 for any questions by the Commission. I also

1 have Detective Lieut. Connors as well as Ted
2 Grove here if the Commission has any questions
3 on the report. Otherwise, I'll turn it over to
4 the applicant because I know they have several
5 witnesses prepared to discuss the issues here
6 today.

7 CHAIRMAN CROSBY: Commissioners?

8 COMMISSIONER MCHUGH: I just had one
9 question about the Dubai World piece. It's not
10 a factual question, it's a policy question.
11 There are a number of recommendations that you
12 make in the cover letter. But as I understand
13 it, the essence of the matter is that the
14 Commission be provided with information on a
15 continuing basis to show that it is not the
16 government of Dubai that is in charge but it is
17 the entity to which it has delegated operations
18 of Dubai World? Is that a fair summary?

19 MS. WELLS: Well, I think the
20 delegation of authority question they have
21 specifically -- And Ted may be able to explain
22 this a little better than I can, but the
23 delegation of authority, it's a very large
24 company. And related to these issues connected

1 to MGM, there is a delegation of authority here.
2 So, that was the matter I was trying to address.

3 COMMISSIONER MCHUGH: Right. And
4 the IEB recommends that the Commission be
5 provided with information on an ongoing basis to
6 ensure that that delegation remains in place and
7 in fact that the delegates as opposed to the
8 government is running the operation?

9 MS. WELLS: That's correct.

10 COMMISSIONER MCHUGH: And that is to
11 assure that a qualifier and licensee of the
12 Commission -- I mean a qualifier of the
13 Commission is in fact in charge so that the
14 Commission can enforce if it needs to
15 appropriate -- the gaming concession
16 appropriately.

17 MS. WELLS: That is correct. I did
18 receive an email from one of the attorneys in
19 connection with Dubai World. There are some
20 modifications just procedural on how to get that
21 information to the Commission, which I have no
22 objection to. And I'll submit that in writing
23 to the Commission.

24 COMMISSIONER MCHUGH: I was just

1 trying to make sure I understood the big picture
2 there.

3 MS. WELLS: Yes, you do.

4 COMMISSIONER MCHUGH: Thank you.

5 CHAIRMAN CROSBY: We are going to be
6 coming back to the Dubai World issue, I think.

7 MS. WELLS: At any time.

8 CHAIRMAN CROSBY: Because I had some
9 related questions but I think I will wait until
10 we get into the topic. Anybody else? Okay,
11 Sir.

12 MR. CASIELLO, JR.: Good morning,
13 Chairman Crosby, Commissioners. We appreciate
14 the opportunity to be here today to present
15 evidence on the suitability of Blue Tarp
16 reDevelopment with respect to its Category 1
17 application for a proposed project in
18 Springfield, Massachusetts. I will be brief and
19 I know when you hear a lawyer say that you
20 cringe. You are not going to believe me, but I
21 will be brief.

22 Let me start off with some
23 introductions. MGM will have five witnesses
24 testify today. They are Jim Murren, the

1 chairman and CEO of MGM Resorts, who is seated
2 to my right. To his right is Roland Hernandez,
3 the lead independent director of the Board of
4 Directors of MGM Resorts. To his right is John
5 McManus, the executive vice president, General
6 Counsel and secretary of MGM Resorts.

7 And in the second row we have Grant
8 Bowie, who is the CEO of MGM China Holdings
9 Limited. And seated to his right is Larry
10 Mefford, senior vice president of global
11 security of MGM Resorts. They will be available
12 all day of course to answer whatever questions
13 you have. However, Mr. Hernandez requests
14 permission to leave by 12:30 today.

15 In addition to the witnesses, the
16 following qualifiers of MGM are here today:
17 Bill Hornbuckle who is president and chief
18 marketing officer. Dan D'Arrigo who is
19 executive vice president and chief financial
20 officer. Tom Peterman who is senior vice
21 president and chief compliance officer. And
22 Mike Mathis who is vice president of global
23 gaming development for MGM Resorts. There are
24 other representatives of MGM here today, but I

1 will spare you all of the introductions.

2 The November 27 letter from Director
3 Wells to you recommends that MGM be found
4 suitable subject to two conditions. One
5 condition is that the applicant satisfy you that
6 the response of it and its individual qualifiers
7 to what the report refers to as the Christensen
8 matter and the subsequent remedial measures
9 demonstrates their suitability.

10 We will address that through the
11 testimony of three witnesses. Roland Hernandez,
12 the lead independent director of MGM Resorts
13 will testify regarding his supervision of
14 independent investigation and the response of
15 the company as chair of a special committee of
16 independent directors of the board of MGM.

17 Then Mr. Murren, the CEO, will
18 address his role in the Christensen matter. And
19 then lastly, John McManus, the General Counsel
20 of the company, will address the compliance plan
21 of the company with an emphasis on changes that
22 have occurred in response to the Christensen
23 matter and more recently as well and other
24 responsible business practice of the company.

1 The correspondence of Director Wells
2 also asked that we satisfy you that the
3 company's business practices in Macau are
4 responsible as required under the statute. We
5 will have two witnesses testify on that subject.
6 They are Grant Bowie, the MGM China CEO and
7 Larry Mefford, the senior vice president of
8 global security and former executive assistant
9 director for counterterrorism and
10 counterintelligence of the FBI.

11 Before I ask Mr. Murren to say a few
12 words about the company, we would like to show a
13 brief video, because a picture is worth 1000
14 words, and it's going to save time.

15

16 (Video viewed)

17 MR. CASIELLO, JR.: Thank you. Mr.
18 Murren is now going to testify a little bit
19 about the company, then Mr. Hernandez and then
20 we'll go back to Mr. Murren, if that's
21 acceptable. Jim, please tell us about the
22 company.

23 MR. MURREN: Thank you, and good
24 morning everyone, Chairman Crosby, members of

1 the Commission. Can you hear me now? Let me
2 take this one. You can hear me now. Good
3 morning. It is an honor to appear before you
4 today representing the men and women of MGM
5 Resorts.

6 We thank the Commission for its
7 professionalism through this process. And I'd
8 also like to recognize the efforts of Director
9 Wells of the IEB and Detective Lieut. Brian
10 Connors of the Massachusetts State Police, and
11 all of those who report to them as they have in
12 fact worked tirelessly to complete the
13 investigation of our company, and have been very
14 cooperative and helpful to this process. So,
15 thank you.

16 I would like to start by telling you
17 a bit about our company. I am proud to be the
18 chairman and CEO of MGM Resorts. It is a highly
19 dynamic and exciting company. A Fortune 500
20 company with annual global sales of over \$9
21 billion and more than 60 million customers in
22 our database.

23 We are listed on Fortune Magazine's
24 America's most admired companies, included on

1 Forbes Platinum 400 list of best managed
2 companies and cited as an employer of choice by
3 Diversity, Inc., Black Enterprise and several
4 other prestigious publications.

5 We have been recently noted as a top
6 employer of undergraduate and MBA's for the
7 third year in a row. We employ about 62,000 men
8 and women. And I know we are sometimes
9 considered a casino company, but I think that
10 would be a bit misleading. In fact, over 70
11 percent of our revenues in Las Vegas alone come
12 from entertainment and hospitality. We operate
13 over 42,000 hotel rooms.

14 And our properties are known for
15 their selection of fine dining. We offer food
16 of every possible culture and palate from
17 celebrity chefs and up-and-coming culinary
18 talents. We have almost 400 different food and
19 beverage venues in our portfolio.

20 I know that Las Vegas is known as
21 the leading destination for conferences and
22 conventions. Our company alone operates more
23 than three million square feet of convention
24 space. That by the way is more than exists in

1 all of New York City, which I'm sure you're
2 happy to hear. And perhaps more than anything
3 else, MGM is known for its entertainment.

4 We operate two arenas on the Las
5 Vegas strip. And we're developing yet a third
6 in a joint venture with AEG. Both of our
7 current arenas feature the most sought-after
8 performers in every style of music. Basically,
9 any rocker over 50 plays at the MGM. The
10 Rolling Stones, Aerosmith, The Eagles and then
11 the youngsters Justin Timberlake, Beyoncé just
12 recently. And of course the iHeart Music
13 Festival is always held at the MGM.

14 If you are sports fan, there are of
15 course UFC and college tournaments of every type
16 as well as exhibition NBA and NHL. If you want
17 to see Floyd Mayweather, you have to go to the
18 MGM, because that's the only place he has ever
19 fought. In fact, if there is a boxing match
20 you've seen of any significance in the past 20
21 years, we were probably your host.

22 You may also know that we have a
23 historic relationship with Cirque du Soleil.
24 We've been proudly their partner for over 20

1 years.

2 But more importantly, I believe, the
3 men and women of MGM are committed to a set of
4 core values that define who we are and what we
5 do. Teamwork, integrity and excellence, those
6 are the values that tie us together. They drive
7 our important initiatives in areas such as
8 diversity and inclusion, philanthropy and
9 community engagement, and environmental
10 responsibility and sustainability.

11 We have a board level corporate
12 social responsibility committee that is chaired
13 by former US Sec. of Labor Alexis Herman. We
14 also have an executive social responsibility
15 committee that's internal to our company and it
16 is the only internal committee that I chair,
17 because it is so essential to our company. We
18 believe CSR should not be a department but
19 ingrained into everyone's job to support and
20 advance these initiatives.

21 Diversity is in our culture. And in
22 fact, MGM was the first company in our industry
23 to formally adopt a diversity program. We are a
24 majority, minority company. And that diversity

1 we believe is our strength. Of our employees,
2 approximately 64 percent of them are minorities.
3 Currently, in the management ranks 43 percent of
4 our employees are women.

5 The men and women of MGM come from
6 literally all parts of the globe, speak dozens
7 of languages and represent almost every
8 imaginable race, religion, sexual orientation,
9 age, education and life's experience. I am
10 proud to announce that just today we have again
11 received a perfect score on the equality index
12 by the Human Rights Council.

13 We train thousands of employees
14 every year on the importance of respecting and
15 embracing our differences. Over the past decade
16 MGM Resorts has spent nearly \$1.5 billion with
17 minority owned and disadvantaged business
18 enterprises through construction, design and
19 other professionals.

20 And through our employee funded MGM
21 Resorts Foundation, our employees have donated
22 more than \$50 million to community charities and
23 organizations over just this past decade.
24 Recently, the governor of Nevada awarded our

1 employees with the state's Points of Light award
2 because our employees volunteered over 113,000
3 hours to charities last year alone.

4 And with the American Red Cross, we
5 are doing something to help our nation's
6 veterans return from their service to society.
7 We have developed a program called Boots to
8 Business. It is a 12-week management training
9 and development program in which the American
10 Red Cross through its service to Armed Forces
11 mission identifies and prepares veterans into
12 junior management positions. And MGM interviews
13 and hires these veterans and provides them with
14 management training. We've hired many veterans
15 recently in this program.

16 MGM is also a leading green company.
17 We pioneered leadership through sustainability
18 efforts by incorporating power and water
19 conservation, recycling and other green
20 practices into our daily operations. And we've
21 been doing so for years.

22 As you know, the Massachusetts
23 gaming law requires developers to build to a
24 LEED level of Gold. This is good. We are the

1 only applicant that has done this. And we've
2 done it on an unprecedented scope and scale.

3 The most profound example perhaps is
4 City Center, an integrated resort at the heart
5 of the Las Vegas strip that is the world's
6 largest environmentally sustainable mixed use
7 construction development.

8 It has received six LEED Gold
9 certifications from the US Green Building
10 Council, six. I has its own cogen plant and
11 operates, we believe, minimally at a 30 percent
12 greater efficiency than comparable resorts. In
13 fact, we've reduced our consumption of energy
14 enough to power about 40,000 homes a year and as
15 much water that flows over Niagara Falls an
16 entire hour.

17 I want to recognize our partner, the
18 city of Springfield. I have come to enjoy and
19 love this city. A great American city that as
20 you know in recent years has fought through all
21 kinds of challenges. A once thriving city
22 pummeled by the economy and adding insult to
23 injury, a tornado that ripped through its
24 downtown in 2011.

1 I've met with many people there led
2 by Mayor Sarno. And I've learned of the
3 resiliency of the people there and the belief
4 that they can pick themselves up as they have
5 time after time. And I believe that Tim Rooke,
6 who is a city councilor from Springfield is here
7 today. I think he braved the elements to get
8 over here. So, thank you Tim for doing so.

9 As you know, on July 16 of this
10 year, the citizens of Springfield overwhelmingly
11 approved MGM Springfield to be a part of that
12 recovery. And I believe that we can be a part
13 of the urban renaissance. And I think it's a
14 responsibility that we should take very
15 seriously and we are. And we thank them for
16 reaching out and embracing us.

17 So, on behalf of the many men and
18 women of MGM, I want to thank you for providing
19 us with an opportunity to be with you today.
20 And I look forward to further questions today.

21 MR. CASIELLO, JR.: Thank you, Jim.
22 We will be back to later but right now I'd like
23 to ask Roland Hernandez to testify.

24 CHAIRMAN CROSBY: Can check this

1 mic?

2

3

4 EXAMINATION BY MR. CASIELLO, JR.:

5

6 Q. Thank you, Roland, first of all, why
7 don't you start off by telling us about your
8 background and your role at MGM.

9 A. First, let me say good morning
10 Commissioner Crosby, fellow members of the
11 Commission. It's a pleasure to be here with you
12 today.

13 So, I have a long background here in
14 Massachusetts. I graduated from Harvard College
15 in 1975, concentrated in economics, graduated
16 cum laude. I went onto Harvard Law School,
17 graduated in 1982. I have served on the board
18 of advisors for Harvard Law School since its
19 inception over 10 years ago, currently sit on
20 the board there.

21 And I am proud to say I have two
22 children currently at Harvard, one a senior and
23 the other a first-year law student. So, my ties
24 go back quite a bit. I also maintain an

1 apartment in Cambridge. So, I have a deep love
2 and fond affection for Massachusetts, Boston and
3 Cambridge.

4 I practiced law upon graduating from
5 law school for a couple of years, then went into
6 business. My first business position was at a
7 global security company. Ultimately, I became
8 CFO and head of strategic development. At that
9 company I did have clearance from the US
10 Government.

11 And that company amongst its various
12 operations provides security protection to US
13 embassies and consulates around the world. So,
14 I opened up our operations amongst other places
15 in Mexico City and all of the consulates around
16 Mexico, spent quite a bit of time in that
17 process.

18 In 1995, I moved to Telemundo Group.
19 Telemundo at that time was a publicly traded
20 Spanish media company. I served as chief
21 executive officer and chairman of the board at
22 Telemundo. And ultimately was responsible for
23 the sale of the company.

24 And it was just a wonderful time at

1 Telemundo. It was a great opportunity to
2 provide news and services to a terrific
3 population, the Hispanic population. We also
4 did international news services and had
5 production facilities throughout all of Latin
6 America.

7 I have served on a variety of
8 boards, public boards of directors. I was on
9 the Walmart Board of Directors, served as
10 chairman of the audit committee for nine years
11 until my departure. I was on the board of Sony
12 based in Tokyo. I recently left Sony this last
13 summer. And I was on the board of Ryland Homes
14 where I was also chairman of the board.

15 Currently, I serve on three other
16 public companies. I'm chairman of the board of
17 Orient Express, best known for its famous train
18 between London and Istanbul but also owns hotel
19 properties in 22 countries across the world.

20 I sit on the Vail Resorts Board of
21 Directors where I am lead independent director
22 and serve on the audit committee.

23 I am also on the board of -- Let me
24 see, I'm missing one here. -- US Bank. They

1 would not be happy with me. In fact, I'm
2 leaving later today to go to US Bank Board of
3 Directors meeting. That's why I have to
4 apologize for that.

5 At MGM, I've been on the board since
6 2002. Approximately, one year after I joined
7 the board, I became chairman of the audit
8 committee, served as chairman of the audit
9 committee since that time. I am also lead
10 independent director and serve on the corporate
11 social responsibility committee.

12 And as lead director, I work as a
13 principal liaison between the board of directors
14 and management, and have the opportunity work
15 with Jim Murren, the CEO setting agendas and
16 closely liaising with senior management.

17 Q. As I said in my opening, one
18 question that is relevant to the Commission
19 today is the response of the company to the
20 Christensen matter and the remedial measures the
21 company took.

22 Could you describe the company's
23 response to the Christensen matter?

24 A. Yes, I'd be happy to. So, once it

1 became clear through a Wall Street Journal
2 publication and through communications we had
3 from various state gaming regulators, there was
4 an immediate reaction by the company. The
5 compliance committee immediately went into
6 action and commenced its own independent
7 investigation.

8 Separately, the audit committee
9 immediately engaged. I recall that within a day
10 or two of finding out, I flew to Las Vegas to
11 meet with the compliance committee and sat in on
12 the initial compliance committee meeting on this
13 matter.

14 Later the audit committee created a
15 special investigation that was ultimately
16 delegated to a special committee, independent
17 committee of the board of directors. I should
18 point out here that critical to me as chairman
19 of the audit committee was that we establish an
20 independent investigation that had complete
21 integrity and was entirely walled off from any
22 communications and/or influenced by members of
23 management or anyone else who was touched by the
24 inquiry. So, we safeguarded the integrity of

1 that process, took it very, very seriously.

2 As the investigations proceeded, the
3 compliance committee worked hand-in-hand with
4 the audit committee. As I will remind you, I
5 think it's all in your binders, but the
6 compliance committee is comprised of three
7 independent members having nothing to do with
8 MGM management or the board of directors.

9 We also, the audit committee also
10 had its own inquiry. Three separate law firms
11 were engaged. None of whom were at all involved
12 with the company in any other matter in terms of
13 the audit committee. And we did have gaming
14 counsel that had helped us in previous matters.

15 Counsel for the committee reviewed
16 over four million electronic documents,
17 interviewed 41 witnesses and put together an
18 investigative report that ultimately was
19 received by the special committee of independent
20 members of the board of directors.

21 Over a course of about two and half
22 months, we met as a special committee over seven
23 times. And in December, two and a half months
24 later, we formed recommendations that we then

1 delivered to the full Board of Directors of MGM.
2 And those recommendations of course were acted
3 upon later.

4 Q. And what were those recommendations?

5 A. I would say that we viewed the
6 matter as requiring three principle areas to be
7 addressed. The first I would say was in the
8 realm of legal issues and legal advice. And in
9 that regard, I would say that it is certainly my
10 expectation and going forward will always be my
11 expectation that from your internal legal
12 advisors and your outside legal advisors you
13 obtain quality advice, advice that has integrity
14 and advice that is fully independent.

15 And as we had reviewed the matters
16 with respect to the Tracinda situation, we
17 believe that that was not the case at MGM. So,
18 our response on the legal side was twofold.

19 The General Counsel entered into a
20 resignation agreement with the company. I of
21 course will say that the special committee was
22 quite involved with respect to the parameters
23 and the motivation for that resignation.

24 Secondly, we recommended and

1 effectuated a severance with our relationship
2 with another law firm. And I will say that with
3 respect to both of those critical centers for
4 legal advice, we believe there had been
5 conflict.

6 Unfortunately, we as a group, a
7 board of directors had relied on advice that we
8 felt was independent and free of conflict. And
9 as I sit here today, I can tell you that while
10 it should have been apparent during the process
11 that there was an independence and conflict
12 issue, at the time we did not pick that up. So,
13 as a result we did sever relationships with both
14 of those key legal advisory groups.

15 The second basket of inquiry and
16 redress that came about was respect to
17 counseling. We found that there were four
18 individuals at the board or in management that
19 had participated in actions that I will call
20 reflected serious errors in judgment. And that
21 was quite important to the special committee.
22 And we felt that we needed to specifically
23 address those errors in judgment and we did.

24 I personally was responsible in

1 counseling each and every one of those
2 individuals. Those counseling sessions were
3 very specific and addressed the matters that we
4 had uncovered.

5 And we felt that they were
6 appropriate in light of the circumstances. But
7 again, I would say it was a very serious matter.
8 I was delegated duty by the special committee to
9 engage in those counseling sessions and that
10 work was done.

11 Then finally as a third matter, we
12 engaged in what I believe were significant
13 changes in governance of the company. And let
14 me just quickly address some of those changes.

15 First and foremost, we enhanced the
16 communication between the company's compliance
17 committee and the audit committee and full board
18 of directors. So, I would like to insert here
19 that the compliance committee very early on in
20 this process had done, I believe, a very good
21 job of identifying circumstances, conflicts,
22 etc. with Mr. Christensen.

23 Unfortunately, the communications
24 between the compliance committee and the audit

1 committee were suboptimal. And I can take
2 responsibility for that as chairman of the audit
3 committee. And I do so. We learned that this
4 was an area that would require redress. And as
5 a result today that communication system is much
6 different.

7 There is a member of the audit
8 committee who sits on the compliance committee
9 as a visitor to each and every one of their
10 meetings. In addition, the chairman of the
11 compliance committee reports annually. And the
12 compliance officer reports regularly to the
13 audit committee. So, we think we have closed
14 that gap of communication.

15 Secondly, the position of lead
16 director was instituted. Earlier in time I was
17 the presiding director. We beefed up the
18 responsibilities that I had under the lead
19 director position. And to this date, those are
20 working very well. I regularly communicate with
21 Mr. Murren as chairman and CEO of the company.
22 And we actively have a dialogue including my
23 participation in setting agendas for the full
24 board of directors.

1 Third, we are much more vigilant in
2 watching for conflicts with outside law firms.
3 There had been a law firm that had been advising
4 the company for several decades. We ultimately
5 found that that law firm did not have the
6 independence that is required to properly advise
7 the company. We severed that relationship, but
8 as a governance matter, it's something that we
9 will never forget and I think we look at quite
10 closely these days.

11 We next amended our code of conduct
12 to address issues that were probably lapses.
13 And we decided that it was important to
14 reinforce the code of conduct as well as
15 education related to the code of conduct.

16 We engaged in a much more
17 disciplined review of the board of directors and
18 the skill sets required of the board of
19 directors. And coming out of that process, we
20 did bring in a new member of the board of
21 directors with significant regulatory and gaming
22 background. We thought that that would be
23 helpful for the company and did so.

24 We also instituted a regular program

1 for continued director board of education --
2 director's education that continues to this day.
3 As recently as this month, we had training on
4 AML as well as we've had training on FCPA and
5 other important matters. We think that we need
6 to be best in practice in that regard.

7 And finally, we adopted much
8 stricter independent standards for the board of
9 directors. So, I could go on, but I think what
10 I'd like to just leave this in terms of how we
11 address this situation, we absolutely recognize
12 the severity of it. They were lapses. We don't
13 disagree that there were lapses.

14 It is incumbent upon me as chairman
15 of the audit committee to ensure that this
16 committee and the company operates at the
17 highest levels, highest standards possible.
18 That is our goal. We are extremely vigilant in
19 making sure that we complete and honor that
20 goal.

21 And as I sit here today, I will tell
22 you that I think that the audit committee and
23 the full board recognizes the importance of the
24 responsibilities to which we have been tasked.

1 And we do everything that we can to ensure that
2 this company operates at the highest levels of
3 standard.

4 Q. Did the independent committee
5 consider any mitigating factors?

6 CHAIRMAN CROSBY: Be sure to speak
7 to the mic.

8 Q. (By Mr. Casiello, Jr.) Did the
9 special committee of independent directors
10 consider any mitigating factors?

11 A. So, I mentioned there were three
12 areas that we addressed. One of them was
13 counseling of the individuals that were involved
14 in the activities.

15 I will say that part of our
16 assessment necessarily included the facts and
17 circumstances surrounding the company and the
18 environment at that time. So, I am going to
19 address that but I want to make it clear from
20 the outset.

21 I and the board of directors fully
22 accepts responsibility for the activities. And
23 in no way are they to be excused. And in no way
24 are those types of activities to be tolerated

1 going forward. That's an absolute statement.

2 And I will stand by that.

3 Having said that to respond to the
4 question, I would remind the Commissioners of
5 the following circumstances which were not
6 insignificant as we looked as to what would be
7 the appropriate response to the activities in
8 these errors in judgment.

9 First, I would say that at the time,
10 as I mentioned already, we recognized a gap in
11 the quality of legal information that we were
12 receiving. So in particular, I would say that
13 the General Counsel of the company had a long-
14 standing, pre-existing relationship with Mr.
15 Murren. This should have been much more closely
16 scrutinized but it wasn't. Unfortunately, we at
17 the company placed heavy reliance on the General
18 Counsel's advice.

19 I've been a member of many public
20 boards of directors. That is appropriate to
21 place advice, place the reliance on the advice
22 of counsel in legal matters. Here, that advice
23 was not unencumbered. There were conflicts that
24 should have caused us to not rely on that

1 advice.

2 But I think that what I would tell
3 you is just two quick things. When the board
4 first heard of the matter, it was through the
5 General Counsel in a board meeting officially.
6 And the first thing that came from the General
7 Counsel's office was a public release that
8 essentially invited the individual, Mr.
9 Christensen, back to the board pending
10 resolution of matter.

11 That should have raised a flag to us
12 as to the quality of that advice. That was not
13 good advice. That is not advice I would accept
14 today.

15 The second thing that happened that
16 was unacceptable is that during the course of
17 Mr. Christensen's criminal proceedings, General
18 Counsel for the company separately approached
19 individual members of the board of directors and
20 asked for letters of support for Mr.
21 Christensen. Again, highly extraordinary.
22 Something that I now view as inappropriate and
23 shouldn't have happened, but should have caused
24 us amongst other things to question the quality

1 of that advice.

2 I will say that Mr. Murren was
3 receiving that advice directly, we at the board
4 directly. And unfortunately, we were relying
5 upon it. That was a mistake. I can tell you
6 today that was a mistake.

7 The second factor I would just
8 generally raise is that in September of 2008 we
9 find out that Mr. Christensen, this matter has
10 happened. And it happens right at the time,
11 September 24 was when the Wall Street Journal
12 article is published. This is in the midst of
13 the greatest economic recession since the Great
14 Depression. It had a dramatic impact on the
15 business of MGM. And we quickly found ourselves
16 in the process of fighting for our very
17 survival.

18 So, between the time of let's say
19 September of '08 and the ensuing year, we almost
20 declared bankruptcy. We fought that off. We
21 were meeting as a board, as a member of the
22 audit committee and chairman of that committee,
23 I was having I would say weekly contact with
24 management about issues involving the very

1 survival of the company.

2 Now I am not saying that this is an
3 excuse to be distracted from the very important
4 mission of corporate governance and managing
5 this company at the highest possible standards.
6 It's not an excuse. It's simply the environment
7 was a complicated environment that the board
8 found itself in. And Mr. Murren certainly was
9 in the middle of operating the company in a
10 hectic, hectic period of time.

11 I would say that in addition to
12 that, Mr. Lanni the previous chairman and CEO of
13 the company, resigned in November, the same
14 fall. And Jim Murren came in as appointed CEO
15 in December that same fall. So, this is all
16 within two months within the backdrop of the
17 possible bankruptcy of the company.

18 CHAIRMAN CROSBY: What year was
19 that?

20 A. This was 2008. This is complicated,
21 but I have to say that there are absolute
22 standards that boards of directors, companies
23 need to adhere to. Those absolute standards
24 would include complete compliance with all

1 statutes and regulations, period.

2 The fact that we had errors in
3 judgment that occurred during this point in time
4 to me is unacceptable. But it did cause us to
5 make governance steps going forward. And I will
6 tell you that it is my goal and objective and
7 certainly what I do every day as a member of the
8 MGM Board is to ensure those things don't happen
9 going forward.

10 COMMISSIONER MCHUGH: Could I just
11 ask, our question is related, but I thought I
12 heard you say, Mr. Hernandez, that there was a
13 compromise in the quality of legal advice
14 because of a long-standing relationship with Mr.
15 Murren. Did you mean Mr. Kerkorian?

16 MR. HERNANDEZ: Mr. Christensen,
17 yes, I misspoke. I'm sorry.

18 MR. MCMANUS: A long-standing
19 relationship between Mr. Christensen and Mr.
20 Murren?

21 MR. HERNANDEZ: Let me just correct
22 the record. Mr. Christensen had been a member
23 of the board of directors for a long period of
24 time. Mr. Christensen was the named partner in

1 a Los Angeles law firm. The General Counsel of
2 MGM was a named partner and had been a senior
3 partner in that very same law firm. He then
4 left that law firm to come to be General Counsel
5 of MGM. That's the relationship I was
6 referencing.

7 COMMISSIONER MCHUGH: Okay.

8 MR. CASIELLO, JR.: I have no
9 further questions.

10

11

12 EXAMINATION BY MR. MACKEY:

13

14 Q. The Bureau has just a few questions
15 for Mr. Hernandez. Good morning, Mr. Hernandez.

16 A. Good morning.

17 Q. I want to focus just briefly on the
18 role of the board and your role on the audit
19 committee and compliance committee. Going back
20 in time a little bit to when Mr. Christensen's
21 indictment first became known to the board. And
22 that's in February 2006; does that sound right?

23 A. Yes.

24 Q. And I've read your sworn testimony

1 and just had a couple questions about your
2 responses there. I take it that there was a
3 board meeting that was not attended by Mr.
4 Christensen that happened fairly immediately
5 after the indictment was announced; does that
6 sound correct?

7 A. Yes.

8 Q. And at that board meeting from your
9 testimony, from your sworn testimony I
10 understand that Chairman Lanni made the
11 announcement to the board that Mr. Christensen
12 had been indicted; is that fair to say?

13 A. Yes.

14 Q. And you were asked when you were
15 interviewed by the investigators about that
16 board meeting. And you were asked whether there
17 was any discussion at all by the board about the
18 factual circumstances that gave rise to Mr.
19 Christensen's indictment. Do you recall that
20 question?

21 A. Yes.

22 Q. And I believe you responded no,
23 there was no discussion of the facts underlying
24 the indictment?

1 A. That is generally correct. That
2 wasn't the entirety of the conversation, but
3 that is generally correct, your statement.

4 Q. My question to you Mr. Hernandez is
5 that being on the board and this was a board
6 member, and learning that a fellow board member
7 had been indicted, why wasn't there discussion
8 at that point about what Mr. Christensen had
9 allegedly done?

10 A. That's a very fair question. Mr.
11 Jacobs, General Counsel for the company was
12 present. My recollection generally is that that
13 conversation was led by Mr. Jacobs. I generally
14 recall that there was an admonishment because
15 there was a criminal matter being investigated
16 that they were not at liberty to discuss facts
17 related to the case.

18 And further, I do recall that Mr.
19 Jacobs as General Counsel then provided a set of
20 conclusions, possibly to address the issue
21 you've raised. But that set of conclusions was
22 as I would generally recall that Mr. Jacobs
23 represented that he was confident that this
24 matter would be resolved in favor of Mr.

1 Christensen. That they were very surprised by
2 the allegations. That they did not believe
3 these allegations bore any merit whatsoever.
4 And as a result, the board should take great
5 comfort in that conclusion.

6 But we were not in a position
7 because of the ongoing criminal inquiry to
8 question the underlying facts related to the
9 case.

10 Q. Thank you. That's helpful. There's
11 a second board meeting. And it's a little bit
12 unclear from your sworn testimony exactly when
13 it is. But it's after this first board meeting
14 and it's after the indictment.

15 And you described a conversation
16 that took place it sounds like immediately after
17 that board meeting, because Mr. Christensen did
18 come to this particular meeting. Do you recall
19 that?

20 A. Yes, I do.

21 Q. And you described that there was a
22 discussion among the independent directors after
23 observing Mr. Christensen at the meeting about
24 whether that was a good thing or not. Do you

1 recall that?

2 A. Yes.

3 Q. And you testified in your sworn
4 testimony that it was unanimous among the
5 independent directors that it would be
6 acceptable to have Mr. Christensen continue to
7 attend board meetings. Do you recall that?

8 A. Yes. As part of a fuller
9 conversation, yes, I do.

10 Q. I guess, let me just ask the same
11 question again. At this point in time, was
12 there any concern, and let me put aside the
13 regulatory concerns that might be occasioned
14 by Mr. Christensen's indictment, but was there
15 any concern that based on this indictment and
16 based on the limited facts you had that his
17 presence in the board room posed some
18 significant risk to the company?

19 A. So, let me answer as best I can
20 recalling the facts and circumstances at that
21 point in time. When Mr. Christensen came to the
22 board meeting and was present, it immediately
23 caught my attention as a matter of governance,
24 because he was no longer a member of the board

1 of directors.

2 However, he had been Mr. Kerkorian's
3 long-standing personal attorney, and I also
4 recognized that. Upon the conclusion of the
5 board meeting, we did hold an executive session
6 of the non-independent members of the board,
7 which did not include Mr. Christensen because he
8 is no longer a member of the board of directors
9 or any members of management. I don't believe
10 during that meeting that Mr. Kerkorian was
11 present either.

12 The first matter I raised was the
13 presence of Mr. Christensen. I recall that
14 immediately prior to that meeting, I had asked
15 Mr. Christensen and/or Mr. Kerkorian or one of
16 the members who worked at Tracinda in what
17 capacity Mr. Christensen was there. And I was
18 informed he was there as the personal lawyer for
19 Mr. Kerkorian.

20 So, I took that information into the
21 executive committee and expressed it as such.
22 That we have the presence of an individual, Mr.
23 Christensen, who has been asked by Mr. Kerkorian
24 to attend as his personal lawyer and whether or

1 not that was acceptable to the fellow board
2 members.

3 I believe that the decision was
4 based to some extent -- I would say personally
5 my decision was based on the fact that Mr.
6 Kerkorian was entitled to have a lawyer present.
7 Mr. Christensen was still a practicing member of
8 the California bar. And as such, it was an
9 appropriate request. And we so voted. And then
10 going forward, Mr. Christensen did appear at
11 other board meetings as Mr. Kerkorian's personal
12 lawyer.

13 Q. Thank you. Again, this is going
14 back a while and time. In January 2007, the New
15 York Times published a very significant and
16 lengthy story about the Christensen and
17 Pellicano criminal matter. Does that ring a
18 bell to you?

19 A. Not particularly, no.

20 Q. Are you aware that on January -- in
21 early 2007, the New York Times published some
22 significant sections of the transcript of the
23 wiretaps that were at issue in the Christensen
24 Pellicano criminal matter?

1 A. I do not specifically recall.

2 Q. Do you recall during this period of
3 time any discussion amongst the board members
4 about the publication of the transcripts of the
5 Christensen Pellicano wiretapping?

6 A. I don't have any recollection at
7 this point. It may have occurred, I just cannot
8 recall.

9 Q. The compliance committee when it
10 made the decisions about Mr. Christensen's, the
11 parameters around Mr. Christensen's continuing
12 involvement in terms of providing legal services
13 and the like, it also decided that it would
14 provide quarterly reports, I believe, to the
15 audit committee or the full board on the
16 progress of the criminal investigation; is that
17 fair to say?

18 A. There was a reporting requirement.
19 And I think those reports were to go to the
20 compliance committee.

21 Q. Okay. And you were on the
22 compliance committee at this point in time?

23 A. No. The compliance committee had
24 three independent members. I was on the audit

1 committee. It's a separate body.

2 Q. Okay. Pardon me. Do you recall any
3 report being made to the board at any point in
4 time in 2007 about the publication by the New
5 York Times of the Pellicano Christensen wiretap?

6 A. Can you repeat that question?

7 Q. Do you recall any report being made
8 to the board or to the compliance committee or
9 to the audit committee about the publication by
10 the New York Times in January 2007 of the
11 Pellicano Christensen wiretap?

12 A. I don't specifically recall
13 communication of that information.

14 Q. Then you described in your -- First
15 of all, in late 2008, Mr. Christensen is in fact
16 convicted of the wiretap charges that he was
17 indicted for back in 2006, correct?

18 A. Yes.

19 Q. And you testified it was your
20 understanding that following the conviction and
21 the sentencing I should say, he really had no
22 further involvement in connection with MGM
23 either in a legal capacity or in an advisory
24 capacity in any way whatsoever?

1 A. That's correct.

2 Q. And then you described how in
3 September 2009 there's this article that appears
4 in the Wall Street Journal. And that article
5 has been marked and introduced as Exhibit Number
6 6. I don't know if you have a copy of it handy.
7 If you don't, we can provide it.

8 A. I don't have it in front of me, but
9 I generally recall there was a publication.

10 Q. It sounded like from your testimony
11 that this article did in fact get some
12 significant attention at the board level at MGM?

13 A. Yes, it did.

14 Q. The headline of this article is
15 Judge Cites Kerkorian in Pellicano Case. Do you
16 see that?

17 A. Yes, I do.

18 Q. You were asked in your sworn
19 testimony about whether or not MGM initiated an
20 investigation of Mr. Kerkorian's potential
21 involvement in the Christensen Pellicano wiretap
22 matter. Do you recall that?

23 A. Can you repeat that?

24 Q. Sure. I am going to try to

1 characterize for you what you said in your sworn
2 testimony and it'll save some time.

3 I believe you said in your sworn
4 testimony that you repeatedly asked Weil Gotshal
5 -- Was that the firm involved?

6 A. Yes, representing the audit
7 committee.

8 Q. -- whether MGM should investigate
9 Mr. Kerkorian's potential involvement in the
10 wiretap situation?

11 A. As a matter of scope, just to put
12 this within context, the special committee had
13 retained its own independent law firm, Weil
14 Gotshal. And the special committee was involved
15 in studying the scope for the inquiry in
16 consultation with Weil Gotshal.

17 One of the matters on scope that we
18 raised was whether we had a responsibility or
19 whether it would be prudent to investigate the
20 facts and circumstances around that.

21 Q. And that included Mr. Kerkorian's
22 potential, the possibility of his involvement in
23 that situation?

24 A. Yes, it did.

1 Q. What the Wall Street Journal is
2 reporting in September 2009 is that the federal
3 judge in the underlying criminal case had said
4 that there was reasonable cause to believe that
5 Mr. Kerkorian was in fact involved, at least
6 that's what the article reflects?

7 A. I can tell you that we had access by
8 that point to the actual opinion that I recall
9 was a ruling on an evidentiary matter that made
10 a comment as not part of the ruling that raised
11 the potential, that raised a question that was
12 not addressed but raised a question in a
13 theoretical manner could Mr. Kerkorian have been
14 involved in that sense.

15 It wasn't a judicial ruling and we
16 recognized it as such. We recognized, I think
17 as everyone did at that point that there was the
18 possibility but that the New York Times article
19 and the opinion itself didn't provide any
20 substantive facts to indicate one way or the
21 next whether or not any violation of law had
22 occurred.

23 Q. Fair enough, it raised a question
24 but wasn't conclusive?

1 A. Yes.

2 Q. Did you ask Weil Gotshal at that
3 point to review whether Mr. Kerkorian was
4 involved?

5 A. We asked them to check the record
6 and provide us advice as to how we should
7 properly view that matter and what their legal
8 advice would be.

9 Q. What was their response?

10 A. Let me just check with Counsel. I'm
11 just making sure. Those were deliberations
12 within the committee and with its own counsel
13 and I'm not sure what privilege issues are
14 raised.

15 I think the answer is that we did
16 receive information. That they had looked at
17 the matter. They had looked at the record. And
18 that based on their own investigations, the law
19 firm's investigations, review of the record that
20 they could not make any -- their conclusion was
21 that they had no information that would lead
22 them to conclude that Mr. Kerkorian had been
23 complicit and/or involved in a wiretap.

24 Q. Do you know if the team from Weil

1 Gotshal had listened to the tapes?

2 A. I don't know.

3 Q. Do you know -- At this point in
4 time, there were some significant litigation
5 going on on the civil side. Are you aware that
6 there was significant litigation at this point
7 going on on the civil side by Mrs. Kerkorian
8 against Mr. Pellicano, Mr. Christensen and
9 others?

10 A. We weren't at the committee level,
11 special committee level, we weren't privy to any
12 of the pleadings and/or other civil activities
13 going on in those cases.

14 MR. MACKEY: I have no further
15 questions.

16 CHAIRMAN CROSBY: Commissioners?

17 MR. CASIELLO, JR.: Excuse me, do I
18 wait?

19 CHAIRMAN CROSBY: Please go ahead.
20 You're still on the same topic?

21 MR. CASIELLO, JR.: Correct.

22

23

24

1 FURTHER EXAMINATION BY MR. CASIELLO, JR.:

2

3 Q. Do you know if Mr. Kerkorian was
4 ever charged with a crime as a result of the
5 Pellicano matter?

6 A. No, he was never charged with any
7 crime.

8 Q. You testified about the various
9 corrective -- You testified about the various
10 corrective and remedial measures that the
11 company took as a result of this matter. Do you
12 think they were effective?

13 A. Yes, I think they were effective. I
14 am confident we addressed the outstanding issues
15 that had been raised by virtue of the
16 Christensen matter.

17 As I said, it was both to address
18 kind of the activities as well as to make sure
19 that from a governance perspective going forward
20 we had created systems and controls where this
21 kind of thing couldn't happen again going
22 forward.

23 Q. How would you rate or rank MGM's
24 current system of controls and procedures

1 including the compliance committee, the
2 company's code of conduct and ethics, and other
3 policies?

4 A. So, I think I'd like to answer that
5 in two ways. One, within the gaming industry
6 and then two within what I will call US publicly
7 traded corporations.

8 Within the gaming industry, I think
9 we are by far best in class. We do things at
10 the compliance committee by virtue of its
11 independence. The communication now with the
12 compliance committee and the audit committee,
13 the systems and controls and levels of
14 education. The way we delve into AML and FCPA
15 that I believe is far beyond what we see with
16 any of our competitors.

17 With respect to public companies
18 generally, I am engaged with quite a few of them
19 and I would tell you that I believe that we are
20 best in class on a US basis.

21 MR. CASIELLO, JR.: Thank you,
22 Roland. No further questions.

23 CHAIRMAN CROSBY: Okay. I think
24 before we go to the Commissioner questions,

1 we'll take a quick break. Then we'll come back
2 and pick up there.

3

4 (A recess was taken)

5

6 CHAIRMAN CROSBY: We will reconvene.
7 I apologize for the delay. I'll now ask the
8 Commissioners if they have questions for Mr.
9 Hernandez or anybody else on this issue.

10 COMMISSIONER ZUNIGA: I do have a
11 couple questions. Mr. Hernandez, you mentioned
12 there were four individuals who did not pick up
13 on the independence of the Christensen matter.
14 You mentioned errors in judgment and they were
15 counseled. Who were those four individuals? I
16 imagine maybe Mr. Jacobs was one of the four
17 individuals?

18 MR. CASIELLO, JR.: May we consult
19 with your counsel for a second?

20 CHAIRMAN CROSBY: Sure.

21 MR. CASIELLO, JR.: Thank you, Mr.
22 Chairman, Commissioners. The names of the
23 individuals who were counseled are contained in
24 the report. That aspect of the report has been

1 redacted.

2 COMMISSIONER ZUNIGA: Okay. Are
3 those individuals still at the board with MGM?

4 MR. HERNANDEZ: Just addressing the
5 first point you made, Mr. Jacobs resigned
6 effective almost immediately after the
7 investigation was concluded. Three of those
8 individuals continue to be members of the board
9 of directors and one other does not.

10 COMMISSIONER ZUNIGA: You also
11 mentioned independent standards for the board of
12 directors. Could you expand a little bit more
13 on that notion, please?

14 MR. HERNANDEZ: So, we reviewed New
15 York Stock Exchange independence requirements,
16 requirements under the Securities and Exchange
17 Commission rules and regulations, and we adopted
18 those.

19 We also enhanced those to make it
20 clear that we had increased independence on the
21 nominating and governance committee in
22 particular. I think in that regard, we viewed
23 the sanctity of the appointments of board
24 members as important and wanted to protect

1 against any possibility that there would be a
2 conflict of interest involved in the governance
3 of that committee.

4 COMMISSIONER ZUNIGA: Did you
5 incorporate anything relative to having board of
6 directors also come from outside counsel that
7 you rely on?

8 MR. HERNANDEZ: We formulated all of
9 the new policies and procedures with the
10 assistance of outside counsel. But there is not
11 a requirement that a lawyer be on the board, if
12 that gets your question.

13 COMMISSIONER ZUNIGA: Or that your
14 outside counsel firm be precluded from having a
15 member in the board? Is that a requirement or
16 not a requirement?

17 MR. HERNANDEZ: There is not a
18 requirement but I can tell you, as a member of
19 the board that I don't believe it would be
20 appropriate to have a member of one of our
21 outside legal advisors be a member of the board.
22 And I certainly would not condone not.

23 COMMISSIONER ZUNIGA: You also
24 mentioned, talked a little bit about the

1 compliance committee and the audit committee and
2 how that communication was enhanced. You
3 mentioned there's one member of the audit
4 committee that you chair; is that correct, you
5 chair the audit committee?

6 MR. HERNANDEZ: Yes. So, I chair
7 the audit committee. A member of the audit
8 committee is also responsible for attending in
9 person the compliance committee meetings. And
10 he does so at each and every compliance
11 committee meeting.

12 Annually, the chairman of the
13 compliance committee attends at a minimum one
14 session of the audit committee, but is invited
15 to others. In addition, the chief compliance
16 officer reports regularly at each and every
17 audit committee meeting, reports significant
18 matters that have been addressed in compliance
19 and is there for question-and-answer sessions
20 with the audit committee.

21 COMMISSIONER ZUNIGA: How about the
22 board of directors, how do they hear from both,
23 from either or from one?

24 MR. HERNANDEZ: They would hear from

1 the audit committee. So, during my regular
2 report to the full board of directors, I would
3 include in that reporting matters which would
4 have come from the compliance committee's
5 presentations.

6 In addition, the General Counsel
7 will also report on matters of compliance that
8 are significant to the full board of directors.
9 So, there are two controls there operating.

10 COMMISSIONER ZUNIGA: You also
11 mentioned the lead director role. Is that the
12 equivalent of the chairman of the board?

13 MR. HERNANDEZ: It's not quite the
14 equivalent of the chairman of the board. So,
15 the chairman has, Mr. Murren has all of the
16 duties and responsibilities that you typically
17 associate with a chairman. I would say that
18 this is a role that creates a formal liaison
19 between the chairman of the board and the
20 independent board of directors.

21 Let me give you an example. At the
22 conclusion of every board meeting, we excuse any
23 management members of the board including the
24 chairman. And we as independent directors meet

1 amongst ourselves and discuss any topic that we
2 believe is relevant. We also have an ability to
3 invite in our own advisors into those closed-
4 door sessions.

5 As a product of those meetings, if
6 there is something that we think needs to be
7 taken back to management, I as the lead director
8 have a meeting with Mr. Murren, and we
9 communicate those findings anonymously.

10 So, we protect the integrity of the
11 discussion. We make sure that each and every
12 board member has a full opportunity to be
13 critical of management if necessary or to make
14 comments they otherwise would feel uncomfortable
15 in a full session of the board of directors.
16 And there's a mechanism whereby I report all of
17 the findings, all of the minutes of those
18 meetings to the chairman.

19 The view is that there are certain
20 things that difficult to address in front of
21 management but nonetheless need to be addressed.
22 And I think that what we have found coming out
23 of this entire set of circumstances with Mr.
24 Christensen is that the integrity of the process

1 needs to be complete.

2 And as part of that integrity of the
3 process, you need information, full information.
4 Oftentimes that's from outside advisors. So, we
5 do have the ability and do hire outside advisors
6 where we think we want complete independence.
7 With that full information, what we do on the
8 process side is we protect the quality of the
9 discussion.

10 So, that the members of the board
11 who by definition at certain point in time have
12 a tension with the views of management. That's
13 why we are there. We provide oversight for the
14 company. Oversight of the management. We make
15 sure that we protect the quality of our own
16 discussions. And the product of those
17 discussions is communicated and acted upon.

18 So, as the result of some of our
19 executive sessions, Mr. Murren will be invited
20 to report to us as to progress on issues that he
21 has been tasked with reviewing. So, I think we
22 closed the circle. But I want to emphasize this
23 notion that independence, a built-in tension
24 recognizing that the board of directors is not

1 managing the company. We oversee the company.

2 And when management does something
3 that we have any issue with, it's our
4 responsibility to get back to them and to
5 correct that action or to ask questions.

6 COMMISSIONER ZUNIGA: How was that
7 lead director designated, for how long is that
8 position?

9 MR. HERNANDEZ: I am appointed by
10 the board of directors annually.

11 COMMISSIONER ZUNIGA: Also, I was
12 listening to your background, of course, with
13 interest. It's very impressive having been
14 involved in a few very complex large companies,
15 it's probably quite a task or set of tasks.

16 Do you worry that in your role that
17 you are at such level that you may lose sight of
18 some of the details or nuances that are
19 sometimes contained in the decisions that you
20 have to make or contemplate?

21 MR. HERNANDEZ: It's what I will
22 call an active concern, which is that I know
23 that there are many, many details about MGM as
24 all of these other companies on which I serve.

1 And my responsibility is to do the reading, do
2 the studying, engage in the conversations,
3 engage with other directors, engage with
4 management. That's the job. And if for a
5 moment I thought that I couldn't complete those
6 responsibilities, I wouldn't do it.

7 So, it's something you need to be
8 vigilant about. But again, I would tell you
9 that hard work, like many things in life,
10 studying all of the material and knowing the
11 company well and I believe I know the company
12 well.

13 The other thing I should point out
14 at this time is that while we've had
15 conversations about some of the issues that
16 arose on the Christensen matter, I want to point
17 out that my job is made easier because of the
18 cooperation of management. And this is
19 something that wasn't addressed.

20 And it is important that I mention
21 this. When we created the special committee on
22 the matter to review the Christensen matter, I
23 went into Jim's office and I told Jim that he
24 would be 100 percent walled off from this

1 discussion. Now that's the CEO and chairman of
2 the company receiving information that he cannot
3 participate in a very important matter that
4 affects him personally, his role as CEO and
5 chairman of the company and the company itself.

6 My job was made significantly easier
7 because of the support of Mr. Murren. What he
8 told me was you, the special committee, do what
9 you need to do to ensure the quality of this
10 investigation. I want this investigation done.
11 And it's that kind of support that makes life as
12 a member of the board of directors and chairman
13 of the audit committee significantly easier.

14 So, while I talked about this
15 tension and there is a tension. There's no
16 doubt about it. I will go into Jim Murren's
17 office often times and address issues with him.
18 And he probably doesn't really like the fact
19 that I'm having those kind of frank
20 conversations.

21 On the other hand it's a
22 collaboration. And I think the best companies
23 are run collaboratively so that the information,
24 the independence, the views and oversight of

1 independent members of the board of directors is
2 received and welcomed by management. And I will
3 say that Jim has done an outstanding job. The
4 entire management team understands and respects
5 the integrity of the process of governance and
6 works well with the board of directors in terms
7 of driving this company forward.

8 So, there is a tension but there's a
9 collaboration that works well. And I think
10 we're doing a good job and we'll continue to
11 work hard to do that job.

12 CHAIRMAN CROSBY: Commissioner
13 Stebbins?

14 COMMISSIONER STEBBINS: Mr.
15 Hernandez, thank you. You mentioned in that
16 long list of corrective steps that the company
17 took you mentioned reinforcing the code of
18 business conduct. Could you tell me what
19 reinforcement measures you might have taken or
20 additions you might have made to the code of
21 business conduct?

22 MR. HERNANDEZ: Yes. So, there are
23 significant changes that we made and I might
24 leave it to General Counsel to give you that

1 long list. I can tell you that in terms of
2 policies and procedures, there are several areas
3 that I think that we did not do as well as we
4 could have and as well as we are doing now.

5 The first I would call training. To
6 have the policy in place is not particularly
7 helpful if the key individuals in the company,
8 including members of the board have not been
9 trained in the particulars of those policies.
10 We do a much better job these days than we did.
11 And I think we learned from some of our errors
12 in judgment there.

13 The second I would call the
14 communication of the process and procedures.
15 So, people need to understand that there are
16 procedures in place, and this went directly in
17 response to your question, when a conflict of
18 interest arises.

19 I should say nowadays we have a well
20 clarified policy with respect to any potential
21 conflict of interest. It goes through the
22 compliance officer's office. It goes up into
23 management. And if there is a lack of unanimity
24 around any matter that involves a conflict of

1 interest, it goes to the audit committee and to
2 the board of directors.

3 So, when I say lack of unanimity,
4 what I mean by that is if there is a matter that
5 the compliance officer does not 100 percent
6 agree that there is an absence of conflict, it
7 then goes to General Counsel and senior
8 management.

9 If they cannot completely agree, if
10 there is one abstaining member, it goes to the
11 full board of directors. Some matters go to the
12 full board of directors automatically. There is
13 zero reliance on General Counsel or our
14 compliance officer.

15 Those would be section 16 officers,
16 for example, key reporting officers in the
17 executive committee or management of the
18 company. If there is a conflict of interest, it
19 will go directly to the audit committee.

20 The reason that is so important is
21 because the audit committee is comprised of
22 fully independent members of the board. So,
23 again we are protecting the sanctity and
24 integrity of the process for oversight.

1 COMMISSIONER STEBBINS: Is the code
2 of business conduct a requirement of every level
3 of employee all of the way up through management
4 and the board?

5 MR. HERNANDEZ: Yes, it is reviewed
6 and signed.

7 COMMISSIONER STEBBINS: And there
8 was obviously an existing code of business
9 conduct in place before the events relative to
10 Mr. Christensen?

11 MR. HERNANDEZ: Yes, there was.

12 COMMISSIONER STEBBINS: Are they
13 periodically updated, reviewed? Is there
14 somebody with the responsibility to make sure
15 the information and the requirements are timely?

16 MR. HERNANDEZ: Yes, very fair
17 question. There was a code of conduct. We've
18 made improvements, as I've stated. Today, if
19 there was a regulatory requirement that had an
20 impact on the code of conduct, it would
21 immediately be updated.

22 Beyond that, there are an annual
23 reviews of all of our policies that are in
24 place. So recently, in December we updated some

1 of our codes of conduct because we felt that we
2 in fact could even tighten them further, and we
3 did so.

4 CHAIRMAN CROSBY: Commissioners?

5 COMMISSIONER CAMERON: Just a couple
6 of questions. Good morning, Mr. Hernandez. I
7 was interested in your statements regarding the
8 second recommendation judgment. You personally
9 did some counseling; is that correct?

10 MR. HERNANDEZ: Yes.

11 COMMISSIONER CAMERON: Do you have
12 training in counseling? I know that we're not
13 going to talk about names. I know that we're
14 not going to talk about names. I'm not
15 interested in names, but what kind of training
16 or counseling did you provide?

17 MR. HERNANDEZ: I will say that the
18 entire matter became very formalized because we
19 recognized the severity of a lot of the actions
20 involved. With respect to the counseling, we
21 had the assistance of outside advisors and in
22 particular an outside law firm with a
23 significant resume in corporate governance
24 advice.

1 They came to us working
2 collaboratively with the special committee and
3 developed a specific set of recommendations for
4 the counseling. So, I want to be really clear
5 here. It was an ad hoc, oh, I think you had an
6 error in judgment. Don't do that again. That
7 was not the situation.

8 There was a specific list of points
9 that I was tasked with giving to the individuals
10 to whom I counseled. There was a discussion, a
11 Q&A. But it was quite developed and elaborate.
12 And it was received by the special committee
13 upon advice of an outside law firm.

14 COMMISSIONER CAMERON: Thank you. I
15 just wanted you in addition to elaborate on you
16 mentioned in an executive session that you
17 brought up Mr. Christensen's attendance,
18 continued attendance after he was no longer a
19 board member. Was that you personally who
20 brought up that issue? And did you see a
21 problem? Or was it a general discussion? How
22 did that come about?

23 MR. HERNANDEZ: So at that time, I
24 would have been presiding director of the

1 independent directors. I did bring that matter
2 up to the independent members of the board and
3 led that discussion. There was a discussion or
4 a dialogue amongst all board members. And we
5 ultimately concluded that it would be
6 acceptable.

7 COMMISSIONER CAMERON: You just
8 mentioned to a previous question you responded
9 that because you're independent, you're now able
10 to address those or you do a better job
11 addressing some of these issues around conflict
12 or any other issue.

13 Would it be fair to say that -- you
14 certainly were independent before the
15 Christensen matter as well. But do you take on
16 those responsibilities, do you see a need to
17 improve or to strengthen your role in this as
18 the chair of the audit committee?

19 MR. HERNANDEZ: I think that we
20 learned a variety of things and we grew from it
21 coming out of this set of circumstances. One as
22 I mentioned earlier is that we did not question
23 hard enough the quality of the independence of
24 legal advice.

1 And while it is typical that a
2 member of the board can rely upon outside legal
3 advisors, here there were red flags we should've
4 picked up. And I can tell you that we are much
5 more sensitive today to the quality of that
6 advice and to the selection of outside law
7 firms.

8 Now the selection of outside law
9 firms is something that management does. But in
10 this situation, if management were to make a
11 selection of outside law firms that the
12 independent members felt was inappropriate, they
13 would hear from us. And I think that is much
14 different.

15 I will tell you that we were
16 exercising independent judgment back in 2008 and
17 2009. And we take our jobs seriously. With
18 respect to that particular executive session and
19 our acceptance of having a legal advisor to Mr.
20 Kerkorian, I think today we would think long and
21 hard about that particular set of circumstances
22 and question more fully why a member of the
23 board needed a legal advisor. And whether if in
24 fact a legal advisor was necessary whether that

1 individual should continue sitting as a member
2 of the board of directors.

3 So, it has caused us to scrutinize
4 much more deeply things that at the time we
5 accepted as appropriate.

6 COMMISSIONER CAMERON: Thank you.

7 CHAIRMAN CROSBY: Commissioner
8 McHugh?

9 COMMISSIONER MCHUGH: There was a
10 code of conduct in place when these events were
11 transpiring; was there not?

12 MR. HERNANDEZ: Yes, Sir.

13 COMMISSIONER MCHUGH: And the code
14 of conduct dealt with the behavior of all
15 employees from top to bottom; isn't that right?

16 MR. HERNANDEZ: Yes, Sir.

17 COMMISSIONER MCHUGH: And the way
18 that this particular matter was handled violated
19 the code of conduct; did it not?

20 MR. HERNANDEZ: There were
21 violations of the sharing of confidential
22 information in particular that were violative of
23 the code of conduct, yes.

24 COMMISSIONER MCHUGH: And now there

1 is a revised code of conduct?

2 MR. HERNANDEZ: Yes, Sir.

3 COMMISSIONER MCHUGH: And the
4 revised code of conduct contains, I take it,
5 matters that were in the original code of
6 conduct plus others?

7 MR. HERNANDEZ: That's correct.

8 COMMISSIONER MCHUGH: The conflicts
9 that you mentioned on a couple of occasions
10 involved essentially Mr. Christensen, who was
11 legal counsel to Mr. Kerkorian. That's one
12 element of it; is that right?

13 MR. HERNANDEZ: Yes, Sir.

14 COMMISSIONER MCHUGH: And he was
15 also a named member of the law firm that was
16 representing the company; is that right?

17 MR. HERNANDEZ: Yes, Sir.

18 COMMISSIONER MCHUGH: And he was
19 also one who had a long-standing relationship
20 with Mr. Jacobs, the General Counsel; is that
21 right?

22 MR. HERNANDEZ: That is correct.

23 COMMISSIONER MCHUGH: So, that was
24 three components of the conflict that you've

1 been referring to on several occasions; is that
2 right?

3 MR. HERNANDEZ: Yes, Sir.

4 COMMISSIONER MCHUGH: Why wasn't
5 that conflict evident to everybody who looked at
6 it contemporaneously?

7 MR. HERNANDEZ: Let me start by
8 saying that I had recognized that there was a
9 conflict, at least the appearance of a conflict,
10 the appearance of impropriety given the
11 relationship between the law firm and members of
12 the board, Mr. Christensen and the General
13 Counsel who was of-counsel to that same law
14 firm.

15 So, early on at MGM, in my capacity
16 as chairman of the audit committee, I did speak
17 specifically about this matter to the chairman
18 and CEO of the company, Mr. Lanni. And I told
19 him at that meeting that I was concerned about
20 the possibility of conflict.

21 Mr. Lanni reminded me that that is a
22 management decision in terms of selection of
23 outside counsel. And that he reaffirmed to me
24 that it was his desire to use that law firm for

1 the company. He did say that he would continue
2 to monitor the situation closely.

3 I also continued to monitor the
4 situation, but I will say that having raised the
5 issue, I did not insist that management make a
6 change. That would have been extraordinary. In
7 retrospect, I should have.

8 Going forward, even though I was
9 aware of the possibility of conflict, when the
10 Christensen matter developed, I should've
11 recognized some of the early, early warning
12 flags better and I did not.

13 So, in conclusion, what I would say
14 is we have learned that this conflict with
15 outside law firms is a critical matter and we've
16 taken corrective action.

17 COMMISSIONER MCHUGH: I'm not so
18 much concerned with that specific incident as I
19 am with a general approach to difficult
20 situations.

21 So, you had this discussion with the
22 chairman. And that was the decision made at the
23 time. But then when Mr. Christensen was
24 indicted, there was from the compliance

1 committee a recommendation that he be removed as
2 the MGM billing partner from the law firm that
3 he was associated with. That he have no further
4 involvement in MGM litigation, and that his firm
5 bar him from further consultation on MGM
6 matters. That was what the compliance committee
7 at the time initially recommended; was it not?

8 MR. HERNANDEZ: Yes, Sir.

9 COMMISSIONER MCHUGH: And did that
10 come to the board, those recommendations come to
11 the board?

12 MR. HERNANDEZ: No. Unfortunately,
13 those communications as you described did not
14 come directly to the board. They were in a
15 written record that was available. But that was
16 not a matter that was actively deliberated upon
17 by the full board of directors.

18 COMMISSIONER MCHUGH: It was a
19 record available to the board, but could you
20 amplify on that a little bit?

21 MR. HERNANDEZ: Yes. So, the
22 compliance committee's minutes and record of
23 their proceedings is available to the board.
24 But here at that point in time, you had Mr.

1 Jacobs as General Counsel who was serving as the
2 principal -- I'm going to characterize as my
3 understanding, he was the principal liaison or
4 point of communication between the board of
5 directors and the compliance committee.

6 And unfortunately as I've addressed
7 earlier, I think that he was hopelessly affected
8 by conflicts and independence issues that
9 ultimately affected the quality of that
10 information flow.

11 We dealt with that too late,
12 obviously, but it was dealt with. And he left
13 the company, resigned from the company. Since
14 that time we have modified the communication
15 procedures between the compliance committee, the
16 audit committee and the board of directors.

17 COMMISSIONER MCHUGH: Now there is a
18 requirement that the board review compliance
19 committee minutes and the compliance committee
20 review board and audit committee minutes, right?

21 MR. HERNANDEZ: Yes, Sir.

22 COMMISSIONER MCHUGH: That policy
23 was put into effect in November of this year; is
24 that right?

1 MR. HERNANDEZ: I think it was done
2 earlier than that. There were additional
3 changes made in November of this year, but the
4 governance changes that we adopted, vis-a-vis
5 enhanced communication with the compliance
6 committee, it's my recollection that those
7 occurred shortly after the ultimate
8 determinations on this matter, which would have
9 been December 2009. So, during 2010 those
10 should have been put into effect.

11 COMMISSIONER MCHUGH: They were part
12 of the recommendations that came out of the 2009
13 investigation, to the best of your recollection?

14 MR. HERNANDEZ: Yes.

15 COMMISSIONER MCHUGH: Going back to
16 the recommendations that were made by the
17 compliance committee in 2006, somebody suggested
18 to the compliance committee that they were too
19 harsh. And as a consequence, they were changed
20 and Mr. Christensen remained as the billing
21 partner and was not permitted to be the lead
22 counsel in litigation matters, but was permitted
23 to give advice on matters of importance to the
24 corporation; is that right?

1 MR. HERNANDEZ: Yes, Sir.

2 COMMISSIONER MCHUGH: And was the
3 board advised of that contemporaneously or was
4 that the same circumstances as the initial
5 recommendations?

6 MR. HERNANDEZ: Same circumstances
7 unfortunately, yes.

8 COMMISSIONER MCHUGH: And after Mr.
9 Christensen was sentenced on November 14, 2008,
10 and lost his license to practice the same day,
11 he continued for another 13 months to
12 participate in giving advice when requested to
13 MGM; isn't that right?

14 MR. HERNANDEZ: The record would
15 reflect that he had continuing communications.
16 Those communications were -- The board of
17 directors did not have visibility into those
18 continued communications. And it was not until
19 much later that we understood that that had
20 happened.

21 COMMISSIONER MCHUGH: Didn't he
22 attend at least a board meeting after his
23 conviction?

24 MR. HERNANDEZ: No, Sir, he did not.

1 COMMISSIONER MCHUGH: Even by
2 telephone?

3 MR. HERNANDEZ: Let me be clear.
4 The record now reflects that he attended a board
5 meeting telephonically. The independent members
6 of the board of directors were not aware that
7 that occurred. He was not announced on that
8 telephone call. So, yes, it did occur. I want
9 to be clear about the knowledge of the
10 independent members of the board of directors.

11 COMMISSIONER MCHUGH: And who was
12 responsible for making arrangements for that to
13 happen?

14 MR. HERNANDEZ: I'm happy to respond
15 but let me first ask first the lawyer to
16 response to whether there's any redacted parts
17 of that record.

18 It's my understanding that the
19 presence of Mr. Christensen, his presence was in
20 the offices of Tracinda Corporation. And that
21 he participated or at least was present and
22 heard the deliberations, at least some portions
23 of the deliberations of the members of the board
24 of directors.

1 COMMISSIONER MCHUGH: My question
2 was who arranged for that to happen? Was that
3 in Mr. Kerkorian's office?

4 MR. HERNANDEZ: Yes. Tracinda is Mr.
5 Kerkorian's company. I don't specifically know
6 who arranged it. I am aware that he was -- I
7 now understand he was there in their offices in
8 a room as part of the telephonic meeting.

9 COMMISSIONER MCHUGH: It is fair to
10 say, is it not, that the continued presence of
11 and say let us call it deference to Mr.
12 Christensen after his troubles began was in
13 significant part because of his perceived
14 relationship to Mr. Kerkorian?

15 MR. HERNANDEZ: So, if I could
16 answer that from the perspective of lead
17 independent director, chairman of the audit
18 committee and independent member of the board of
19 directors, there was no continuing association.
20 So, there was no level of activity that was
21 appropriate, understood or tolerated.

22 COMMISSIONER MCHUGH: I am talking
23 about after his troubles arose, from the time of
24 his indictment through the time of his

1 conviction, he did participate, visibly.

2 MR. HERNANDEZ: Yes, he did as a
3 legal adviser to Mr. Kerkorian, yes.

4 COMMISSIONER MCHUGH: Right. And
5 that was tolerated -- I'm asking you if it's
6 fair to say that that was tolerated because of
7 his perceived relationship to Mr. Kerkorian?

8 MR. HERNANDEZ: Speaking
9 individually, I will tell you that it was
10 acceptable to me only within the context of a
11 legal advisor advising a member of the board of
12 directors.

13 Said a different way, and I did ask
14 the question specifically on this matter, had
15 someone told me he was a member of the board of
16 directors. He's a close associate of Mr.
17 Kerkorian and therefore wouldn't it be
18 appropriate for him to be in the board meeting.
19 And the answer is absolutely not, it would not
20 be appropriate.

21 However, as a legal advisor, again,
22 sitting member of the California bar, within
23 that context alone -- and I should say that this
24 is important because in the context of a legal

1 advisor, he is not engaged in the dialogue of
2 the board meetings. He's not responding to
3 matters. He's listening to matters presumably
4 to advise his client.

5 So, his participation in the board
6 meetings was limited to his presence. It was
7 not as an active contributor inside the
8 directors' meetings.

9 COMMISSIONER MCHUGH: I understand
10 what you are saying. But you're not saying, are
11 you, that any other board member who wanted to
12 have her legal advisor present, either while she
13 was present or in her place, would have been
14 permitted to do so?

15 MR. HERNANDEZ: There was an
16 instance where Mr. Haig made the same request,
17 General Haig who is since deceased. And that
18 was approved also. It would no longer be
19 approved.

20 COMMISSIONER MCHUGH: But it wasn't
21 a common practice?

22 MR. HERNANDEZ: No, it was not a
23 common practice.

24 COMMISSIONER MCHUGH: I'm asking

1 these questions because it is clear that the
2 company has taken significant remedial steps
3 since the events occurred. But remedial steps
4 are only as good as the people that enforce
5 them.

6 How can you internally and how can
7 people externally looking at the company be
8 assured that under the same kinds of
9 circumstances, a relationship between an
10 important investor, a difficult financial set of
11 circumstances, other vicissitudes that are bound
12 to affect corporations in all walks of business
13 life, those same circumstances won't produce the
14 same kind of result again?

15 MR. HERNANDEZ: So, I would ask that
16 you accept my assurance that never again would I
17 ever tolerate any conflict or appearance of
18 conflict of that nature. And I feel it would be
19 incumbent upon me to raise it first to
20 management.

21 And if management was not too
22 willing to accept that opinion, then I would
23 take it to the full board of directors. And the
24 full board of directors would exercise its

1 responsibility to correct that.

2 We learned a lot here. And I
3 believe that what I can represent to you is that
4 our compliance procedures right now are as best
5 as I've ever seen in any organization. Everyone
6 on that board understands the critical nature of
7 exercising independent judgment. That
8 independent judgment does not need to be
9 popular, in fact it's most important when it's
10 unpopular. And that's our job.

11 And the moment any member of this
12 board would ever do anything that I saw as
13 inconsistent with those standards, I would ask
14 that that member of the board of directors be
15 removed.

16 COMMISSIONER MCHUGH: All right,
17 Sir. Thank you.

18 CHAIRMAN CROSBY: There is a
19 reference in the report to the compliance plan.
20 Is that an exhibit? Do we have the present
21 compliance plan?

22 MR. MACKEY: It's not an exhibit to
23 this.

24 CHAIRMAN CROSBY: I'm sorry not an

1 exhibit, I meant an attachment.

2 MR. MACKEY: Yes.

3 CHAIRMAN CROSBY: So, we do have it.
4 You've probably explained this and forgive me if
5 you have. But I don't quite understand the
6 interplay between the compliance committee and
7 the audit committee. You talked about if
8 there's a significant conflict that goes to the
9 audit committee. I would've thought that what's
10 the compliance committee did. So, what's the
11 fit there?

12 MR. HERNANDEZ: So, the compliance
13 committee is appointed by the audit committee.
14 There are three members. They are fully
15 independent from the company. There is a
16 chairman that we elect annually. The audit
17 committee elects that chairman annually. Then
18 on a rotating basis, the other two members are
19 elected every third year. So, it's a rolling
20 three-year membership.

21 The compliance committee is tasked
22 with complying -- review of compliance with
23 gaming regulations and other matters, operation
24 and orientation. For example, the approval of

1 vendors, the approval of any individual that
2 needs to be licensed before any of the gaming
3 regulators.

4 And as such, they oftentimes will
5 come across a conflict issue. That is handled
6 by the compliance committee. I did mention that
7 there is a separate conflict issue that goes
8 straight to the audit committee. But on typical
9 matters, operational matters, vendor clearance,
10 for example that's at the compliance committee.

11 We at the full board, they operate
12 independently of us. So, those recommendations
13 they are tasked with that compliance business.
14 There are certain matters that if they have
15 disagreement or lack of unanimity will then go
16 to the audit committee and full board.

17 CHAIRMAN CROSBY: Yes, that's
18 helpful. Mr. Murren, Mr. Hernandez has been
19 very definitive about his judgment of his own
20 behavior and judgments during that period of
21 time. How do you look back on your own behavior
22 and judgments during that time?

23 MR. MURREN: During the time in 2009
24 or how far back, Chairman?

1 CHAIRMAN CROSBY: I forget the exact
2 dates. It started in '06, right? And then all
3 of the way up to and through the special report
4 was undertaken.

5 MR. MURREN: I would view my actions
6 as inferior to the set of standards that I hold
7 myself to. From the moment that Mr. Christensen
8 was indicted through and up to the point where I
9 became the chairman and CEO at the end of 2008.

10 As Roland very comprehensively
11 articulated, our company as a board, and I was a
12 board member at the time though not the chairman
13 and CEO, should have done more. And I as an
14 individual board member when I was the CFO of
15 the company should have done more, should have
16 questioned more than I do today.

17 I would reiterate everything that
18 Roland said and I agree with Roland's
19 perspective on the events. Roland Hernandez and
20 our other individual board members are
21 extraordinarily rigorous, very intelligent and
22 very engaged in our company. When I became the
23 chairman and CEO at the end of 2008, I became
24 far more focused on the issues at hand, which

1 were an attempt to save the company.

2 I don't think it could be under
3 estimated how dire our financial situation was
4 when I received this promotion, such as it was,
5 at the end of 2008. My focus was where I
6 believed it should have been, which given my
7 banking background was an attempt to finish the
8 largest project under construction in the United
9 States. To keep 10,000 construction workers
10 working, to keep morale as some level, low as it
11 was at the end of 2008. And to focus on with my
12 CFO and my great financial team the efforts of
13 attempting a recovery at MGM Resorts and at City
14 Center.

15 I am bitterly and disappointed in
16 myself, in my actions. And I am happy to go
17 over all of those with you. But I would concur
18 with Mr. Hernandez's perspective on the events.

19 We are a better company for it. I,
20 myself, I believe I'm a better executive today
21 than when I was thrust into this situation
22 abruptly at the end of 2008. And I as a former
23 Wall Street analyst that used to cover many,
24 many companies would concur with Mr. Hernandez.

1 I believe that today though not then, today we
2 are the gold standard from a regulatory and
3 independence and a governance perspective.

4 CHAIRMAN CROSBY: Thank you. Any
5 other questions, cross, recross?

6 MR. CASIELLO, JR.: I have a series
7 of questions for Mr. Murren if this is an
8 appropriate time.

9 COMMISSIONER MCHUGH: Was he going
10 to do sort of a direct examination first?

11 CHAIRMAN CROSBY: On a new topic,
12 yes. It's 12:10.

13 COMMISSIONER MCHUGH: Mr. Hernandez
14 needs to leave.

15 MR. HERNANDEZ: If I could ask for
16 your permission to be excused. I have until
17 12:30. I am happy to answer any other questions
18 you might have.

19 COMMISSIONER STEBBINS: I have one
20 more question. It appears there was some
21 deference to Mr. Christensen's involvement based
22 on his institutional knowledge of the business.
23 Do you think you would have treated a board
24 member who say had been on the board for less

1 period of time, three or four years, any
2 different?

3 MR. HERNANDEZ: I think that his
4 significant institutional knowledge of the
5 transactions in the business of the company was
6 a factor that we considered after his
7 indictment. I think there was a recognition
8 particularly on this matter, this legal matter,
9 his continuing involvement and his firm that
10 there were services that he could provide to the
11 company that were beneficial to the company.
12 And I think that was unique.

13 COMMISSIONER STEBBINS: Thank you.

14 CHAIRMAN CROSBY: Is there anything
15 else is particular, your role in particular,
16 either Mr. Mackey, that you know of that you'd
17 like to speak to before you go?

18 MR. HERNANDEZ: If I could, with
19 your permission, and again I apologize for
20 having to depart early. I had a pre-existing
21 board meeting. I have now recalled which
22 company I have to go out to.

23 I just wanted to mention that this
24 matter on our governance vis-à-vis Macau is

1 something of the highest level of oversight on
2 our audit committee.

3 So, I want to stress that it is
4 something that we actively engage in. And I
5 know we will handle this separately with you.
6 And there are individuals that will get involved
7 and testify as to specifics of AML, FCPA,
8 collaborators, if you wish, junkets, etc.

9 But from an audit committee, an
10 audit chair perspective, I just wanted to give
11 you a sense of our oversight of a significant
12 subsidiary of the company. It is important. We
13 recognize it's in a foreign jurisdiction. It's
14 a long ways away. And because of those reasons,
15 we need to be extra diligent in oversight.

16 So, I want to provide you just seven
17 quick elements of that oversight program just to
18 give you a sense. I'm trying to shorten the
19 conversation about MGM China, but really before
20 I leave at least offer from the audit
21 committee's perspective the things that we look
22 at.

23 So, the first thing I would say is
24 that the audit committee itself directly engages

1 with the audit committee of MGM China, which is
2 an independent publicly traded company on the
3 Hong Kong stock change. I've personally gone to
4 Macau, continue to go to Macau. Have visited
5 with the chairman of the audit committee there.
6 And there is a close set of communications.

7 We will go annually, it's our intent
8 to go annually to Macau, some member of the
9 audit committee to visit with the audit
10 committee in Macau. That's an ongoing
11 initiative. And we think that communication is
12 critical in that regard.

13 Secondly, we take some comfort that
14 the 12 members of the board of directors of MGM
15 China, six of them are members of MGM Resorts.
16 We therefore have a direct flow of communication
17 as the board making a decision. I personally
18 communicate with Mr. Murren about issues that he
19 sees in MGM Macau. And we ensure communication
20 flow that way which is board information to
21 audit committee.

22 Thirdly, Deloitte and Touche, our
23 outside auditors, audits MGM China as well as
24 audits MGM Resorts. Deloitte and Touche at the

1 audit committee, we inquire of them specifically
2 as to what they are doing in China.

3 They have represented as recently as
4 two weeks ago to me that they had outstanding
5 visibility into the financials, the controls,
6 the stock's performance at MGM China. That is
7 reported to our audit committee from Deloitte
8 and Touche. And again, they represent that they
9 have outstanding access and visibility to all of
10 that financial information.

11 Next, I would say that MGM China has
12 a compliance committee, similar in nature to the
13 compliance committee we spent so much time
14 discussing today. There are three members of
15 that MGM China compliance committee that are US-
16 based that also come back to MGM Resorts and
17 report to us as to the proceedings or
18 significant findings that that compliance
19 committee has seen in China. So, again the
20 compliance committee communication does come
21 back to the United States as well.

22 Next, I would say internal audit,
23 MGM's internal auditors. Now these are
24 individuals -- The head of internal audit, chief

1 audit executive of MGM reports directly to the
2 MGM audit committee. So, we have direct
3 reporting with him. He in turn has direct
4 communication with MGM China and makes multiple
5 visits to MGM China to work with the MGM China
6 audit committee. So, this occurs on a
7 continuing basis throughout the course of the
8 year.

9 That head of internal audit reports
10 directly to the audit committee, including every
11 session of the audit committee and executive
12 session where he is there alone reporting to the
13 members of the audit committee all independent,
14 free of any intrusion of any member of
15 management. So, again I am comfortable that
16 there's strong individual reporting there.

17 Next, I would say that financial
18 data by our finance team, Jim's finance team,
19 they receive the reporting directly from MGM
20 China. So, there is strong visibility into all
21 of the numbers in China. They do come to the
22 United States to our finance team.

23 They come to Mr. D'Arrigo ultimately
24 who sits on the MGM China board. And as CFO of

1 MGM Resorts, Mr. D'Arrigo is regularly in the US
2 audit committee meetings and has an opportunity
3 to present to us, including in executive session
4 where there is no other member of management
5 involved.

6 And then finally, as you will hear
7 later today from Mr. Mefford, who is senior VP
8 of global security, he also has heavy visibility
9 into the conduct of MGM China, regularly is out
10 in China. He too reports back and can report to
11 the audit committee whenever we so desire and is
12 tasked with reporting significant matters to us
13 as necessary.

14 I don't want to belabor that too
15 much. Nor do I want to shorten the ultimate
16 conversation, but I did want to communicate to
17 you that this is something that is quite
18 significant. It is a role that the committee is
19 overseeing.

20 Critical in terms of the quality of
21 our compliance globally. And I think we're
22 doing a fine job. And I will say with respect
23 to this matter which is governance and control
24 over foreign reporting subsidiary in Macau, I

1 think we are best in class.

2 COMMISSIONER MCHUGH: I just have
3 one or two questions on that as summary. You
4 have a compliance policy for MGM US that applies
5 to all of the US entities that MGM operates;
6 isn't that right?

7 MR. HERNANDEZ: Yes, Sir.

8 COMMISSIONER MCHUGH: And there is a
9 different compliance plan and policy for China;
10 isn't that right?

11 MR. HERNANDEZ: Yes. It is an
12 independent Hong Kong listed company, yes.

13 COMMISSIONER MCHUGH: But the terms
14 and provisions of that compliance plan for China
15 are different from those in the United States.

16 MR. HERNANDEZ: My understanding,
17 and Counsel can elaborate that they are
18 generally consistent, and were built off of the
19 MGM US compliance plan.

20 COMMISSIONER MCHUGH: All right. We
21 will explore that later. Thank you.

22 CHAIRMAN CROSBY: Anything else for
23 Mr. Hernandez? Thank you, very much for your
24 time. We appreciate your coming to Boston.

1 MR. HERNANDEZ: It's been my
2 pleasure to be here with you today. Thank you.

3 CHAIRMAN CROSBY: Shall we take a
4 lunch break? Why don't we take an hour. We'll
5 be back here at 1:15.

6

7 (A recess was taken)

8

9 CHAIRMAN CROSBY: We are ready to
10 reconvene the adjudicatory hearing on the MGM
11 application, not quite? Counselor do you want
12 to introduce your next witness?

13 MR. MURREN: Mr. Chairman, if you
14 don't mind, I'll just jump right in because
15 we're still on the Terry Christensen matter.
16 Nick's already introduced me. So, I'll just
17 jump right into the meat of this issue.

18 I first want to say from the onset
19 of this investigation I did support and in fact
20 I demanded a complete investigation. And since
21 I had interactions with Terry Christensen, which
22 we'll outline in detail, I made sure as Mr.
23 Hernandez mentioned, I was walled off entirely
24 from that investigation. And I did support all

1 of the recommendations of the special committee.

2 In fact, I implemented many of them myself.

3 As you heard from Mr. Hernandez,

4 both the company and more importantly me

5 personally made several very bad decisions.

6 Yes, based on bad advice but nonetheless we're

7 responsible for our own decisions. I certainly

8 am as the chairman and the CEO of MGM. And I

9 exercised, I think it's obvious today looking

10 back, I exercised poor judgment.

11 Even though a lot of what happened

12 was sanctioned, I guess by legal advice, I know

13 that I as the chairman and CEO should have been

14 more inquisitive. I should have asked more

15 questions. Looking back at it now, I obviously

16 deeply regret I did not. But the fact remains I

17 did not. And I regret that.

18 And that really begins from the

19 moment Mr. Christensen was indicted. I am not

20 particularly -- First off, I'm not a lawyer. I

21 can't split the difference in my mind between

22 indictments and convictions. And it just was a

23 bad idea from the very, very beginning.

24 None of us should have had any

1 contact with him. I certainly shouldn't have as
2 a board member and as the CFO at the time or
3 certainly when I became the chairman and CEO at
4 the end of 2008.

5 You have to be asking yourself the
6 question, why did I do this? I've asked myself
7 that question so many times since the Wall
8 Street Journal article touched off the very
9 large investigation that was undertaken. And I
10 don't have any excuses for this. It was wrong
11 at the beginning then, it's wrong now.

12 I have to at least reflect for a
13 very brief second on the environment by which I
14 was thrust into this job. Not to over dramatize
15 it, but it was a horrible time for our company,
16 for my management team, for myself personally.
17 The amount of stress that we were under was
18 epic, unprecedented, resulting in several
19 threats against my family and my life because we
20 had laid off so many people. It was harrowing
21 time.

22 There's no reason to expect that I
23 should have acted differently. I should have.
24 I should have acted differently from the

1 beginning. And I'm a better person for it
2 today. I believe our company is. And we have
3 learned from this incredibly bad situation.

4 And I think that doing it all over
5 again could never happen again given the
6 governance we have in place, given the quality
7 of the board members, the independent members we
8 have today, given the mentoring that I've had
9 since I became the CEO, now several years ago.
10 And the kind of person I am and the fact that
11 those scars of the recession most importantly
12 the shame that I have that I did conduct myself
13 in an inappropriate manner will be with me for
14 the balance of my career.

15 So, I wanted to state that in the
16 beginning. I know that there will be many
17 questions. And I'm happy to tackle any of them
18 that you may have or you, Sir.

19 CHAIRMAN CROSBY: Go ahead.

20

21

22 EXAMINATION BY MR. MACKEY:

23

24 Q. Mr. Murren, good afternoon. As I

1 did with Mr. Hernandez, I want to take you back
2 in time a little bit to before the time when you
3 were CEO but back to the time when Mr.
4 Christensen was indicted, which is back in
5 February 2006. Could you describe for the
6 Commission your role in the company at that
7 time?

8 A. Yes, I was the executive vice
9 president and CFO with the company.

10 Q. And also you had a position on the
11 compliance committee as well, correct?

12 A. I did, yes.

13 Q. Do you have the book of exhibits in
14 front of you? I just want to draw your
15 attention briefly to Exhibit Number 5, which is
16 the press release that the company issued
17 shortly after the indictment.

18 A. Yes, I have it here.

19 Q. In your sworn testimony before today
20 you were asked some questions about that press
21 release. Do you recall that?

22 A. I do recall that, yes.

23 Q. And it would be fair to say that you
24 were given a draft of this release in advance

1 and that you indicated by email that you were
2 fine with it. Have I said that correctly?

3 A. I had several questions on this
4 press release, which I'm happy to describe. I
5 was fine with the content of what I was
6 responsible for.

7 Q. Maybe you could elaborate on that
8 and tell me if you had questions about it, what
9 the questions were and what parts of it you were
10 fine with?

11 A. Yes. As the CFO of the company, I
12 was part of the circulation, internal
13 circulation of press releases, particularly
14 press releases of a financial matter because I
15 was at that time the chief investor relations
16 contact for the financial community.

17 This press release was not generated
18 from my office. It came through, I now believe,
19 through our General Counsel, our then General
20 Counsel and through PR. The questions that we
21 had meaning myself and my financial team was why
22 such a press release would be issued at all?
23 And this was the subject of quite a bit of
24 debate internally over the period of a few days.

1 I was overseas I think at the time
2 when this occurred. And ultimately, it was
3 concluded by our chairman and CEO, the body of
4 which was a quote from him that we should issue
5 this press release. I cannot say that it was
6 fully supported internally.

7 Q. The words that you used in your
8 email, this may be helpful: Dawn opened it for
9 me.

10 You recall that you were having a
11 terrible time opening the document. It sounds
12 like you were in an airport at the time or
13 somewhere.

14 And I think it's fine. The meat is
15 in Terry's quote. So, hopefully he likes that.

16 A. That's correct.

17 Q. Which is in substance what you were
18 telling the Commission that Terry was going to
19 have to take responsibility for his own quote;
20 is that fair?

21 A. That is correct.

22 Q. The statements made in the release
23 we are confident that after a trial on the
24 merits he will be exonerated.

1 Do you see that?

2 A. I do.

3 Q. Do you know at that time what the
4 base for that confidence was?

5 A. I do not. This was attributed
6 directly to our Chairman and CEO. And it was a
7 quote from him.

8 Q. Are you aware, Mr. Murren, that at
9 this point in time, February 2006, the company
10 had done any independent investigations of the
11 facts that supported the indictment?

12 A. I'm not aware of that.

13 Q. Are you aware there'd been any
14 effort to discuss the matter with Mr.
15 Christensen at this point, the facts supporting
16 the indictment?

17 A. I am not aware of that.

18 Q. As the chief financial officer, Mr.
19 Murren, did you ever suggest at this point that
20 there be some effort made to get a handle on
21 what these facts were?

22 A. I did not, no.

23 Q. So, following Mr. Christensen's
24 indictment, there were then a series of meetings

1 of the compliance committee. And there's been
2 some discussions earlier about them today.
3 There were three meetings in rapid succession
4 after the indictment?

5 A. That's correct.

6 Q. I take it that during this period of
7 time, you were on the compliance committee but
8 you were unable to attend any of these meetings?

9 A. That is correct.

10 Q. And did you play any role, Mr.
11 Murren, in the initial formulations of the
12 restrictions that the company was going to place
13 on Mr. Christensen's involvement?

14 A. I did not.

15 Q. Then did you play any role in the
16 subsequent relaxing of those restrictions?

17 A. I did not.

18 Q. Let me then fast-forward to January
19 of 2007. And I asked Mr. Hernandez these
20 questions and I'll ask them of you as well. Do
21 you recall that in January 2007 the New York
22 Times ran a very extended story about the
23 criminal case against Messrs. Christensen and
24 Pellicano and in fact published significant

1 parts of the transcript of the tapes?

2 A. I did not recall that. And I was
3 not aware of it until you brought it up today.

4 Q. Are you aware that even today you
5 can go on the New York Times website and click
6 on the audio link and hear substantial portions
7 of the Christensen Pellicano conversations?

8 A. No, I was not aware of that.

9 Q. Do you recall whether anyone at MGM
10 was aware in early 2007 when the story broke
11 that the information supporting Mr.
12 Christensen's criminal indictment was now a
13 matter of public record?

14 A. I was not aware, no.

15 Q. So, as you're sitting here today,
16 you have no recollection of anyone at MGM being
17 aware that the New York Times had basically put
18 all of these tapes onto its website?

19 A. That is correct.

20 Q. Mr. Murren, let me then advance
21 forward to the criminal trial itself. The trial
22 took place in August 2008. So, at this point,
23 were you still the CFO or had you made the move
24 to CEO?

1 A. I was president and CFO. No, I'm
2 sorry. I was president and chief operating
3 officer in 2008.

4 Q. Are you aware -- Let me just ask
5 you, were you aware at the time in August 2008
6 that the tapes recording the conversations
7 between Mr. Christensen and Mr. Pellicano were
8 played publicly at his criminal trial?

9 A. I was not.

10 Q. Did you follow the trial in the
11 news?

12 A. I did not.

13 Q. Let me draw your attention to
14 Exhibit Number 7, if I could. Actually, I'm not
15 sure that's the right exhibit, sorry. Yes, it
16 is Exhibit 7. Do you recognize Exhibit 7?

17 A. One second please, we're getting it.
18 Yes, I do recognize it.

19 Q. Tell me what the letter is.

20 A. The letter is addressed to a judge,
21 Judge Fisher. It starts by saying I'm writing
22 you today on behalf of Terry Christensen in
23 connection with his pending sentencing.

24 Q. And could you read the next

1 sentence, please?

2 A. Sure. I'm aware of the legal
3 proceedings against Mr. Christensen and have
4 been following the trial in the news.

5 Q. Then on the next page, that's your
6 signature on the letter, correct?

7 A. It is, yes.

8 Q. Does this refresh your recollection
9 that in fact you did follow the trial in the
10 news?

11 A. I followed it vaguely. I don't know
12 the details of it.

13 Q. This was a letter that you submitted
14 in connection with Mr. Christensen's sentencing,
15 correct?

16 A. That is correct.

17 Q. Mr. Christensen was in fact
18 convicted, correct?

19 A. That is correct.

20 Q. And he was in fact sentenced,
21 correct?

22 A. Yes.

23 Q. He was sentenced to three years in
24 federal prison?

1 A. I believe so.

2 Q. Given your -- strike that.

3 Are you aware -- Did you ever have
4 occasion to read or to listen to some of the
5 remarks that the judge made at Mr. Christensen's
6 sentencing?

7 A. I did not.

8 Q. So, you're not aware that the judge
9 declared that Mr. Christensen had taken no
10 responsibility for his crimes?

11 A. I did not.

12 Q. And that he showed is no remorse for
13 his crimes?

14 A. It's the same answer.

15 Q. And that, and I'm quoting here from
16 her remarks, "The men on those recordings did
17 what they did because they could and they
18 enjoyed it."

19 A. If you say so.

20 Q. "And that they deliberately,
21 repeatedly and happily violated the law."

22 A. Is that a question?

23 Q. Did that refresh your recollection?

24 A. No, it does not.

1 Q. Following the playing of the tapes
2 at the criminal trial and the sentencing -- I
3 don't want to put words in your mouth. So, let
4 me try this and you tell me if I've got this
5 right or not.

6 Would it be fair to say that
7 following the sentencing, you relied on your
8 General Counsel for legal advice about the
9 extent to which Mr. Christensen could continue
10 to be involved in MGM's affairs?

11 A. That is correct.

12 Q. And you have said today and on the
13 record in words or in substance that Mr. Jacobs
14 failed to tell you that, but at least as a
15 regulatory matter, you should cut off all
16 contact with Terry Christensen?

17 A. Yes. As we've said earlier, both
18 myself and Mr. Hernandez, we inappropriately
19 relied on our General Counsel. Our General
20 Counsel at the time, by the way, asked me to
21 write this letter. And I did so as did many
22 board members of MGM.

23 I wish I had followed the case more
24 closely, I did not as I just told you. But I

1 had known Terry Christensen, Mr. Christensen for
2 many years. And I had an empathy toward him by
3 virtue of the fact that I had known him for a
4 considerable period of time. But throughout
5 that period of time, I was relying upon,
6 inappropriately as it turns out, the counsel of
7 my General Counsel.

8 Q. And you said in your sworn testimony
9 in this matter that in the absence of getting
10 any advice from Mr. Jacobs about legal
11 restrictions on your ability to communicate with
12 Mr. Christensen that other than that you never
13 had any concerns about interactions on MGM
14 matters with Mr. Christensen. That your
15 concerns were of a legal nature and that you
16 weren't getting any advice from Mr. Jacobs on
17 those matters?

18 A. I did not. No. I communicated with
19 Mr. Christensen primarily as a financial advisor
20 to Mr. Kerkorian. I did not seek any outside
21 advice outside of my General Counsel whether or
22 not that was appropriate. And I should have
23 done that.

24 Q. What I'm interested in, Mr. Murren,

1 is aside from the legal advice that you weren't
2 getting from your General Counsel, did you have
3 any concerns following the trial and following
4 the conviction and following the sentencing that
5 Mr. Christensen just wasn't trustworthy? Do you
6 understand the question? That aside from the
7 legal issue that he just wasn't somebody that
8 you should be dealing with because you couldn't
9 trust him?

10 A. Looking back on it, obviously, as I
11 said I regret the interaction. It wouldn't
12 happen again. But at the time, I was not
13 properly sensitized to the fact I should not
14 have any interaction with him, setting aside the
15 legal basis for that. The optics of it were
16 horrendous. I understand that now, but I was
17 not sensitized to it at the time.

18 Q. But aside from the legal stuff and
19 aside from the optics, did you have any concern
20 that this is just not a guy who you could trust
21 with confidential sensitive MGM business
22 matters?

23 A. I was not sensitized to it at the
24 time.

1 Q. Let me ask you a few questions about
2 Mr. Kerkorian. You described your relation with
3 Mr. Kerkorian as close; would it be fair to say?

4 A. I've known Mr. Kerkorian since 1998.
5 And I've had the pleasure of talking to him and
6 seeing him on a number of occasions.

7 Q. And I take it from your sworn
8 testimony that you never discussed Mr.
9 Christensen's indictment or conviction with him?

10 A. That is correct.

11 Q. So, I take it that you never said to
12 Mr. Kerkorian in words or in substance that
13 given Mr. Christensen's significant legal
14 problems here, it's probably not the best person
15 to be representing your affairs on the MGM
16 board?

17 A. That's correct. I did not say that.

18 Q. Why not given that you did have a
19 relationship directly with Mr. Kerkorian?

20 A. As the record states, I joined the
21 company in 1998 as the CFO. At that time, the
22 chairman and CEO was one of the most highly
23 regarded gaming executives in our industry, with
24 decades of experience. He was the man I

1 reported to. The outside counsel at the time
2 was the outside counsel that had represented the
3 firm literally for decades.

4 Mr. Christensen was on the board, I
5 think, from the inception, but certainly for
6 years before I joined. And our General Counsel
7 since 2000 was somebody that I worked with from
8 that period of time forward to the period of
9 time in question.

10 I exercised poor judgment by not
11 using my own independent thinking. But I based
12 my decisions at the time on the fact that there
13 was a tremendous amount of precedent history
14 here with a public company that went public back
15 in 1992, MGM Grand, Inc. And with a board of
16 highly experienced men and women, particularly
17 the chairman and CEO of the board at that time,
18 a highly regarded gaming executive.

19 And for those reasons, I did not
20 properly exercise my own independent questioning
21 of my boss at that time, the chairman and CEO or
22 the General Counsel. Nor did I seek outside
23 advice outside of our outside counsel, which
24 clearly was a massive conflict of interest,

1 which I think Mr. Hernandez very exhaustively
2 outlined today.

3 Q. But there was a period of time after
4 you became the CEO that Mr. Christensen
5 continued to have some significant involvement
6 in the company, correct?

7 A. I would not call it significant. He
8 did have involvement with the company.

9 Q. This was after his conviction,
10 correct?

11 A. That is correct.

12 Q. My question is as CEO at that point,
13 as the person responsible for the company,
14 didn't you think it appropriate and weren't you
15 in a position to raise a red flag and in
16 particular talk to Mr. Kerkorian about the
17 person who he had keeping an eye on his affairs
18 at MGM?

19 A. I absolutely should have done that.

20 MR. MACKEY: I have nothing further.

21 No further questions.

22 CHAIRMAN CROSBY: Anybody here,
23 questions?

24 COMMISSIONER CAMERON: I had a

1 couple of questions. Mr. Murren, how are you?

2 MR. MURREN: I'm well. Thank you.

3 COMMISSIONER CAMERON: I just had a
4 couple of questions. And I've been listening
5 closely to your explanations. But a couple of
6 things struck me when I read excerpts of your
7 testimony.

8 And one was when you state that
9 someone else had to tell you that this was a
10 problem that dealing with Mr. Christensen after
11 his conviction was an issue. And you mention
12 that here.

13 But then when you were told it was a
14 problem, there were several more interactions.
15 And I think the one interaction of note is
16 dealing with New Jersey regulators when this was
17 a significant issue for New Jersey; is that
18 correct -- the Christensen matter?

19 MR. MURREN: I believe you are
20 referring to the time when we conducted our full
21 investigation, which was at the end of 2009.
22 And from that period of time, I had no and have
23 had no interaction with Terry Christensen. I
24 believe the matter you're referring to happened

1 before that.

2 COMMISSIONER CAMERON: I'm just
3 reading on the bottom of page 84 from your
4 transcript, Sir. This is when you directed Mr.
5 McManus to call Christensen and advise him of
6 the details of a meeting you had earlier that
7 day with DGE.

8 MR. MURREN: Yes, I recall that.
9 That occurred before the investigation. The
10 investigation occurred after the Wall Street
11 Journal article and that was in late 2009.

12 COMMISSIONER CAMERON: But New
13 Jersey was speaking to you about this matter,
14 correct? This was one of their concerns or no,
15 not at that time?

16 MR. MURREN: No, it was not. That
17 was if you recall I think John was it in July
18 2009?

19 MR. MCMANUS: The interaction you
20 are talking about, there was I think one in July
21 and then one in early September 2009. If it was
22 the meeting it was early September, the Wall
23 Street Journal article was about two weeks
24 later. So, at the time New Jersey matter was

1 exclusively related to our association with
2 Pansy Ho and the compliance issues that were
3 involved with that.

4 COMMISSIONER CAMERON: Okay. Thank
5 you for clearing that up. So, New Jersey's
6 questions about this matter arose later?

7 MR. MURREN: That is correct.

8 COMMISSIONER CAMERON: I just had
9 one other observation, Sir. You gave a pretty
10 eloquent explanation of the firm and the values
11 of the firm earlier. And you really emphasize
12 diversity. Just the optics from where I sit, I
13 look at maybe three or four rows of folks from
14 your company here. Is there a woman here, Sir,
15 representing your company?

16 MR. MURREN: Yes, Kelly Tuckey is
17 here.

18 COMMISSIONER CAMERON: Okay. Thank
19 you for pointing that out to me.

20 CHAIRMAN CROSBY: The point stands,
21 nevertheless.

22 MR. MURREN: Point taken.

23 COMMISSIONER MCHUGH: I had a few
24 questions, Mr. Murren. In 2006, you were the

1 executive vice President?

2 MR. MURREN: That is correct, Sir.

3 COMMISSIONER MCHUGH: And you were
4 the CFO?

5 MR. MURREN: That is correct.

6 COMMISSIONER MCHUGH: And were you a
7 member of the board?

8 MR. MURREN: I was. Yes, Sir.

9 COMMISSIONER MCHUGH: And you were a
10 member of the compliance committee?

11 MR. MURREN: I was. I was appointed
12 to the compliance committee.

13 COMMISSIONER MCHUGH: Now when Mr.
14 Christensen was indicted in the middle of
15 February, the board reacted to that indictment
16 by accepting his resignation from the board; is
17 that right, about week later?

18 MR. MURREN: That is correct.

19 COMMISSIONER MCHUGH: And then there
20 was a compliance committee meeting at the end of
21 March, the following March. And you were not
22 able to attend that meeting?

23 MR. MURREN: That is correct.

24 COMMISSIONER MCHUGH: And it was at

1 that meeting that those recommendations for
2 removal of Mr. Christensen as the billing
3 partner and the like were made; is that right?

4 MR. MURREN: That is correct.

5 COMMISSIONER MCHUGH: How many
6 members of the compliance committee were there
7 at that time?

8 MR. MURREN: I do not recall the
9 specific number. It was six or seven would be
10 my guess.

11 COMMISSIONER MCHUGH: It's a small
12 group.

13 MR. MURREN: Small, and this was
14 before we developed the independent compliance
15 committee.

16 COMMISSIONER MCHUGH: I understand.
17 But it was a small group of people.

18 MR. MURREN: That is correct.

19 COMMISSIONER MCHUGH: And the
20 compliance committee was responsible for
21 overseeing compliance for the whole MGM
22 organization, right?

23 MR. MURREN: That is correct.

24 COMMISSIONER MCHUGH: And the

1 compliance committee prepared minutes of all of
2 its meetings?

3 MR. MURREN: They did.

4 COMMISSIONER MCHUGH:

5 Contemporaneously?

6 MR. MURREN: I think so, yes.

7 COMMISSIONER MCHUGH: Essentially

8 contemporaneously.

9 MR. MURREN: Essentially, yes.

10 COMMISSIONER MCHUGH: But you didn't

11 read the minutes of that meeting, the March 31

12 meeting for three and a half years; is that

13 right?

14 MR. MURREN: That is absolutely

15 true.

16 COMMISSIONER MCHUGH: So, you didn't

17 know what if anything the compliance committee

18 had recommended with respect to the director who

19 had just resigned because he had been indicted?

20 MR. MURREN: Our internal compliance

21 committee was peopled by folks from law

22 enforcement and had legal backgrounds. I in

23 hindsight was poorly equipped to be on the

24 compliance committee. And I did not attend

1 those meetings nor did I read the minutes. And
2 that was a failure on my part.

3 COMMISSIONER MCHUGH: Did anyone
4 mention to you that the compliance committee had
5 taken some action, never mind the detail, made
6 same recommendations with respect to Mr.
7 Christensen?

8 MR. MURREN: I was aware that there
9 were restrictions as to the interactions with
10 Terry Christensen as billing partner. I don't
11 recall when I was aware of that. And I
12 certainly did not recall at the time when the
13 restrictions were loosened in any way. In
14 hindsight, after the fact seems bizarre and
15 really wrong to me.

16 COMMISSIONER MCHUGH: The
17 restrictions were the subject of another meeting
18 a month and a half later where they not, or a
19 month later in early May?

20 MR. MURREN: That is correct.

21 COMMISSIONER MCHUGH: And it was at
22 that meeting that the compliance committee
23 considered recommendations for loosening those
24 restrictions because they were in the view of

1 someone, Mr. Jacobs or someone else too harsh;
2 is that right?

3 MR. MURREN: That's correct.

4 COMMISSIONER MCHUGH: And you were
5 not able to attend that meeting either?

6 MR. MURREN: That is correct.

7 COMMISSIONER MCHUGH: Minutes were
8 again contemporaneously or essentially
9 contemporaneously prepared; is that right?

10 MR. MURREN: That is correct.

11 COMMISSIONER MCHUGH: And you first
12 read those minutes three and a half years later?

13 MR. MURREN: Yes, in late 2009.

14 COMMISSIONER MCHUGH: And again, did
15 you hear from anybody that the restrictions that
16 you understood had been imposed earlier had been
17 relaxed?

18 MR. MURREN: No, I do not recall
19 that.

20 COMMISSIONER MCHUGH: Did you see
21 Mr. Christensen at board meetings thereafter?

22 MR. MURREN: I saw Mr. Christensen
23 in board meetings in 2006 and seven. I never
24 saw him in a board meeting once I became the

1 chairman and CEO at the end of '08.

2 COMMISSIONER MCHUGH: Did it occur
3 to you that his presence at those board meetings
4 was inconsistent with the restrictions that you
5 understood the compliance committee had
6 recommended?

7 MR. MURREN: It did not. I did not
8 fully understand the restrictions. And it did
9 not occur to me that his presence would be in
10 conflict with the restrictions.

11 COMMISSIONER MCHUGH: And yet you
12 did not go to the minutes of the compliance
13 committee meeting to see what the restrictions
14 were?

15 MR. MURREN: That's correct.

16 COMMISSIONER MCHUGH: Why?

17 MR. MURREN: I was, as I said
18 earlier, not focused as I should have been on
19 compliance. I relied upon members of that
20 committee that were more experienced in this
21 matter than I was, law enforcement, attorneys,
22 regulators, auditors. I relied upon the advice
23 of my General Counsel, which is not in any form
24 of an excuse. I am just trying to respond to

1 your question as to why I did not do that. And
2 I should have.

3 COMMISSIONER MCHUGH: Mr. Mackey
4 asked you questions about a New York Times
5 article that was published in 2007 with respect
6 to this. And I understand you're unfamiliar
7 with that.

8 Assuming that that article was in
9 fact published and it has the characteristics
10 that Mr. Mackey described, both of which I
11 assume for purposes of this question, is that
12 something which should have been brought to your
13 attention?

14 MR. MURREN: Yes, absolutely.
15 Looking back on it, I am not the person today I
16 was back then. I was an inexperienced person.
17 I cannot say for sure it would occurred to me
18 that it should've been brought to my attention
19 then. Now I can affirmatively say it absolutely
20 should have been brought to my and any board
21 members' attention.

22 COMMISSIONER MCHUGH: It's the kind
23 of thing that corporate governance would require
24 systems to be in place to have brought to your

1 attention. That's an awkward question.

2 MR. MURREN: Absolutely. I
3 absolutely agree with you.

4 COMMISSIONER MCHUGH: You didn't
5 follow, you sai, in response to Mr. Mackey's
6 questions, the trial very closely?

7 MR. MURREN: I did not, no.

8 COMMISSIONER MCHUGH: Were you
9 interested in the allegations and how they were
10 playing out in the courtroom down the street?

11 MR. MURREN: My best feeling at the
12 time was frankly sadness because this was a
13 board member. I did not engage myself learning
14 enough of the facts. I just was focused on
15 someone who had served on a board before I
16 joined and while I was there.

17 And we were assured as board members
18 that he was always innocent. It was something,
19 looking back, it was a very naïve point to just
20 take at face value. Nonetheless, I can say from
21 my standpoint, speaking for myself, I did
22 believe he was because I was told that he was by
23 people that knew him better and that were in a
24 position of experience in the legal profession.

1 It was a very naïve point of view looking back.

2 COMMISSIONER MCHUGH: At the end of
3 the trial when the sentencing time came, you
4 signed a letter that was sent to the judge in
5 which you talked about Mr. Christensen's
6 positive characteristics.

7 MR. MURREN: I did, yes.

8 COMMISSIONER MCHUGH: And in that
9 letter, you said to the judge among other things
10 I have followed the trial?

11 MR. MURREN: I did say that, yes.

12 COMMISSIONER MCHUGH: Why did you
13 say that?

14 MR. MURREN: I followed it at a very
15 superficial level. And if I was not clear
16 before, I'll just restate the fact that I did
17 not follow it daily. I did not follow the
18 proceedings. I did not listen to testimony. I
19 didn't even know that there were recordings that
20 could be obtained. I just knew that he was on
21 trial, and I followed it at a very 30,000-foot
22 level.

23 COMMISSIONER MCHUGH: So, by the
24 time of sentencing and at the time you wrote the

1 letter saying you followed the trial, did you
2 know the substance of any of the testimony or
3 the evidence or the nature of the interceptions
4 or any of that detail?

5 MR. MURREN: The detail I knew was
6 that the allegation was that Mr. Christensen had
7 hired a private investigator. A private
8 investigator that it turned out illegally
9 wiretapped an individual. I was told that that
10 did not occur and that I was also told that he
11 was innocent. Those were the facts that I had.

12 COMMISSIONER MCHUGH: But those were
13 facts that were tested before a jury, right --
14 in the trial? That's what the trial was for.

15 MR. MURREN: That is correct.

16 COMMISSIONER MCHUGH: But you knew
17 nothing of the evidence that the jury had been
18 presented with or what the judge had said if
19 anything?

20 MR. MURREN: That is correct. And
21 even after he was convicted, we were told that
22 he would be vindicated in appeal. And again,
23 all of us including myself should have delved
24 into that further.

1 COMMISSIONER MCHUGH: When you said
2 I followed the trial, it was really this high-
3 altitude, if you call it, following you were
4 referring to?

5 MR. MURREN: That is correct.

6 COMMISSIONER MCHUGH: Then after Mr.
7 Christensen was convicted, you continued to have
8 interactions with him about some MGM matters; is
9 that right?

10 MR. MURREN: That is correct.

11 COMMISSIONER MCHUGH: And you in
12 fact enlisted his help in your own salary
13 relationships with the MGM board; is that right?

14 MR. MURREN: That is not correct.

15 COMMISSIONER MCHUGH: You enlisted
16 Mr. Kerkorian's efforts?

17 MR. MURREN: Yes, I did.

18 COMMISSIONER MCHUGH: Mr. Kerkorian
19 -- And thereafter you were contacted by Mr.
20 Christensen with respect to those efforts?

21 MR. MURREN: That is correct.

22 COMMISSIONER MCHUGH: And discussed
23 those efforts or your desires with Mr.
24 Christensen?

1 MR. MURREN: All I discussed was
2 that I was unhappy that I was promoted months
3 beforehand and I had yet been able to secure a
4 contract that had been promised to me months
5 beforehand. I told him I was having frustration
6 with my compensation committee. I told him I
7 was frustrated.

8 COMMISSIONER MCHUGH: And you told
9 him that in the expectation that he through Mr.
10 Kerkorian or independently would be able to help
11 resolve the problem?

12 MR. MURREN: No. I had no
13 expectation that Mr. Christensen would help me
14 in any way. I was venting.

15 COMMISSIONER MCHUGH: Did you have
16 any expectation that Mr. Kerkorian would help
17 you?

18 MR. MURREN: I had expectation that
19 my board would help me including Mr. Kerkorian.
20 I was vexed at why it was months later in the
21 throes of this crisis that we couldn't come to a
22 simple contract. And I made my point clear to
23 all of my board members including Mr. Kerkorian.

24 COMMISSIONER MCHUGH: If I

1 understand this correctly, you called Mr.
2 Kerkorian to express your frustration?

3 MR. MURREN: I don't believe I
4 called him to express frustration. I believe in
5 a conversation I had with him, I expressed my
6 frustration.

7 COMMISSIONER MCHUGH: Fair enough.
8 And thereafter, Mr. Christensen contacted you to
9 talk about that subject, the subject of your
10 frustration?

11 MR. MURREN: That's right. He
12 called me to say what is going on with my
13 contract. I told him that I'm frustrated I do
14 not have a contract. And that's a matter of the
15 compensation committee. That I was frustrated
16 that it was taking so long.

17 COMMISSIONER MCHUGH: And you told
18 him that without any expectation that he would
19 facilitate a resolution of the problem?

20 MR. MURREN: That is absolutely
21 true. I have a very strong relationship with my
22 board including the compensation committee. I
23 held no belief that I needed any outside contact
24 with any member. And certainly, I wouldn't have

1 reached out to him on any matter, certainly on a
2 personal nature like this.

3 COMMISSIONER MCHUGH: Even though he
4 was, you knew, closely connected to Mr.
5 Kerkorian?

6 MR. MURREN: Yes. I knew that he
7 was closely connected but I did not seek his
8 advice or his input at all.

9 COMMISSIONER MCHUGH: To Mr.
10 Christensen to your knowledge attend board
11 meetings after his conviction?

12 COMMISSIONER MCHUGH: I've learned
13 later that he did, but that was only after the
14 investigation revealed that he was in a
15 telephonic meeting that we had after his
16 conviction.

17 COMMISSIONER MCHUGH: And you knew
18 nothing about his telephonic presence at that
19 meeting?

20 MR. MURREN: Absolutely, I knew
21 nothing about that.

22 COMMISSIONER MCHUGH: All right,
23 Sir. Thank you.

24 MR. MURREN: Thank you.

1 CHAIRMAN CROSBY: Anybody else?

2 MR. MACKEY: Mr. Chairman, at this
3 point, if it would be helpful to the Commission,
4 I'm prepared to offer into evidence the New York
5 Times story that I questioned about and the MGM
6 witnesses have testified they had no knowledge
7 of. It is described in the investigative report
8 at page 348. And if that would be helpful to
9 the Commission, I'm prepared to offer that.

10 CHAIRMAN CROSBY: Yes, I would like
11 to see that.

12 MR. MACKEY: Is there any objection?

13 MR. CASIELLO, JR.: No objection.

14 CHAIRMAN CROSBY: I just had one
15 other question. I should have asked this of Mr.
16 Hernandez as well. With all of the new systems
17 that you've got in place and the personal and
18 professional learning that you and Mr. Hernandez
19 talked about and so forth, which is admirable by
20 the way. Has the system caught things that you
21 would otherwise been embarrassing or
22 problematic? Can you give examples? Is the
23 system working, systems working?

24 MR. MURREN: Yes. I would say first

1 that there's been a tremendous amount of growth
2 within our company and myself. One of the
3 positives that was not brought forward in this
4 dialogue was I received, as Mr. Hernandez
5 mentioned, a stern and comprehensive counseling
6 at the result of this investigation.

7 I would also call it mentoring too
8 though. Because Mr. Hernandez and also former
9 governor of Nevada, Governor Guinn were my two
10 counselors and mentors. He sadly has passed
11 away now, but he and Mr. Hernandez spent a
12 considerable amount of time with me. One of the
13 learnings of that was to have far better
14 communication with my board.

15 I don't think I was doing a good job
16 at that either, by the way. I was managing down
17 and managing around the organization. But
18 interacting with my fellow board members both
19 independent and inside board members was not
20 something I was doing enough of.

21 As it relates to perhaps you want to
22 one or two of the -- Can I defer to Mr. McManus
23 on a couple of real-life examples of how this is
24 working?

1 CHAIRMAN CROSBY: Yes.

2 MR. MCMANUS: Thank you. I think
3 our compliance program and our serious approach
4 to it, certainly it's almost hard to find out
5 what you've prevented if it doesn't happen.

6 But one question that came up
7 earlier was the independence, whether we put
8 somebody on our board who is a partner at one of
9 our law firms. Oddly, that is the type of thing
10 that I think our new processes have prevented.
11 When we've been through our board recruitment
12 and board evaluation process, one of the key
13 criteria is that we only recruit independent
14 board members.

15 In fact, we have a sitting board
16 member who I won't name who is an attorney who
17 had possibility to associate in one fashion with
18 a law firm that did a small amount of work for
19 us. And we engaged in a considerable dialogue
20 with that board member about the issues that
21 would arise with and the New York Stock Exchange
22 rules and the implications that could impact her
23 independence for committee or otherwise.

24 And ultimately we had a very good

1 process where we just concluded as to the board
2 member that they weren't going to pursue that
3 relationship because they didn't want to
4 compromise the independence.

5 I think that's a strangely on point
6 example. There are I'd say numerous occasions
7 where our compliance function has just worked
8 appropriately. And in my estimation having put
9 considerable thought into these issues,
10 communication was the biggest single problem.

11 And now I would say that I can tell
12 you with confidence we have double and triple
13 redundant systems to make sure that the
14 compliance committee knows what the board is
15 doing. The board knows what the compliance
16 committee is doing. And key members of
17 management are continually keeping them all
18 informed. So, for me that's the essence of it.

19 MR. MURREN: I would just add that
20 the chair of the nominating corporate governance
21 committee is a former chairman of the Nevada
22 Gaming Control Board. We are in fact in a
23 search now for yet another independent director.
24 And I've insisted by the way that it will be a

1 minority candidate, Commissioner Cameron,
2 because we only have two females on our board
3 currently. That's going to change this year
4 coming.

5 But we spent a considerable amount
6 of time on this effort. And I would say that
7 Roland hit it very well so not to belabor it
8 during the day, but the communication between
9 this independent, truly independent -- The
10 compliance committee does not report to the
11 audit committee. It literally reports right up
12 straight through to the board.

13 And that communication has been
14 preserved and strengthened since the end of
15 2009. And I would say that the combination of
16 the robust nature of the compliance committee,
17 the interaction with the audit committee, and if
18 you want to find a board member that spends a
19 considerable amount of time on detail, sit in an
20 audit committee chaired by Roland Hernandez.

21 It is an all-day affair as my
22 colleagues behind me would attest to. It's just
23 incredibly specific. And very dynamic because
24 we tackle different subjects every single audit

1 committee. And he in turn, as all chairs of our
2 board committees report to the board the
3 following day.

4 CHAIRMAN CROSBY: Okay. Anything
5 else?

6 COMMISSIONER STEBBINS: Just Mr.
7 Murren, a couple of quick questions. I think
8 you already answered one of them. You talked
9 about that period after you became CEO 2008,
10 probably not the best time to become a CEO of
11 anything. But you talked about mentors and I'm
12 assuming it was those two gentlemen who were
13 your board members. Was there anybody else
14 perhaps outside the company or another board
15 member that was helpful to you?

16 MR. MURREN: We didn't get into this
17 in the presentation. I think it will come up at
18 some later date hopefully. But I've dedicated
19 my work product to being the best CEO I can be
20 because I have really worked on the concept of
21 the tone at the top.

22 We've talked about diversity I think
23 in my introductory remarks but I really reach
24 out and try to find people that can inspire that

1 type of leadership. I do so within the board
2 with some of our independent members.

3 And I sit on several -- I'm the
4 chair of the American Gaming Association now.
5 I'm on the Brookings Institution. I go overseas
6 often on CEO roundtables. And I have made it an
7 effort to reach out to more experienced CEOs
8 than I.

9 I understand the abrupt nature of my
10 promotion back in 2008. And I think the company
11 has grown alongside myself. But the mentoring
12 aspect is something that is very important to
13 our company. I am now a mentor of employees
14 within our company. The mentoring program is
15 very robust. We have tremendous leadership
16 programs within our company for folks coming out
17 of school or changing careers.

18 Mostly, I've found through our
19 diversity efforts frankly, I'm finding some of
20 the best examples of the best possible character
21 that I need to surround myself with. That's
22 what I've tried to do.

23 COMMISSIONER STEBBINS: One
24 additional question and I asked Mr. Hernandez

1 this in terms of the steps that you took. You
2 reinforced the code of business ethics. Maybe
3 you have some insight into whether there were
4 specific measures or strategies or provisions
5 that you adopted kind of after Mr. Christensen's
6 indictment and conviction?

7 Anything that changed within the
8 code of business ethics other than obviously
9 making employees and management and the board
10 aware of the provisions within the code. But
11 were there any specific changes that went into
12 that?

13 MR. MURREN: Yes. Reading through
14 it with a much different eye back in 2009, we
15 felt it was a little too general in some areas.
16 So, we brought a sledgehammer to some of these
17 points to just make sure that no one could be
18 ignorant of these principle points of doing
19 nothing that would impair the company's
20 reputation in any jurisdiction in which we
21 operate.

22 It was fairly general because it's
23 hard to capture in a code of conduct every
24 specific do and don't. But we have a more

1 specific code of conduct policy today. And we
2 provided both the current one and how it has
3 evolved.

4 I do have to say though that it's my
5 belief that a code of conduct is absolutely
6 important and critical. But literally, its
7 culture is more important than that. From the
8 standpoint are you creating the type of
9 corporate culture that creates good decision-
10 making for all of your employees? Because
11 they're making hundreds of them a week. And not
12 all of them can be viewed through the lens of a
13 code of conduct general statement. They have to
14 be very specific to their own ethics and their
15 own integrity.

16 That's why I am so disappointed in
17 myself back in 2008. Because the tone is at the
18 top. I set that tone as the chairman and CEO.
19 And I think that you would find in surveying our
20 employees today they are acutely aware of how
21 vital that is to our organization and how it's
22 principal among everything else.

23 COMMISSIONER STEBBINS: Thank you.

24 CHAIRMAN CROSBY: Anybody else?

1 MR. CASIELLO, JR.: Mr. Chairman,
2 may have one second, please?

3 CHAIRMAN CROSBY: Sure.

4 MR. CASIELLO, JR.: Mr. Chairman, I
5 would also like to offer into evidence as
6 applicant's Exhibit 2. And I apologize. I do
7 not have enough copies to hand around.

8

9 (Applicant Exhibit 2, CR Magazine
10 Responsible CEO of the Year Award,
11 marked)

12

13 MR. CASIELLO, JR.: So, perhaps the
14 best way to handle this would be for Mr. Murren
15 to take a look at it and tell me what it is.
16 I'm going to embarrass him right now.

17 MR. MURREN: It sounds like I'm
18 bragging on myself, which is not my nature. But
19 I really think this is a team award. CR
20 Magazine just recently, this is about a month or
21 so ago, awarded me with the Responsible CEO of
22 the Year Award. This is a team award I would
23 have to say. And I am very proud of our effort.

24 I think this speaks to, without

1 overdramatizing, it speaks to the type of
2 culture that we're trying to create in our
3 company. One I am extremely proud of.

4 MR. CASIELLO, JR.: Thank you.

5 CHAIRMAN CROSBY: Thank you, Mr.
6 Murren. Are we ready for our next witness?

7 MR. CASIELLO, JR.: Next witness is
8 John McManus, senior vice president -- Did I get
9 that wrong?

10 MR. MCMANUS: You just demoted me.

11 MR. CASIELLO, JR.: Executive vice
12 president, General Counsel and secretary.

13

14

15 EXAMINATION BY MR. CASIELLO, JR.:

16

17 Q. John, please tell us about the
18 company's current compliance plan briefly.

19 A. Yes. We've heard quite a bit about
20 it through -- First, thank you for letting me be
21 here today. It's an honor to appear before you.
22 Good afternoon. I had written good morning in
23 my remarks.

24 You've heard quite a bit today

1 mostly during Mr. Hernandez's testimony about
2 the evolution of our plan. Currently, we have a
3 plan that has three independent members, a
4 former member of the Nevada Gaming Commission,
5 former Special Agent in Charge of the Las Vegas
6 office of the FBI and a former academic and
7 founding law school dean for the UNLV law
8 school. So, we do have a diverse group that
9 bring different skills to the table.

10 Our compliance plan itself is
11 essentially like a charter or constitution.
12 Nobody ever seems to describe the compliance
13 plan and the committee exactly right, because
14 it's sort of a unique concept. It's this body
15 that exists by its own document. And it doesn't
16 really report to the audit committee. It
17 doesn't really report to the board.

18 The members are appointed by the
19 audit committee, but it's truly independent.
20 And there are certain circumstances that are
21 described in the plan where you need the
22 authorization of the compliance committee to
23 move forward. So, that's where we are seeking
24 their advice and counsel.

1 And something we are quite proud of,
2 one thing I would like to say is our plans have
3 evolved since our first one in 1999 where we had
4 one member who was independent. And over time
5 usually through merger or acquisition from the
6 company where we adopted other companies and
7 sort of meshed them together.

8 Or frankly, in times of failure such
9 as the Christensen matter or some of the
10 shortcomings in our process related to the Pansy
11 Ho partnership that were outlined in the New
12 Jersey report, we've made changes.

13 And the most important one was in
14 2007 where we came about with the three
15 independent members. Then following the
16 Christensen, we got the liaison from the audit
17 committee which was the prime feature. So, that
18 helped with the communication back and forth
19 speaking.

20 Q. Just a couple of quick questions.
21 Who is the compliance officer?

22 A. The chief compliance officer is Tom
23 Peterman who is a long-time practicing gaming
24 attorney in Las Vegas and has been with the

1 company for over 20 years.

2 Q. And who does he report to?

3 A. He reports to the compliance
4 committee.

5 Q. Who hired him?

6 A. The compliance committee.

7 Q. Was MGM the first company to have an
8 independent member on its compliance committee?

9 A. I believe that it was.

10 Q. To your knowledge, does any other
11 gaming compliance committee consist solely of
12 independent members?

13 A. Not to my knowledge at the time.

14 Q. Tell us about some of the other
15 corporate policies that the company has in
16 place.

17 A. We have the code of conduct, which
18 we've discussed at length as well which is sort
19 of the ethical charter of the company. Then we
20 have extensive policies for anticorruption.
21 Again, we refine those from time to time. We
22 also have extensive anti-money laundering
23 policies. We have obviously gaming policies,
24 things of that sort.

1 We also with our Macau property,
2 that we'll hear a little bit more about, we have
3 an effort to make sure that things like AML and
4 anticorruption work hand-in-hand with what they
5 do. We recently had occasion to have the two
6 boards of the public companies in the same place
7 at once and we held a joint session where we
8 talked about some of the common efforts in
9 global security and anti-money laundering and
10 anticorruption.

11 Q. Chairman Crosby asked about examples
12 of situations. Would you like to talk about
13 Vietnam?

14 A. Sure. In I believe it was 2008 we
15 entered into an agreement whereby we would
16 manage a casino that was being developed in
17 Vietnam. Vietnam is an emerging gaming
18 jurisdiction. They have small sort of slot
19 parlor type of casinos right now with little or
20 no regulation.

21 The developer of this project got
22 permission from the government to develop a
23 large-scale project on the coast of Vietnam. We
24 entered into these agreements with the

1 expectation
2 that Vietnam would be adopting a number of laws,
3 would be demonstrating a commitment to gaming
4 regulation and compliance. And we worked with
5 the developer for several years up until earlier
6 this year in fact after we submitted our
7 application.

8 We monitored, we assisted. Along
9 the way we weren't satisfied with the progress
10 that was being made in a number of important
11 areas in Vietnam. We addressed this with the
12 owner. We tried to take helpful actions to
13 assist.

14 In any event, after this process in
15 close consultation with Jim and other members of
16 senior management, we made recommendations to
17 the compliance committee, having kept them
18 informed along the way as well as the board,
19 management ultimately decided that we were not
20 comfortable with that regulatory environment.
21 Not because there was anything wrong with the
22 people of Vietnam or their commitment, but it
23 hadn't advanced in a way that we had comfort.

24 So, we terminated that management

1 agreement under our rights which created some
2 reputational risk for us as a developer and
3 manager of projects to cut that tie. But for
4 us, it was a risk that we weren't comfortable
5 with in that environment and we made that
6 decision.

7 MR. CASIELLO, JR.: No further
8 questions, Mr. Chairman.

9 CHAIRMAN CROSBY: Are we finished
10 with Mr. Murren and Mr. McManus?

11 MR. CASIELLO, JR.: I am, Sir.

12 MS. WELLS: Just a couple of
13 questions for Mr. McManus.

14

15

16 EXAMINATION BY MR. MACKEY:

17

18 Q. Mr. McManus when did you start at
19 MGM?

20 A. I started in 2001, not in my current
21 role.

22 Q. Understood. Then you became General
23 Counsel in early -- no late '09?

24 A. I became acting General Counsel

1 December 2009 and in I believe it was July 2010
2 the acting was removed.

3 Q. Let me just ask you the same
4 question I asked Mr. Hernandez and Mr. Murren
5 before. Were you aware of the Times story about
6 the wiretaps in January 2007?

7 A. I can't recall being specifically
8 aware of the New York Times story. At some
9 point in time, I became aware that at least the
10 transcripts of at least some of the recordings
11 were available. I think I at some point looked
12 at them on the Smoking Gun or something like
13 that website.

14 Q. That's not where I found them. Do
15 you recall when did you become aware of them on
16 the Smoking Gun or wherever it was? Was it post
17 late 2009?

18 A. I can't remember if it was pre- or
19 post-conviction. It was probably around the
20 time of the conviction. Maybe when the trial
21 was going on I read them.

22 Q. Okay. you recall your sworn
23 testimony in this matte, correct? I think you
24 answered questions on July 17, 2013. Do you

1 recall that?

2 A. Yes.

3 Q. You testified there at the very end
4 of your sworn testimony that you were -- I think
5 the word you used was shocked when you saw the
6 Wall Street Journal story that contained the
7 suggestion that Mr. Kerkorian was possibly
8 implicated in the wiretapping?

9 A. Yes. I was shocked that the comment
10 had been made during the trial because we had
11 been assured otherwise.

12 Q. But in your sworn testimony at
13 least, you say you were shocked if I've got this
14 correct for two reasons. One that the people at
15 Glaser Weil had told you that he was not
16 complicit, was that one of the reasons?

17 A. Yes.

18 Q. But there are fairly obvious reasons
19 why the folks from Glaser Weil might not be the
20 most objective on that issue. Would that be
21 fair to say?

22 A. Well yes, but they are attorneys
23 with an obligation to tell their client accurate
24 information.

1 Q. I think the other reason you said
2 you were shocked is because you looked online
3 and you found Mr. Kerkorian's testimony where he
4 flatly denied being involved, correct?

5 A. I don't think that's correct. I did
6 read Mr. Kerkorian's testimony but that's not
7 why I was shocked by the article.

8 I think the questions that I
9 answered in response to Mr. Kerkorian's
10 testimony was more along the lines I was asked
11 why we didn't investigate. And one of the
12 things I said was that he had testified under
13 oath in a criminal trial in a federal court on
14 that topic.

15 Q. I'm glad you raised that because at
16 that point in time shortly after the Wall Street
17 Journal article came out, I know you weren't
18 acting General Counsel at this point, but did
19 you have some direct involvement with the
20 lawyers from Weil Gotshal who were doing some of
21 the work on this internal investigation?

22 A. I did.

23 Q. Okay. And I think you testified in
24 your sworn testimony that you had or Mr.

1 Hernandez had actually requested that they
2 investigate the possibility of Mr. Kerkorian's
3 complicity?

4 A. I can't remember what I said during
5 my testimony. I know that there was a
6 discussion about investigating essentially the
7 underlying facts. I can't recall.

8 Q. In your sworn testimony, you said
9 that the response you got was I am pretty
10 confident there was the conclusion there was no
11 real way to try to investigate that?

12 A. That's correct.

13 Q. Did you in your role with the
14 company at that point, and I think this is the
15 fall of '09, sometime after the Wall Street
16 Journal article, did you push the Weil Gotshal
17 people to listen to the transcripts that were up
18 on the web?

19 A. I can't recall that detail. I would
20 be surprised if they hadn't sought that out and
21 reviewed it.

22 Q. Did you push the Weil Gotshal people
23 to review the transcripts, the six and half
24 hours of wiretap transcripts from the trial?

1 A. Not to my recollection. And please
2 remember, Weil Gotshal represented the audit
3 committee. I wasn't directing them.

4 Q. Understood. Do you know if there
5 was any effort by anybody at MGM to get Weil
6 Gotshal to attempt to review the materials that
7 had been generated in the civil litigation
8 between Mrs. Kerkorian and her former husband
9 and others?

10 A. I don't recall specifically, but
11 Weil Gotshal was incredibly thorough. And I'd
12 be surprised if they had not looked at anything
13 that might have been relevant and was publicly
14 available.

15 Q. Did Weil Gotshal ever put anything
16 in writing to the MGM audit committee or
17 compliance committee about this question, Mr.
18 Kerkorian's complicity?

19 A. I don't recall.

20 Q. Was there any effort at this point
21 on behalf of anybody at MGM to talk to Mr.
22 Kerkorian himself about it?

23 A. Weil Gotshal and the two regulatory
24 law firms were conducting the investigation and

1 conducting the interviews. And I know that
2 somebody interviewed Mr. Kerkorian. I don't
3 remember who or what they -- I was not privy to
4 those interviews.

5 MR. MACKEY: No further questions.

6 CHAIRMAN CROSBY: Okay.

7 COMMISSIONER STEBBINS: One quick
8 question, just building off of what you were
9 talking about with relationship to the project
10 in Vietnam. You seemed to hint at the end there
11 was a risk to the company for backing out of the
12 deal.

13 MR. MCMANUS: I think there is a
14 business and reputational risk. As somebody who
15 had been announced as the project manager to be
16 seen by other possible developers as abandoning
17 the project or something of that sort, those are
18 very real business risks that I think the
19 regulatory risk outweighed.

20 COMMISSIONER STEBBINS: It would
21 just seem to me that you were backing out for a
22 good reason, which is your expectations weren't
23 being met on the regulatory front. And you're
24 kind of standing up and being a good guy and

1 saying I don't want to operate in that
2 environment.

3 MR. MCMANUS: Well, we didn't make a
4 press announcement about our reason. We just
5 provided the owner a notice. Probably until
6 today that hasn't been publicly aired, the
7 reasons for our departure.

8 COMMISSIONER STEBBINS: Sorry to do
9 that.

10 MR. MCMANUS: That's okay.

11 CHAIRMAN CROSBY: Are we finished
12 with Mr. Murren and Mr. McManus? Thank you
13 very much.

14 CHAIRMAN CROSBY: Do you want to tee
15 up your next witness and we will take a quick
16 break.

17

18 (A recess was taken)

19

20 CHAIRMAN CROSBY: Apologies. We're
21 back in business. I think it is your turn
22 again, Sir, to introduce another witness.

23 MR. CASIELLO, JR.: Can I just pass
24 it on to Mr. Mackey? Our next witness is Grant

1 Bowie who is a member of the board of directors
2 and CEO of MGM China Holdings, a publicly traded
3 company listed on the Hong Kong stock exchange
4 in which MGM Resorts International owns 50
5 percent.

6 He is also a member of the Board of
7 Directors of MGM Grand Paradise, the subsidiary
8 that actually holds the gaming concession in
9 Macau.

10

11

12 EXAMINATION BY MR. CASIELLO, JR.:

13

14 Q. Mr. Bowie, please give a brief
15 explanation of MGM's operations in Macau.

16 A. Thank you, Chairman Crosby,
17 Commissioners. Again, thank you for having us
18 here today, if you'll please excuse me it's
19 about 2:45 in the morning for me.

20 CHAIRMAN CROSBY: Thank you for
21 coming.

22 A. It's my great pleasure. MGM has
23 been operational in Macau since 2007 as we've
24 heard. We currently run one property that

1 consists of about 2.2 million square feet of
2 hotel, 600 rooms. We operate 427 tables, 1450
3 gaming machines with a variety of food and
4 beverage, other entertainment options.

5 We are currently in the process of
6 constructing a second property. Our budget of
7 \$2.8 billion US, it commenced six months ago
8 with the completion date anticipated to be early
9 2016.

10 That property will have
11 approximately 1600 rooms, operating 500 tables,
12 two and a half thousand slot machines, has
13 extensive nongaming activities particularly in
14 relation to entertainment, food and beverage,
15 retail and other aspects particularly focused on
16 nongaming facilities. And I'll briefly discuss
17 some of those issues as we move into the
18 testimony.

19 I think that it's pretty clear that
20 one of the things I'd like to work through is
21 obviously the business environment and the
22 regulatory environment for Macau, because I
23 think that's particularly relevant.

24 Macau is obviously quite unique in

1 that as was mentioned earlier, it is a special
2 administrative region of the People's Republic
3 of China. Macau along with Hong Kong, therefore
4 operates under what is euphemistically known as
5 on the one country, two systems. One country in
6 that it is all part of the sovereign territory
7 of China. But under a special arrangement for
8 50 years, the basic law that pre-existed in
9 Macau will continue to operate through this
10 transitional period.

11 As a result of that, China sees Hong
12 Kong and Macau in a very special way, and has
13 made significant contributions and will always
14 positively support the interests of Macau and
15 Hong Kong. As that applies to gaming that in a
16 lot of ways represents the contribution of
17 allowing a lot freer access for the residents to
18 come to Macau.

19 For in China's view, Macau is part
20 of China. And I think that's really important
21 to appreciate the context in which that
22 operates.

23 The overall legal environment for
24 Macau is also based on civil law. And under

1 that civil law, it's a modified civil law taking
2 into account the unique characteristics that
3 Macau use to retain as part of Portugal, as a
4 colony of Portugal. And obviously was
5 significantly influenced by Portugal's operation
6 with inside the economic the EU which has had
7 impacts on how the legal system in Macau has
8 developed over time.

9 Recognizing that Macau though is a
10 very small sovereign state of only 500,000
11 people, the legal system has primarily been
12 based on individual ownership and partnerships
13 and did not really take into account the type of
14 corporate structures that we would be familiar
15 with.

16 They do have corporate law, but
17 again it's derived from scaling up of small
18 enterprise.

19 On the front of the gaming
20 regulation, gaming has been obviously legal in
21 Macau for many, many years. It operated under a
22 monopoly until 2002 when with the new chief
23 executive on the return to China, the government
24 opened up the gaming concessions to outside

1 parties.

2 I think it's a recognition of the
3 strength and the character of the government of
4 Macau that they recognize that they needed to
5 bring other participants into the market. Not
6 because I think it was easy but because it was
7 hard.

8 They introduced gaming operators and
9 operators of integrated resorts, which they
10 believed would allow them to significantly
11 modify, change and transform their economy, the
12 opportunities for their people but also the
13 necessity for them to be able to be viable
14 within a new global environment.

15 The gaming regulation is based on
16 concessions unlike licenses where individuals
17 were awarded the rights to operate multiple
18 facilities. But it also has experienced such
19 significant growth that those gaming regulations
20 have had to be modified and expanded.

21 By bringing in the international
22 operators, I think they knew very clearly that
23 we would bring in those skills. But by bringing
24 in those skills, we would probably also bring in

1 significant enhanced oversight. And that's the
2 environment in which we now find ourselves.

3 As a result of that, the gaming
4 regulations, which I think are robust and are
5 consistent at the level of operation in most
6 other jurisdictions, have also had to take into
7 account the experience of the growth and the
8 development of that market specifically. And I
9 think we'll cover some of those issues as we
10 work through. And I'm sure there's going to be
11 questions as we progress.

12 Quite clearly is a US registrant and
13 for myself personally, I've spent 26 years
14 working for US publicly traded corporations
15 outside of the United States. We understand
16 absolutely the expectation of the US regulatory
17 environment.

18 The privilege however we have in
19 operating in foreign jurisdictions, the need to
20 be sympathetic of those foreign jurisdictions
21 but never ever shirking our responsibilities to
22 the compliance with the expectations of good
23 corporate governance expected as a US listed
24 organization.

1 Therefore, we obviously need to
2 assess ourselves not just from a single
3 jurisdictional basis but from a
4 multijurisdictional basis. That is based on the
5 principles of risk assessment, recognizing that
6 different jurisdictions have different
7 expectation of risk, different assessment of
8 risk and a different mechanism for managing
9 risk. And it's on that basis since I have been
10 with MGM that we have built the control
11 environment that exists in Macau.

12 A control environment, a control
13 system that is based on the requirements of our
14 obligations under Macau law firstly but also
15 taking into account the expectations of the
16 other registrants for which MGM is also a
17 participant.

18 That balancing act is a challenge
19 but is not insurmountable. And is one that we
20 are very proud obviously to be able to actively
21 pursue.

22 The system that we have created is
23 not static. It is constantly evolving,
24 constantly developing. And I will freely

1 acknowledge as part of the investigations for
2 this application and for the applications in
3 other jurisdictions, we've had identified to us
4 things that based on the different perceptions
5 of significance and different evaluation of
6 risk, we have looked to modify.

7 And I will acknowledge the team that
8 came out to work with us their questions were in
9 depth and in detail. They took the time to
10 understand the unique perspectives we had and
11 the environment we had, but have raised issues
12 which we will take on board and have taken on
13 board. And I appreciate that involvement.

14 And I think that though indicates
15 the nature and style of their management where
16 we don't think we know everything. We are very
17 responsive to the suggestions and observations
18 that others make because it's about continuous
19 improvement.

20 The importance for this hearing
21 today has already been indicated to us that
22 we're trying to identify whether the practices
23 that we deploy in Macau are responsible. From
24 my perspective from my professional career, I

1 believe that we are creating a responsible and
2 responsive control environment.

3 That's not to say we don't have
4 challenges. That's not to say we don't make
5 mistakes. That's not to say that we cannot
6 improve. But I think within the context of all
7 of those issues that I previously raised, that
8 we are well-positioned, responsive but most
9 importantly always vigilant to determine where
10 we could improve and how we can improve.

11 Overall, the Macau government has
12 been very responsive to the initiatives that we
13 at MGM but also other registrants have made in
14 terms of developing and taking on board many of
15 the lessons we have learned.

16 They themselves are operating a
17 collaborative environment. However, we accept
18 that they are the regulatory agency and we must
19 take direction from them. And we will obviously
20 be responsive to their expectations.

21 We always look to exceed
22 performance. It's a simple fact that if you
23 take the regulatory law as written as your
24 compliance standard, that because we all make

1 mistakes if you fail the minimum test then you
2 will fail the regulatory compliance environment.

3 So, therefore we try to adopt best
4 practice. We try to anticipate activities. We
5 also need to recognize that as the market
6 continues to develop and evolve, whether by
7 technology or by other means, we need to be
8 prepared to modify and adapt our systems to that
9 changing environment.

10 I think Macau is a classic example
11 of a market that is growing faster and more
12 sustainably than was ever expected. I think
13 everybody probably now appreciates that this
14 year we will probably finish off in the order of
15 in excess of US \$40 billion. I arrived in Macau
16 in 2003. And at that time it was probably about
17 \$6 billion US.

18 That growth alone, the scaling
19 effect of that alone has put a much stress on
20 many systems. And as a result of that we are
21 constantly needing to adopt and adapt purely for
22 the scale of operation. I think we've done that
23 successfully. And I think we will continue to
24 look to opportunities however, to enhance,

1 improve and ensure more a continued objective
2 assessment of how the business operations will
3 move forward into the future.

4 Q. And in what direction is the gaming
5 market moving in Macau?

6 A. Thank you. When we arrived in
7 Macau, I think we all recognized that the model
8 in Macau was as monopoly model with mono-
9 dimensional. It was primarily driven by gaming
10 promoters, which I would classify as a wholesale
11 business market where the business was being
12 brought to Macau by outside distribution
13 networks.

14 As an entertainment resort operator,
15 a gaming entertainment resort operator, clearly
16 from our perspective we're looking to create
17 long-term sustainable relationships with our
18 customers.

19 From that basis, we obviously needed
20 to move into this market, accept the market as
21 it was, but also to adopt and adapt the market
22 to the developments that we see as being
23 important for us to create a sustainable
24 competitive advantage for us.

1 As a result of that and frankly with
2 the support of the Macau government, and with
3 clear indications from the central government,
4 we are looking to diversify the market,
5 particularly into other non-gaming and other
6 areas.

7 As a result of that, if you look now
8 and you read many of the analyst's report,
9 you'll see that the mass-market is actually the
10 critical driver of the future Macau.

11 It meets all the criteria that I
12 previously mentioned. That's really moving
13 Macau from a wholesale distribution system to a
14 retail distribution system, where we as the
15 retailer have direct relationships with our
16 customers.

17 It's more sustainable in terms of a
18 business model. I think it's more comfortable
19 for all of us in terms of who we deal with
20 because we know the customers and have direct
21 relationships with our customers. But it also
22 needs to be put in the context this is an
23 evolutionary process. And we obviously have our
24 own system of development but at the same time

1 we need to respect and accept the system that
2 previously existed. And that we need to ensure
3 that if we want to operate in that market that
4 we can do so successfully and safely.

5 So, as the mass-market grows, you're
6 going to see more and more of the business move
7 into that area. It also provides greater,
8 frankly, opportunities of return because the
9 mass-market has a much higher margin than does
10 the VIP junket market. That's sensible business
11 strategy to say you will always develop that
12 segment which will give you the highest
13 profitability.

14 I hear many, many reports that talk
15 about the scale of the VIP business. But in
16 reality, for most of the operators in Macau, the
17 mass-market is already generating more than 50
18 percent of their EBITDA. And that is going to
19 continue to grow.

20 That strategically as I indicated is
21 consistent with the Chinese government's
22 expectations. It's certainly is consistent with
23 the Macau government who have indicated to us
24 that future gaming opportunities will be

1 influenced by the amount of non-gaming, the
2 amount of non-gaming entertainment assets that
3 we actually generate and include in our
4 property.

5 Clearly, with the nature of MGM as
6 you saw this morning, those are characteristics
7 which I think suit us extremely well. And we
8 are really excited and see that opportunity.

9 We're also as MGM in Macau one of
10 the leaders of the development of the mass-
11 market. And so strategically we see that as a
12 really a critical part of our future as we
13 evolve.

14 Q. What are some of the challenges
15 facing operators in Macau?

16 A. I think it's widely known that Macau
17 has something of and I may understate it, a
18 colorful history. We heard this morning that
19 prior to the hand-back, it was really quite
20 exciting and somewhat difficult for anybody to
21 perceive how that could evolve.

22 I think there's other models however
23 globally we would have seen that transformation
24 take place successfully. I think Las Vegas,

1 while not in the same extreme, went through a
2 very similar process. And I think it is that
3 history that you as Commissioners see as part of
4 the history and the development of gaming in the
5 United States. In a lot of ways we see some of
6 those similarities taking place in Macau.
7 Clearly, the history is important.

8 There is a reality that in any
9 environment where there is large amounts of
10 money, and historically casinos seem to have
11 always had that perception, that it may be
12 attractive to organized crime.

13 I think we all acknowledge that. We
14 must acknowledge it because if you don't
15 acknowledge it, you will not be aware of it. If
16 you're not aware of it, you are not going to
17 police for it. If you're not going to police
18 for it then you're not going to actually create
19 substantial and significant change.

20 I think Macau collectively, with the
21 support of the government and with the
22 activities now being driven by the gaming
23 operators is seeing a significant
24 transformation. And I think when Mr. Mefford

1 speaks a little later, he will talk about the
2 sorts of assessments as he sees them in terms of
3 moving forward.

4 The critical point for us is
5 vigilance. That these things are possible. And
6 it's not a question that we can simply sit there
7 and hope that it won't happen, because you have
8 to presume it will. And that is the basis upon
9 which we devise all of our systems and all of
10 the processes going forward.

11 It is clearly policy of the
12 government that this transformation will take
13 place. They want it to take place successfully
14 and they want it to take place in a way which
15 allows Macau to take on a role as an
16 international tourism and leisure destination.
17 And everybody knows tourism characteristics
18 tells you that one of the most important things
19 for any visitor is safety. And these issues
20 must be addressed.

21 CHAIRMAN CROSBY: Is what?

22 A. Safety of the individuals. Sorry,
23 my accent. I think I'm in a minority group.
24 So, Jim gets credit. I'm not a woman, but I'm a

1 minority.

2 Again, those are some of the key
3 characteristics. I think Macau has a wonderful
4 history of which I think creates a great
5 landscape and a great back story.

6 But a critical point is that the
7 activities that we're all undertaking to take it
8 into the 21st-century to be a vibrant, viable
9 and contribute to the overall economy of China
10 and recognizing that China is going through a
11 massive transformation in terms of its own
12 activities of its people as it converts to a
13 consumption economy.

14 Macau is the beneficiary of that.
15 And that is something that I think is really
16 important in the activities that we are
17 undertaking.

18 Q. How does MGM Macau handle AML
19 compliance?

20 A. When something grows as fast as that
21 does, we're now a \$40 billion market, everybody
22 starts saying how do you manage those processes.

23 I think the critical point is is
24 that we obviously need to develop a position of

1 scale. I think it's important to understand
2 that Macau has been and has had anti-money
3 laundering legislation in place since 1998. And
4 that was revised in 2006.

5 They are a respondent to all of the
6 international conventions and the international
7 agencies. The greatest challenge though is that
8 there is always this perspective of how does it
9 work in China? For all Western organizations,
10 it is a somewhat complex and at times opaque
11 environment. That's not to say that there's
12 something going wrong. It's just not clear.

13 Therefore, we must put in place best
14 practice principles, supported by the Macau
15 government but also supported by the Chinese
16 government in terms of how that works.

17 We have obviously spent a lot of
18 time developing our practices and processes.
19 Firstly, they must comply with the Macau law,
20 but also we are looking to take another standard
21 of performance that ensures that anything we do
22 in Macau could not or would not firstly
23 embarrass or put at risk any other licenses that
24 MGM Resorts may operate within.

1 So, the AML practices that apply in
2 Macau are fairly similar in terms of the
3 reporting, documentation and substantiality as
4 applies throughout the organization. In fact,
5 John McManus's team with support are providing
6 support to not just ourselves but the whole
7 company so that we have as close as possible a
8 uniform approach to AML processes and also KYC,
9 know your customer.

10 In China, it is an evolving process.
11 And one of the great challenges is the
12 historical perception that many people didn't
13 want to identify themselves. That is in itself
14 is moving rapidly forward.

15 And those issues about disclosing
16 IDs and those sort of information are becoming a
17 thing of the past. And as a result of that we
18 are seeing much more effective engagement in
19 terms of AML processes.

20 I think it's fair to address head-on
21 the issue about the gaming promoters and AML.
22 It is true and I acknowledge and I appreciate
23 the comments made that we have a robust system.
24 But if there is a weakness, it's concerning the

1 gaming promoters.

2 I do not deny that they create
3 unique challenges for us. They do. But we also
4 are seeing and by active engagement with the
5 management of the larger gaming operators, we
6 only operate seven now, we lost one. We have
7 seven operators. There's over 200 licensed
8 operators in Macau. But we have determined that
9 we are comfortable working with seven operators.

10 We're spending a lot of time with
11 their senior management and helping them develop
12 their own systems of control. I am not saying
13 that they would not have historically seen this
14 as something that is a burden. But I think they
15 understand because many of them are publicly
16 traded vehicles themselves that this is just
17 part of transforming themselves into a larger
18 scale, into a new format of operation.

19 We've done a considerable amount of
20 training. We've spent a considerable amount of
21 time with them. And we are continuing to
22 allocate time and resources to ensuring that
23 they improve their level of performance and meet
24 the expectations that we have for all of the

1 people for whom we do business.

2 We've made great strides in
3 improving that performance and we will continue
4 to do so. At the senior management of the major
5 gaming operators, they fully understand what
6 their legal obligation is. They fully
7 understand that they must comply with not just
8 our requirements but those requirements of the
9 Macau government.

10 They also understand that for them
11 to be able to operate successfully into the
12 future, they must have a much more robust system
13 of control. We will continue to work on those
14 processes and we will continue to enhance their
15 AML compliance.

16 There is in comparison and to say
17 six or seven years ago, it's light-years away.
18 But I will acknowledge to the Commission and I
19 would acknowledge to any other party that we
20 need to continue to improve that area of
21 performance. And we will do that, and we are
22 committed to doing that into the future.

23 I can also indicate at this point in
24 time that the Macau government has just

1 commenced their review of AML processes. And we
2 have been put on notice by the Macau government
3 authorities through the DICJ of the specific
4 areas that they'll be looking at for specific
5 review and comment.

6 That does apply to areas of ongoing
7 compliance for the gaming promoters in terms of
8 how they can more effectively adopt the
9 requirements going forward.

10 Q. Why don't you explain exactly what a
11 gaming promoter is and their role in the MGM
12 Macau operations?

13 A. Having already spoke about them I
14 guess I should have done that first, but it's
15 four o'clock in the morning for me.

16 A gaming promoter is under Macau
17 gaming law is licensed to operate as a
18 commission agent. That is that they have a
19 special position once approved to be able to
20 seek customers, bring them to our property. And
21 having brought them to our property and they
22 play on the property, they are entitled to a
23 commission, effectively a share of the gaming
24 revenues.

1 That commission is either paid as a
2 straight percentage of loss or it's paid as a
3 percentage of the turnover for the business that
4 they bring into the property.

5 I think it's important to understand
6 however that even though they act as promoters
7 in bringing customers in, we at all times remain
8 in control of all of the gaming activities. So,
9 the dealers, the supervision, the surveillance,
10 the security, all of the services provided, F
11 and B services obviously they stay in our rooms,
12 at all times remain under the control of
13 ourselves.

14 I've read in the reports that it is
15 acknowledged that the gaming promoter has a cage
16 in each of their rooms. It's from those cages
17 that they actually do their transactions with
18 their individual customers.

19 I would also indicate however, that
20 we also have cages in the vicinity. And in
21 those cages where we do transactions with the
22 gaming promoter, those cages are always under
23 our control and under our supervision. So,
24 that's a unique nature, a unique characteristic

1 of Macau.

2 Having said that it's not only
3 operations like that in Macau. This gaming
4 promotion principle also operates in Australia,
5 also operates in Malaysia and also operates in a
6 similar way in Singapore. In Singapore it has
7 proven a little problematic, but they do have
8 that capacity to operate those operators as
9 gaming promoters.

10 Q. Does MGM Macau do due diligence on
11 it gaming promoters?

12 A. Yes, we do. There's an extensive
13 review. Firstly because it's something of a
14 legacy, because I think everyone believes
15 there's an issue.

16 Secondly, it's because we also need
17 to understand who we're doing business. And
18 clearly as they are so intimately involved in
19 their operations, we need to make sure that
20 we're comfortable with the nature and
21 backgrounds.

22 It's an extensive review. It's a
23 multilayered review. Again, Mr. Mefford can
24 describe in a little more detail. But what's

1 important is that we clearly are focused on
2 identifying the individuals and the
3 organizations that we may be doing business
4 with.

5 The organizations obviously that we
6 contract which are the licensed gaming promoter,
7 have to provide us with all of their background
8 information, their corporate histories, the
9 background information of their principles,
10 their financial capacity, their experience in
11 the gaming areas to be able to deliver that
12 business to us. And in addition to that we
13 obviously will be looking behind the individuals
14 as we go forward.

15 Again at this point, I would like to
16 discuss the notion of the collaborator. The
17 collaborators are people who obviously work with
18 the junket operators. What's important for us
19 is it's not just simply important to focus on
20 what would be classified as nominated
21 collaborators.

22 For us, it's really important to
23 know who's doing business in our rooms and who
24 may be associated with. So, while we don't

1 specifically look to individual collaborators,
2 it's more important to us to look at the entire
3 context and the entire structure of who's
4 involved with each of the operators and who may
5 be involved within those rooms.

6 If we look to the nature of
7 infiltration from organized crime, it's a highly
8 probable thing that they're not going to
9 nominate themselves, whether it be as a licensee
10 or as a collaborator.

11 So for us, we don't take a
12 structural review. We want to take a global and
13 a holistic review to determine who we are doing
14 business, how they are doing business.

15 A review that is not simply
16 determined at one point in time, but one that we
17 understand requires continuous compliance and a
18 continuous oversight.

19 And over the last three to four
20 years in particular as the market has grown so
21 rapidly that process has taken more and more
22 resources. And our company has committed to
23 keep on adding whatever resources we need to do
24 to make sure that we can obviously cover this

1 off to our own satisfaction.

2 Q. Does MGM Macau provide credit to
3 gaming promoters?

4 A. We do provide credit to the gaming
5 promoter. But I think it's really important for
6 me to indicate that the provision of value and
7 the nature of credit is provided through what we
8 classify as nonnegotiable chips. And I think
9 it's in your submission and we can discuss if
10 there is any confusion.

11 Why do I want to highlight that
12 point? To me it's actually very important for
13 everyone to understand that the provision of a
14 nonnegotiable chip means that it has limited
15 use. It can only be played on our property. It
16 cannot be converted to cash. It cannot be taken
17 out of our property and used elsewhere. It
18 cannot be in some way transformed.

19 It's really in my mind provided as a
20 working capital float to those operators. In
21 their context it's effectively a way of them
22 getting a better treasury management function
23 within their organization. It's a bit like us
24 providing inventory on consignment. And as they

1 sell it, they will pay us for that.

2 The distinction I want to raise
3 because I know it's going to come up as an issue
4 is there is no clear connection, I'm not saying
5 there isn't a connection but this should not be
6 seen as a clear connection between the
7 nonnegotiable chips that we advance to the
8 customer and the relationship or extension of
9 credit that a gaming promoter may have with
10 their customer.

11 It is also becoming extremely likely
12 inside the gaming promoters that they're now
13 becoming reluctant to extend credit to customers
14 as well. So, what I would indicate is that the
15 nature of our extension of credit to the junket
16 operator is in and of itself not reflective of
17 the nature of the transactions that the
18 individual gaming promoter would have with their
19 customers.

20 I would reiterate it doesn't mean
21 that the gaming promoters are not extending
22 credit to customers. But I don't think that we
23 should immediately jump to the conclusions that
24 all of their business is on credit because that

1 is actually false.

2 It is understood within the
3 marketplace of Macau that the junket operators
4 themselves are becoming less reliant on and more
5 reluctant to extend credit within the market.

6 Q. How prevalent is the use of cash in
7 VIP rooms?

8 A. Cash is actually not something that
9 we see very much in the VIP rooms, because it is
10 true that the chip transactions take place
11 between ourselves and the gaming promoter.

12 They do however buy a lot of their
13 chips from us with cash. So, that's the extent
14 of our relationship with cash. So, our cash
15 transactions in the gaming promoter's rooms will
16 be the buying from us of chips. So, probably in
17 excess of 40 to 50 percent of the nonnegotiable
18 chips that the junket operators would acquire
19 from us on a monthly basis would actually be
20 acquired in cash.

21 Q. What about outside the VIP rooms?

22 A. Outside the VIP rooms, clearly on a
23 mass-market, cash is the method of buying and
24 acquiring chips. And a similar method that

1 would apply in any other jurisdictions that buy
2 chips through the tables.

3 In Macau, we do have the unique
4 situation because of the scale that we actually
5 sell chips through the cage as well. In those
6 circumstances then clearly that's all under our
7 purview and the critical point I suspect that we
8 need to reinforce is that wherever those
9 transactions take place then obviously the
10 system in relation to cash recording, KYC is
11 obviously under our control and is being
12 exercised as we have indicated under our
13 policies.

14 And I acknowledge that the report
15 that was prepared acknowledges the quality of
16 the system that we have put in place.

17 MR. CASIELLO, JR.: I have no
18 further questions.

19 CHAIRMAN CROSBY: Mr. Mackey?
20
21

22 EXAMINATION BY MR. MACKEY:
23

24 Q. I have a few questions for Mr.

1 Bowie. Good afternoon. And if the questions
2 are better directed to Mr. Mefford, just let me
3 know because they may be.

4 A. Okay. I'll feel free. Thank you.

5 Q. It strikes me that a number of the
6 compliance challenges you face in Macau are
7 based on this structure that involves the gaming
8 promoters and the collaborators, if that's the
9 right term. Would that be fair to say?

10 A. That's the general perception, yes.

11 Q. Just so my terminology is right, the
12 gaming promoters are the entities that operate
13 the VIP rooms within the casino. And then the
14 collaborators are organizations that have sub
15 relationships as if it were with those gaming
16 promoters. And they fulfill various types of
17 functions, fair enough?

18 A. Yes, that's fair.

19 Q. My question is why is the model in
20 Macau different? Could you explain to the
21 Commission why it is that currently and maybe
22 the share is shrinking, but currently the lion's
23 share of the business being done at your casino
24 in Macau is through the gaming promoters and not

1 done directly on a mass-market basis?

2 A. I think firstly that it was a
3 historical model that was created under the
4 monopoly gaming operator. And I think that a
5 lot of times custom becomes practice or practice
6 becomes custom. And it applied in a time when
7 Macau was not part of China. And it was a
8 system that evolved and developed and became a
9 significant component of the economy of Macau.
10 There's lot of people who are directly employed
11 and directly participate with the gaming
12 promoters.

13 And with the opening up and the
14 expansion, I think that there were so many
15 people who were part of that system that the
16 government acknowledged and recognized that it
17 was not possible for that system to be in some
18 way interrupted with and interfered with because
19 until we had critical mass and the mass-market
20 started to emerge, it was just going to be
21 feasible, because of the significance it had to
22 the individual livelihoods and the economy of
23 Macau at that point in time.

24 Q. Would it be fair to say, and I

1 appreciate that there's a cultural historical
2 background here, but is one of the reasons why
3 the gaming promoters play such a significant
4 role, I think it's described in the report and
5 in some of the studies, is basically it provides
6 the distribution network? It's the way the
7 customer is brought to the facility as opposed
8 to MGM being able to go out and advertise and
9 market and promote in mainland China?

10 A. I think we all understand and we
11 understand absolutely that promoting gaming and
12 gaming is illegal in China. That doesn't mean
13 however that it's illegal for Chinese people to
14 participate in gaming in Macau. That's not the
15 case.

16 But I think given the scale of China
17 and the nature of China, I think there is truth
18 in what you said that it was part of a
19 distribution network that was able to identify
20 people who wanted to come to Macau to game.

21 Q. I take it then that the gaming
22 promoters and the collaborators are able to do
23 person-to-person type contact in a way that MGM
24 just simply wouldn't structurally be able to do?

1 A. That's where I would now say that
2 the transformation is taking place. We have
3 direct relationships with our customers.

4 China in part of its transformation
5 into a consumption economy allows us to
6 communicate on a one-to-one basis. We cannot
7 promote, but clearly if people have opted in
8 then we can communicate and they can communicate
9 with us.

10 So, I think that this perception
11 that in fact that we cannot have relationships
12 with customers is now changing. And I think
13 that's what we are not starting to see is this
14 evolutionary process as those relationships
15 change.

16 Q. So the Commission understands the
17 difference between communicating and promoting,
18 is it the difference between having a
19 conversation and putting up a billboard and
20 running television ads?

21 A. You cannot publicly promote gaming
22 in China.

23 Q. Publicly promote, is that the
24 distinction, really that the collaborators are

1 able to do it very much on a one-to-one basis,
2 as opposed to making public advertising and
3 promotion?

4 A. I am not going to profess to know
5 exactly how they go about it, but clearly it's
6 about relationships. They know people and those
7 people may want to come to Macau to game. I
8 don't see anything nefarious about what's taking
9 place.

10 Q. I'm not suggesting that. I'm just
11 trying to understand why it's different.

12 A. I think the critical point that what
13 we're now seeing is a new China. I come back to
14 the history of how that was. It was closed for
15 a relatively long period of time. And the
16 Chinese government has only made statements over
17 the last 10 years about the transformation that
18 they wish to see their economy take, the
19 opportunity for the transformation of
20 consumption.

21 So, historically it was more
22 difficult to communicate and identify
23 individuals who may want to participate.

24 Q. What about the ability to collect

1 gaming debt, as I understand it, that's also not
2 lawful in China?

3 A. That is correct. Debts are not
4 enforceable.

5 Q. I think somewhere in the report it
6 reflects that fact that MGM would not issue
7 credit to a gaming customer who lives in a
8 jurisdiction where you can't legally enforce the
9 debt?

10 A. Live or does not have resources in a
11 jurisdiction where we can enforce the debt.

12 Q. So, how are the gaming promoters
13 able to do it or the gaming promoters
14 collaborators able to enforce their debt?

15 A. I'm not specifically aware of what
16 they do, but clearly if there is a debt and I
17 think that's something that we need to also put
18 on the table again, I think a lot of the
19 collaborators are working in a cash situation.
20 I think they have resources they do business
21 with these people that are coming to Macau.

22 So, I'm not saying that everybody
23 has debt. I'm assuming therefore if they have
24 collection mechanisms that they would be like

1 anywhere else. I know where we're heading on
2 this question, so I may as well confront the
3 issue. The issue is do they use unnecessary
4 force to collect debt?

5 Q. I ask that question only because if
6 you read the materials that are on the record
7 and so forth that's one of the concerns that is
8 expressed by regulators here and other gaming
9 jurisdictions.

10 A. Frankly, I would say to you as a
11 gaming operator, it's a great concern to us
12 because it would also affect our reputation.
13 So, we are deeply concerned about what may or
14 may not be happening in our name or by reference
15 to our name.

16 So, I think what's really important,
17 and one of the things I take heart about is that
18 I have absolutely no doubt that if this was a
19 concern in China then the Chinese authorities
20 themselves would take action. Because this is
21 certainly going to have a negative impact in
22 terms of the community within China.

23 So, I'm not saying that there is not
24 activities taking place, but I'm saying that I

1 don't think it's on the scale that people would
2 suggest because I think that it would create
3 disharmony and cause concern in China and that
4 the Chinese authorities would take action
5 themselves to address that issue.

6 So, that's really how we see it.
7 But I take your point and I think it's a very
8 important point. And it is certainly something
9 that we're cognizant of and that we obviously
10 need to be concerned about.

11 Q. Is it something that MGM
12 communicates to the gaming promoters that work
13 in its casino, because after all, they're the
14 ones I understand about the relationship with
15 these collaborators. But is there a message
16 that MGM is conveying to the promoters that sets
17 an expectation about the way that either they or
18 their collaborators are going to enforce debts
19 if debts become due?

20 A. We very clearly set our
21 expectations. And the operators that we do
22 business with are very clear. And I, as I have
23 indicated, and to a degree are almost learning
24 from us as they transform the nature of their

1 own business models.

2 And I think that's really important
3 that we don't just police by creating barriers
4 or creating problems. We also spend time to
5 transform their business operation, because it's
6 good business practice and it's improving the
7 relationships and improving the business systems
8 they have.

9 These organizations, as you can
10 expect, in a \$40 billion market and are very
11 large, very complex and very visible. And
12 therefore are coming under a significant
13 external scrutiny. As I indicated, many are
14 publicly traded in Hong Kong. So, therefore are
15 getting a lot more visibility. And I think they
16 are very cognizant.

17 And I think they're also cognizant
18 of the history and the baggage that their sector
19 of the industry previously had. So, I think
20 they're quite aware of that.

21 Q. I want to ask you very briefly about
22 the vetting process that's done in connection
23 with the gaming promoters who work in your
24 casino. Again, if you're not the right person

1 that's fine.

2 I read the sworn testimony of a
3 gentleman name Vincent Tong. Is that a person
4 that you know?

5 A. Yes, he's our compliance officer.

6 Q. Can you explain to the Commission
7 what his position is?

8 A. As I think John indicated earlier,
9 MGM Resorts has a compliance officer. In this
10 case, Vincent is also the compliance officer for
11 MGM China, MGM Macau. He has a variety of
12 responsibilities but I think specifically to the
13 gaming promoters he has a responsibility for
14 preparing and maintaining the files.

15 He doesn't do all of the
16 investigations. And I will turn it over to Mr.
17 Mefford to provide deeper clarity. But Vincent
18 actually is the keeper of the record. He's also
19 effectively the secretary to the compliance
20 committee.

21 And in our situation, the compliance
22 officer reports to the General Counsel. And
23 their primary responsibility is to engage with
24 and keep the compliance committee informed and

1 seek their counsel and seek their input in terms
2 of all matters associated with investigation of,
3 the approval with and the ongoing -- the
4 continued ongoing relationship with any gaming
5 promoter. So, if you'd like, I can hand over to
6 Larry.

7 Q. Let me just ask a more specific
8 question. I understood from his testimony that
9 at least for a period of time, it wasn't clear
10 whether it was still the case that Mr. Tong was
11 the person who was responsible for making the
12 recommendation on the suitability of a gaming
13 promoter to the committee. And then the
14 committee would make the call?

15 A. I guess from his standpoint, he
16 drafted the minute, yes. But I would say no, he
17 is not primarily responsible for making the
18 recommendation.

19 Q. He testified that in connection with
20 the vetting process of the gaming promoters that
21 inquiries would not be made of other
22 jurisdictions in which those gaming promoters
23 might be licensed or not such as Malaysia, for
24 example, or some of the other Asian countries

1 that you identified.

2 What does MGM do in terms of
3 communicating with these other licensing
4 jurisdictions in the Asia about the status of
5 the gaming promoters?

6 A. I think I would like to
7 differentiate between making inquiries with
8 other gaming operators to making inquiries of
9 other gaming jurisdictions.

10 Q. That's what I meant to ask if I was
11 unclear.

12 A. Which?

13 Q. To what extent do you talk to other
14 gaming jurisdictions in Asia?

15 A. You mean regulators.

16 Q. Exactly.

17 A. It's actually quite difficult,
18 because most of the other gaming jurisdictions
19 will not engage with gaming operators. So for
20 example, Singapore will not communicate directly
21 with us as a gaming operator. I think they
22 would engage directly with the Massachusetts
23 Gaming Commission or with your department, but
24 they would not engage with a gaming operator.

1 However, we actively engage with all
2 of the other gaming operators in the market
3 because clearly we're all managing a common
4 risk. So, that's where we would seek input. I
5 know that Mr. Mefford has opportunities to be
6 able to engage. But your question was
7 specifically what formal ability do we have to
8 engage with other gaming jurisdictions? It's
9 actually very limited and that's legally.

10 Q. It sounds like you get your
11 intelligence from your colleagues in the
12 industry in Macau for example that operate other
13 casinos where the same gaming operators that
14 work in your casino, work in those casinos;
15 would that be fair to say?

16 A. That's correct.

17 Q. There's reference in Mr. Tong's
18 testimony and elsewhere to a gaming operator
19 known as Sunton (PHONETIC) City, does that ring
20 a bell?

21 A. Wait.

22 Q. Give me a minute. Let me just ask
23 in a general way, because I think I can do this
24 without causing any issues.

1 MR. CASEILLO, JR.: Let's wait for
2 the Chairman to return.

3 COMMISSIONER MCHUGH: No. We can
4 proceed. He will be right back in just one
5 second but he said we could proceed.

6 Q. (By Mr. Mackey) I read Mr. Tong's
7 testimony to say that in connection with the
8 vetting of potential gaming promoters at your
9 facility in Macau, that if there were
10 questionable individuals who worked or
11 associated themselves with that gaming promoter,
12 but they were at another casino and they would
13 not be involved in your particular casino, then
14 their negative associations would be irrelevant
15 to your suitability determination?

16 A. I would not say it's irrelevant but
17 it is difficult for us to object to them working
18 in another operation. However, we are mindful
19 that we need to be sensitive to the nature of
20 those individuals and the nature of those
21 relationships.

22 Q. The question is not whether you
23 would object to them working in another
24 operation. It's whether if there are

1 individuals that they are associating with in
2 another casino whether that should bear on their
3 suitability to work in your casino?

4 A. It certainly, I would say, would be
5 taken into account. And I understand this is a
6 difficult line of questioning, because you've
7 got a specific and we're not discussing
8 specifics. But in and of itself is simply one
9 of the facts we take into account in terms of
10 determining suitability or otherwise. It
11 clearly is relevant though. I accept that.

12 Q. What about interviews of owners and
13 principles of the gaming promoters? Again,
14 focusing on Mr. Tong's testimony, I know he's
15 not here, but I read his testimony to suggest
16 that at least to the point where a
17 recommendation was being made to the committee,
18 no formal interview or sworn testimony was done;
19 is that the case?

20 A. Can I actually turn this one to
21 Larry, because that's actually an area that he's
22 more familiar.

23 Q. Yes, sure.

24 MR. MEFFORD: The answer is we do

1 the interviews, but that's relatively recent.
2 And that's part of our upgrading package that
3 I'll explain in more detail. But we do
4 interview the owners and the key members of the
5 gaming promoter company.

6 MR. MACKEY: I don't have further
7 questions for Mr. Bowie. I think the remainder
8 I should probably ask of Mr. Mefford. So thank
9 you, Mr. Bowie.

10 MR. BOWIE: Thank you.

11 CHAIRMAN CROSBY: Questions
12 Commissioners?

13 COMMISSIONER MCHUGH: I had a couple
14 questions that I wanted to ask focused on the
15 wholesale end of this. And I'm grateful for
16 your testimony here. And I'm grateful for the
17 presentations that you and another jurisdiction
18 made to us in a general sense earlier.

19 But let me see if I understand how
20 the wholesale thing works. You have the casino,
21 and you've got these nonnegotiable chips. You
22 have promoters who bring customers to the casino
23 and to whom you give chips either for cash or on
24 credit.

1 The promoter then extends credit or
2 takes cash from the customers that it brings to
3 the casino in return for the nonnegotiable
4 chips; is that right?

5 MR. BOWIE: That's correct.

6 COMMISSIONER MCHUGH: All correct up
7 to this point?

8 MR. BOWIE: That is correct.

9 COMMISSIONER MCHUGH: Then the
10 customer gambles and wins or loses. And if it
11 wins, it turns in the nonnegotiable chips for
12 cash or some other kind of negotiable
13 instrument; is that right?

14 MR. BOWIE: If they won.

15 COMMISSIONER MCHUGH: If they win.

16 MR. BOWIE: Yes. Even if they win,
17 their nonnegotiables probably still would have
18 been turned over. But they would have
19 ultimately got a cash chip which they would then
20 redeem.

21 COMMISSIONER MCHUGH: Right. And
22 that would be done at the cage that the promoter
23 controls.

24 MR. BOWIE: That's correct.

1 COMMISSIONER MCHUGH: And ultimately
2 the chips in some way, the nonnegotiable chips
3 in some way make their way back to you?

4 MR. BOWIE: Correct.

5 COMMISSIONER MCHUGH: And you
6 basically allow the promoter to run the cage
7 where these transactions between negotiable and
8 nonnegotiable chips occur, the promoter runs
9 that?

10 MR. BOWIE: The promoter runs that
11 cage.

12 COMMISSIONER MCHUGH: And you supply
13 the VIP room; is that right?

14 MR. BOWIE: Yes.

15 COMMISSIONER MCHUGH: And you supply
16 the gaming personnel in that room; is that
17 right?

18 MR. BOWIE: That's correct.

19 COMMISSIONER MCHUGH: And you
20 oversee the actual operation of the games to
21 ensure their integrity?

22 MR. BOWIE: That is correct.

23 COMMISSIONER MCHUGH: You know, at
24 least I assume you know from reading the various

1 reports that I've read that many of the
2 customers come from mainland China?

3 MR. BOWIE: That's correct.

4 COMMISSIONER MCHUGH: And it's the
5 promoter's job to get them to Macau, the
6 promoter and the collaborator's job to get them
7 to Macau to gamble?

8 MR. BOWIE: That's correct.

9 COMMISSIONER MCHUGH: We all know
10 that there are currency restrictions imposed by
11 the PRC.

12 MR. BOWIE: That's correct.

13 COMMISSIONER MCHUGH: And those
14 currency restrictions are about \$3000 a day and
15 about \$50,000 a year.

16 MR. BOWIE: For cash.

17 COMMISSIONER MCHUGH: For cash. And
18 we know that these VIP rooms are rooms in which
19 much more than that is expended for gambling by
20 many of the people who come from the PRC, right?

21 MR. BOWIE: That's correct.

22 COMMISSIONER MCHUGH: So, there is
23 some mechanism, and this is where I'm drawing a
24 conclusion that you can accept or reject, there

1 is some mechanism built into this system for
2 getting around, shall we say, the currency
3 restrictions.

4 MR. BOWIE: I think what's clear is
5 that there is a where value can be made
6 available in Macau.

7 COMMISSIONER MCHUGH: Which is to
8 say that the currency restrictions can be
9 circumvented?

10 MR. BOWIE: Sir, I'm not saying that
11 because I'm not convinced that in fact that
12 they're moving cash. Many of these customers
13 may have external sources of funds.

14 COMMISSIONER MCHUGH: The people
15 from the PRC may have external sources of funds?

16 MR. BOWIE: Yes.

17 COMMISSIONER MCHUGH: You, however,
18 have if I read the report correctly you are
19 aware that in some cases there is a currency
20 evasion mechanism that involves buying jewelry
21 ostensibly, right?

22 MR. BOWIE: I am aware of that.

23 COMMISSIONER MCHUGH: And for that
24 reason, you have no jewelry facilities in your

1 casino to prevent that mechanism.

2 MR. BOWIE: We do not participate in
3 that activity. That is correct.

4 COMMISSIONER MCHUGH: What other
5 mechanisms, if any, do participate in to ensure
6 that other means of evading currency
7 restrictions are not undertaken by the customers
8 whom the gaming promoters bring to the facility?

9 MR. BOWIE: Your question, what
10 measures do we take to avoid --

11 COMMISSIONER MCHUGH: You've removed
12 the jewelry stores. So, you don't permit the
13 jewelry stores in the gaming facility, because
14 you know that that may be a mechanism for
15 evading. So, my question is that's one method.
16 What other methods for preventing that from
17 occurring do you use?

18 MR. BOWIE: It's a little difficult
19 because we're not participating in the
20 transactions. But what I would suggest is one
21 of the principal activities is in fact that the
22 financial transactions by and large are taking
23 place in China. So, no cash actually moves.

24 Because the gaming promoters

1 themselves have become effectively business
2 entrepreneurs in and of their own right. They
3 have significant business activities in China.
4 And I think what's actually a potential
5 mechanism is that value is provided by
6 prospective customers in China. And that the
7 gaming promoters themselves simply fund the
8 gaming activity in Macau. The gaming promoter
9 themselves obviously potentially holding assets.

10 CHAIRMAN CROSBY: With the Chinese
11 value as collateral in effect?

12 MR. BOWIE: Beg your pardon?

13 CHAIRMAN CROSBY: With the Chinese
14 property or thing of value as collateral or
15 security?

16 MR. BOWIE: Not only collateral, but
17 if they needed to -- It's a simple means of
18 security, but I think potentially they're buying
19 and selling assets with these customers. I'm
20 purely speculating, but the Commissioner asked
21 me what other mechanisms might there be
22 available.

23 COMMISSIONER MCHUGH: What other
24 mechanisms were you using to ensure that

1 currency evasion wasn't taken place?

2 MR. BOWIE: Well, clearly we can
3 only exert control within our property. So, we
4 clearly are conscious of the need to meet our
5 obligations, particularly in relation to AML and
6 reporting and identifying the customers.

7 We are not putting in mechanisms and
8 we are not participating in any other activity
9 either directly or indirectly that I am aware of
10 that could be seen to be compromising the laws
11 of China.

12 COMMISSIONER MCHUGH: You said that
13 you're not certain that in fact there is any
14 significant currency evasion going on. Did I
15 hear you correctly?

16 MR. BOWIE: I'm saying that there
17 are other mechanisms. In answer to your
18 question about other mechanisms that's what I
19 would suggest is an alternative.

20 COMMISSIONER MCHUGH: The US China
21 Commission report issued this November said that
22 there is significant currency evasion going on.
23 Do you disagree with that conclusion?

24 MR. BOWIE: There is clearly

1 significant outflows of liquidity out of China.
2 I think that's been globally reported. And the
3 US has been a significant recipient of some of
4 those outflows of liquidity.

5 COMMISSIONER MCHUGH: And as part of
6 the compliance policy, then if I understand you,
7 you don't believe that it's necessary or
8 appropriate to inquire into the source of the
9 funds that junket operators, the promoters are
10 having their customers produce at the casino?

11 MR. BOWIE: The difficulty for us is
12 we obviously don't have the relationship
13 directly with the customer. And I'm not saying
14 that to avoid your question. The issue is that
15 we were provided funds for the buying of
16 nonnegotiable chips. Those funds are coming
17 directly from the gaming apparatus.

18 COMMISSIONER MCHUGH: Right. Now
19 insofar as debt collection is concerned, that's
20 another area in which you exert no control other
21 than talking to the promoters about good
22 practices; do I understand you correctly?

23 MR. BOWIE: Yes, Sir.

24 COMMISSIONER MCHUGH: So, that if

1 the customer of the promoter loses a substantial
2 amount in your casino, and that amount is backed
3 by an extension of credit, that now represents
4 an extension of credit, then whatever means the
5 promoter uses to collect that amount back in the
6 People's Republic is up to the promoter and you
7 don't concern yourself with that?

8 MR. BOWIE: We would certainly be
9 concerned, but the difficulty for us is we're
10 not aware of it. But certainly we would always
11 be concerned.

12 And I would say to you that if a
13 customer came to us indicated that he was being
14 -- that the collection mechanisms were too
15 aggressive, and frankly we have had incidents of
16 that, then we would intercede on behalf of the
17 customer to seek support from the Macau
18 authorities. And they have interceded and taken
19 action against unscrupulous activities
20 undertaken by some subagents.

21 COMMISSIONER MCHUGH: How often has
22 that occurred, somebody coming to you and
23 complaining?

24 MR. BOWIE: It's probably, this year

1 probably four or five times.

2 COMMISSIONER MCHUGH: Okay. Thank
3 you.

4 CHAIRMAN CROSBY: Commissioner
5 Cameron?

6 COMMISSIONER CAMERON: I was
7 interested in the policies that were just put
8 into effect this year. Would you know more
9 about that or --

10 MR. BOWIE: Which specific policies,
11 Ma'am?

12 COMMISSIONER CAMERON: I'm talking
13 about gaming promoters, AML officers, managers
14 and the cage staff to submit to the Macau
15 certificate of non-criminal conviction. And in
16 addition to that adjusted its due diligence
17 practices in the wake of this investigation and
18 now does more independent investigation to the
19 ownership arrangements of gaming promoters.

20 I'm talking about these recent
21 changes. Do you have any knowledge of that or
22 is that better answered by --

23 MR. BOWIE: I do, Commissioner, but
24 I probably prefer because it is actually part of

1 Mr. Mefford's presentation.

2 COMMISSIONER CAMERON: I thought so.

3 So, I'll hold my questions for Mr. Mefford.

4 CHAIRMAN CROSBY: Commissioner?

5 COMMISSIONER ZUNIGA: Thank you.

6 You mentioned some of these gaming promoters are
7 publicly traded companies. Is that their main
8 line of business, the gaming promotion?

9 MR. BOWIE: Of that listed vehicle.

10 COMMISSIONER ZUNIGA: Right. I'm
11 curious, what kind of metrics would they be
12 measured on similar to our stock price here,
13 sales?

14 MR. BOWIE: Basically, just free
15 cash, because it's just an open income stream.
16 They're valued basically in the form of a
17 financial services company because that's
18 effectively how they are perceived by the market
19 in Hong Kong.

20 COMMISSIONER ZUNIGA: So, they
21 demonstrate assets by their balances in the cash
22 accounts?

23 MR. BOWIE: Basically cash, yes.

24 COMMISSIONER ZUNIGA: But they must

1 recognize some kind of liability I guess, some
2 kind of collectibles perhaps?

3 MR. BOWIE: Normally, their listed
4 vehicle is basically an income stream, because
5 in Macau under the Macau law the gaming
6 operating license at this point in time can only
7 be held by an individual.

8 So, you can't actually list the
9 gaming promoter license because it's not
10 permitted under Macau law. So, what actually
11 happens is they enter into an agreement and
12 stream up -- flow up an income stream to the
13 listed vehicle. So, effectively it's like a
14 financial services organization. They have very
15 low debt. They have equity. And they have an
16 income stream.

17 COMMISSIONER ZUNIGA: How has their
18 stock price been performing in the last few
19 years?

20 MR. BOWIE: Some of the higher
21 performing operations have been quite well-
22 received by the retail market. Clearly, there's
23 also been several that have failed. By and
24 large they operate at a discount to the gaming

1 concessionary companies.

2 COMMISSIONER ZUNIGA: Is that
3 something you look at when you look doing
4 business with gaming promoters?

5 MR. BOWIE: We obviously look at
6 them. Actually, we see it as advantageous if
7 they are listed, because it also means that the
8 Hong Kong exchange plus all of the oversight
9 from Hong Kong exchange is also exerted over
10 those operations. And it also encourages the
11 gaming operators themselves to develop business
12 practices which are more consistent with
13 ourselves.

14 COMMISSIONER ZUNIGA: You also
15 mentioned a handful of promoters that you do
16 business with, seven promoters; is that correct?

17 MR. BOWIE: Yes, Sir.

18 COMMISSIONER ZUNIGA: But they also
19 have in turn have many collaborators, several.
20 Would you care to speculate just how many give
21 or take each promoter has?

22 MR. BOWIE: It's difficult to
23 determine but clearly they would have as was
24 indicated earlier, they do have some larger

1 scale collaborators. And those numbers keep
2 changing. It's actually quite a rapidly
3 evolving marketplace with the collaborators.

4 My understanding is that throughout
5 Macau because they do have to produce a
6 quarterly list for all collaborates in all
7 areas, it's in the thousands of collaborators.

8 COMMISSIONER ZUNIGA: As far as
9 gaming promoters?

10 MR. BOWIE: I'm sorry, collectively
11 in Macau there's thousands of collaborators.

12 COMMISSIONER ZUNIGA: I was also
13 interested -- I had a similar thought from what
14 you were describing in terms of this
15 transformation occurring from the wholesale to
16 the retail and what steps might you take, might
17 be at your disposal effectively to eliminate the
18 middleman, which could be at your great
19 advantage from a profit standpoint? Yes, go
20 retail. What sort of efforts have you taken,
21 are you contemplating in your new property for
22 example? Just please expound a little bit.

23 MR. BOWIE: I think the critical
24 point, if you look at the large scale resort

1 properties that have been created in Macau,
2 they've been designed along internationally
3 relevant structures where mass floor and main
4 floor operation is two to four. And it's more
5 importantly the other facilities that we
6 actually provide to transform Macau from just
7 being simply for gamblers and making it more a
8 leisure entertainment environment.

9 So, the critical point for us is
10 that we obviously invest significant amounts of
11 time and effort into building the appeal, the
12 entertainment, the nongaming opportunities and
13 all of those other activities, which encourage
14 people to come to Macau to obviously still
15 gamble but also do it in an environment where
16 they do actually partake in other activities.
17 The intention being to increase length of stay.
18 Those are the sorts of critical points.

19 And if you're looking at it in terms
20 of our own marketing efforts within our own
21 resources that's the area that we're spending
22 most of our time to build personal relationships
23 with our customers.

24 We obviously have created customer

1 relationship programs very similar. In fact,
2 the M life program, which is operational within
3 MGM Resorts in the United States is now becoming
4 part of the Macau operation, specifically
5 directed to creating these relationships with
6 individuals to expand and develop the mass-
7 market business and the relationships we have
8 directly with those customers.

9 And I think we'll see over time that
10 the mass-market, as I said, has already created
11 a situation where most of the profit for the
12 gaming concessionary companies is coming from
13 the mass-market. We're also going to see where
14 increasingly larger proportions of the revenues
15 will continue to come from that retail part of
16 the market. So strategically, I think it's core
17 to Macau and it's certainly critical to us at
18 MGM.

19 COMMISSIONER ZUNIGA: I think in
20 your remarks you also mentioned that in that
21 venue or in that topic, the government was going
22 through a lot of transformation, a lot of
23 transformation was taking place. Were you
24 referring to the Macau government or the Chinese

1 government or both?

2 MR. BOWIE: The Macau government.
3 Under the basic law, the Chinese government does
4 not interfere with Macau directly. So, the
5 Macau government has the responsibility to meet
6 the needs and operate in Macau. So, the
7 regulatory environment is Macau law.

8 COMMISSIONER ZUNIGA: Finally, you
9 also mentioned relative to the gaming promoters,
10 you needed to improve was that your oversight of
11 the gaming promoters that you referred to or
12 your relationship with the gaming promoters?

13 MR. BOWIE: It's not so much the
14 relationship. I think what I was intending to
15 say, if I misspoke, the critical point is is
16 that I think we all understand the sensitivity
17 of that piece of our business. And we're
18 looking to enhance and develop all facets of our
19 business, but we understand that there is a risk
20 there.

21 And that we need to dedicate
22 significant amounts of time and effort to
23 continue to improve the overall performance in
24 terms of compliance, transparency of that

1 particular area.

2 COMMISSIONER ZUNIGA: And finally,
3 you also mentioned that the nonnegotiable chip
4 was a key element in terms of controlling the
5 environment and the activity that takes place.
6 If you're interested in reinforcing the retail
7 piece of your business, wouldn't limiting supply
8 from those -- cutting supply of those
9 nonnegotiable chips help in that regard?

10 MR. BOWIE: This is a very
11 competitive marketplace. And yes, you're right.
12 We could take ourselves out of that piece of the
13 market, because that's what you are really
14 alluding to. I am sure that there are other
15 participants in the market who would be very
16 happy to pick up that business. So, I think
17 the bigger issue and the more strategic focus is
18 there is a consistent approach being taken by
19 all of the gaming operators to move into that
20 mass-market.

21 So, I don't see it as being an
22 initiative that one individual operator could
23 take. It's something I think that the industry
24 needs to progress forward collectively. And I

1 think it's really important for the health of
2 the industry that we all move it forward
3 together.

4 COMMISSIONER ZUNIGA: Is there the
5 equivalent of a roundtable at Macau that has
6 dialogue with the Macanese government to that
7 end?

8 MR. BOWIE: There is a gaming
9 association. It has had limited capacity to
10 obviously work together. We are actually
11 working specifically with all of the
12 concessionaires at the moment on a particular
13 issue. And we do see that as something that
14 will potentially evolve over time.

15 And we're hopeful that the Macau
16 government will feel comfortable dealing
17 collaboratively with all of the gaming
18 concessionaires to move the business forward.
19 So, that's another area that's progressing as
20 the marketplace matures.

21 COMMISSIONER ZUNIGA: Thank you.

22 CHAIRMAN CROSBY: Commissioner
23 Stebbins?

24 COMMISSIONER STEBBINS: I am all

1 set.

2 CHAIRMAN CROSBY: I just had a
3 couple of questions. As you move away from
4 wholesale model to the retail model where you
5 take out the junket operator, how do you manage
6 credit and collections?

7 MR. BOWIE: So, as was described
8 through the investigation, we have a very robust
9 process already in terms of identifying
10 individual customers that we would think would
11 have the ability for us to extend credit.
12 Normally, those would be customers that we've
13 dealt with for quite some time. So, they've
14 actually built up credit history firstly.

15 Secondly, we clearly --

16 CHAIRMAN CROSBY: Are these
17 necessarily non-PRC citizens?

18 MR. BOWIE: They could still live in
19 the PRC, but we would require that they had
20 financial assets outside in a jurisdiction that
21 would allow gaming debts to be enforced. So,
22 it's quite limiting.

23 From our perspective clearly, we
24 would prefer that we could continue to operate

1 on a cash basis. It's actually a much cleaner
2 solution for all of us.

3 CHAIRMAN CROSBY: But you can't
4 really move very far, I wouldn't think, away
5 from wholesale model because most of the market
6 is people from the mainland who can't get very
7 much money out. So, is it viable to move
8 substantially away from the wholesale model, the
9 junket model?

10 MR. BOWIE: I think it's viable.
11 And I'll refer back to my comment about one
12 country, two systems. I think it's really part
13 of the process that Macau is part of China. And
14 that I see over time the potential for
15 improvements in the flow of currency from China
16 into Macau, because I think the Chinese
17 government sees Macau as China. Clearly, there
18 are regulations that control that flow. And
19 whatever the Chinese government establish, then
20 we would need to adhere to it.

21 I think they would feel comfortable
22 because it's part of the diversification
23 strategy that the mass-market be allowed to
24 grow.

1 CHAIRMAN CROSBY: I'm not sure I
2 understood what you said about where the lines
3 are of who you supervise and train and oversee
4 in the VIP rooms. Who do you oversee and train
5 and supervise in the private VIP rooms?

6 MR. BOWIE: So, in terms of the
7 gaming operators, we obviously spend a
8 considerable amount of time, particularly in the
9 areas of AML, KYC, in terms of those staff
10 inside the gaming rooms who are responsible for
11 carrying out those tasks.

12 So, all of their cage staff, each of
13 the gaming operators is required to have an AML
14 manager or supervisor. And we spend a
15 considerable amount of time with them to improve
16 their knowledge and understanding of their
17 obligations under AML. So, it's all of the
18 staff.

19 CHAIRMAN CROSBY: Okay. That's what
20 I thought you said. But there's a sentence in
21 this report that says the MGM Macau also does
22 not conduct any due diligence on the gaming
23 promoters employees who operate their financial
24 cages in the gaming promoter rooms nor on the

1 gaming promoter's anti-money laundering
2 coordinator, also an employee of the gaming
3 promoter.

4 MR. BOWIE: That specifically talks
5 to the backgrounding of the individuals. That
6 Mr. Mefford will specifically address as we
7 picked up. Within that context, when there are
8 people in the property who have been identified
9 in certain positions within those gaming
10 operators, we still provide training to all of
11 those staff.

12 There's a distinction here between
13 background checking on the individuals, which we
14 are now undertaking. But in addition to that,
15 we interact with them to make sure that they
16 have the appropriate training to be able to meet
17 their obligations under AML, etc.

18 CHAIRMAN CROSBY: Got it. Anybody
19 else? Mr. Mackey?

20 MR. MACKEY: No, Sir.

21 CHAIRMAN CROSBY: Thank you.

22 MR. CASIELLO, JR.: Thank you. I'd
23 like to call our last witness for the day, Larry
24 Mefford who is the senior vice president of

1 global security of MGM Resorts.

2

3

4 EXAMINATION BY MR. CASIELLO, JR.:

5

6 Q. Larry, would you please start off by
7 describing your background?

8 A. Yes, thank you. Mr. Chairman,
9 members of the Commission, I spent a little over
10 40 years in law enforcement, national security
11 and corporate security. I started in 1972 in
12 state law enforcement. After spending seven
13 years, I joined the FBI and I spent a little
14 over 24 years with the FBI. And during my
15 career, about half of it I worked criminal
16 matters including international and organized
17 crime and gang matters. And the other half, I
18 spent working counterterrorism and national
19 security matters.

20 After 9/11 I was brought back to DC
21 and promoted as an assistant director. I worked
22 with a team to form the FBI's first cyber
23 division to address Internet-related crime and
24 national security related issues. And I was

1 promoted to run counterterrorism operations for
2 the FBI shortly thereafter.

3 I retired at the end of 2003 as the
4 executive assistant director for national
5 security for the FBI. I joined the casino
6 industry as head of global security for another
7 company. And after three and a half years, I
8 accepted a position in the same role running
9 global security for Barclays Bank based in
10 London.

11 In 2010, I came back to the US and I
12 started a consulting service. I worked with
13 Grant in Macau. He retained my services on a
14 part-time basis to assist with the due diligence
15 investigations, primarily focused on the gaming
16 promoters.

17 Earlier this year in April, John
18 McManus and Jim Murren hired me as the senior
19 vice president for global security for MGM
20 Resorts International. I've worked with Grant
21 on and off since 2004. And obviously, we had a
22 close and effective working relationship. I've
23 been associated with MGM Resorts since 2010 to
24 some degree.

1 Q. Tell us about your responsibilities
2 as senior VP of global security.

3 A. Essentially, I oversee and
4 coordinate our security staff at 17 properties,
5 16 in the US and the one in Macau. That
6 consists of about 2000 security officers and
7 investigators.

8 In the US obviously we have
9 operations in Las Vegas and Reno and Michigan
10 and in Mississippi. We have a network
11 essentially worldwide to support our efforts.
12 Our focus in the US is terrorism would probably
13 be because -- while it may be low probability in
14 some regard, it's a very high-impact. So,
15 terrorism remains our number one focus followed
16 by serious violent crime and other serious types
17 of crime, organized crime, cybercrime and the
18 emerging threats to computers and networks.

19 And then we play a major role in our
20 due diligence efforts. Where I have an
21 investigative team based in Las Vegas. And I
22 have a team based in Macau now where we conduct
23 background investigations of individuals that
24 are not only that we might consider employing

1 but that we might consider doing business with.

2 In that regard, we are involved in
3 the vetting of our gaming promoters in Macau and
4 some of their staff. That system has evolved
5 over time. And we've made some recent
6 adjustments since April. And our goal is to
7 create a comprehensive approach to the system so
8 we fully understand who we are doing business
9 with.

10 Part of this effort is to maintain
11 very effective liaison and a very close working
12 relationship with law enforcement throughout the
13 world wherever we may have business interests.
14 That includes not only in the US and obviously
15 in Macau, Hong Kong, China and surrounding
16 areas. So, we work very hard at effective
17 liaison with the regulators and the law
18 enforcement agencies.

19 I think similar to your situation in
20 Massachusetts, in Macau we actually have law
21 enforcement officers on site. They have an
22 office in our operation in our resorts in Macau
23 as do the gaming regulators. So, they are there
24 on property 24/7.

1 Q. What are your specific
2 responsibilities with respect to MGM Macau?

3 A. I work closely with their security
4 chief, who I know very well. And I oversee
5 their investigative component that works on the
6 due diligence and the background investigations
7 for employees and other people.

8 We have a tiered approach to
9 security. So, we bring in our physical security
10 team that operate, obviously, throughout the
11 property on a 24-hour basis. We work with
12 gaming surveillance, which is an independent
13 entity in the company that obviously surveys our
14 casino operations. Our investigative team is
15 employed to work with those entities.

16 And then we obviously work hard to
17 maintain effective liaison with government
18 agencies such as the police and the regulators.

19 Now in Macau, the risk assessment is
20 a little bit different. Obviously, we're
21 worried about terrorism, but luckily in that
22 environment, terrorism is very low, the risk of
23 terrorism.

24 Serious crime, in particular violent

1 crime is very low. For instance, in 2012, I
2 think in Boston you recorded 63 murders. I
3 think you recorded 63 murders in Boston that
4 year and Macau recorded four. You had a little
5 over 1900 robberies in the city of Boston, and
6 Macau had about 163, somewhat similar
7 population. I think, Boston is about 60,000
8 people larger than Macau, but it's somewhat
9 similar.

10 So, on street crime and normal
11 criminal activity, Macau has a very low crime
12 rate as does Hong Kong and as does the PRC. So,
13 the issue for us in Macau is organized crime or
14 the triad activities where I regard the risk as
15 very high. And we put a lot of effort,
16 obviously to address that risk. And it's
17 evolving and it's changing. I've seen in my
18 almost 10 years' experience in Macau the
19 evolution of that process, but it still exists,
20 and obviously is of great concern to us.

21 I'm in Macau personally about every
22 eight weeks. I'm on the phone to somebody that
23 I work with in security in Macau almost daily,
24 certainly in communication by email. So, we

1 have a very close working relationship with our
2 security team in Macau.

3 Q. How experienced is your team in
4 Macau?

5 A. They're very experienced. And we're
6 looking to upgrade the team also. I recently
7 brought on Jim Lyle. He was a consultant for
8 MGM Resorts along with myself for many years.

9 He's a very experienced retired Hong
10 Kong police officer. He specialized in triad
11 related investigations, as did the head of
12 security for MGM Macau Mike Holobowski, who was
13 a very experienced retired Hong Kong police
14 official.

15 Working with them they have a very
16 effective network that they've developed over
17 those 25 years. They have brought on a team of
18 investigators that are comprised primarily of
19 retired Macau police officers and Hong Kong
20 police officials. That team is undergoing also
21 -- Soon, we are going to upgrade that whole
22 component.

23 Q. Can you describe the vetting process
24 you perform on prospective gaming promoters?

1 A. Yes. Besides the background
2 investigation process, we have recently
3 implemented some new changes to our system. For
4 instance, we now interview all of the licensees
5 during the vetting process, which we didn't do
6 consistently prior to this.

7 We conduct a background
8 investigation of all of the gaming promoters,
9 cage employees, AML employees, room manager. We
10 get police checks with their consent with the
11 Macau or Hong Kong government depending on where
12 they are from.

13 We update the backgrounds of all of
14 our right now seven gaming promoters on a yearly
15 basis. Where prior to this point, we updated
16 those background investigations every four
17 years.

18 We've tried to improve our liaison
19 with local law enforcement throughout the entire
20 region. And I think we have a very good and
21 very productive relationship with them, a two-
22 way relationship where we can share information
23 that's mutually beneficial for us.

24 And we're looking right now to hire

1 a new director of investigations in Macau. And
2 I'm looking to hire actually another retired FBI
3 agent that's very experienced in Asia that would
4 be based in Macau to work and report to Jim
5 Lyle.

6 So, at a lot of levels, we are
7 trying to improve our efforts. But essentially
8 when we receive the tasking to conduct
9 background investigation on the gaming
10 promoters, that basically focuses on the
11 licensee, any shareholders for the company and
12 the financial guarantors, people that
13 financially back the company.

14 And it's an in-depth background that
15 takes at least 30 days, sometimes longer. And
16 we check public databases that would be
17 available to us, not only in Macau but also in
18 the PRC, Hong Kong, depending on the individual
19 if they travel to Europe or if they've operated
20 at all in any business capacity in the US, we'll
21 check US records.

22 So, one of the changes we've made is
23 that we do a global check now so that we have a
24 comprehensive report. We obviously, use

1 subscription database accounts that are
2 available to us for international databases. We
3 check local and regional litigation records,
4 court records, bankruptcy records. And with the
5 consent of the applicant, we check credit
6 records where available.

7 And also with the consent we require
8 all of those operators' consent to obtain their
9 criminal record checks in Macau and Hong Kong.
10 Under the laws of that region, if the applicant
11 consents, they can go down to the police
12 department with one of my investigators and with
13 their signature and consent, the police will
14 turn over their criminal history. So, we have
15 access to that. Obviously, without their
16 consent, we have difficulty obtaining that.

17 We check international watch lists.
18 And these are lists that contain names of people
19 that might be politically exposed persons. They
20 may be on the terrorism watch lists. They may
21 be on a money laundering lists. These are
22 basically warning lists that different
23 international organizations publish.

24 We conduct the interviews that I've

1 referenced earlier. And we have a very
2 comprehensive program now to monitor
3 international news media, including PRC and
4 local Macau and Chinese media in English,
5 Portuguese and in Chinese.

6 Q. Do you monitor any activity in the
7 VIP rooms?

8 A. We do. We have a program. Again, I
9 mentioned earlier that our security approach is
10 a tiered approach. In the VIP rooms, our gaming
11 surveillance department which in Macau reports
12 directly to Grant. It's a check and balance on
13 our security team so that they're not controlled
14 under one entity so that we can basically watch
15 each other.

16 Anyone in the surveillance has
17 permission to look at the activities and they
18 watch very closely what occurs in the VIP rooms.
19 The security team, the physical security team is
20 present in the VIP rooms. And they observe and
21 watch what occurs.

22 We have an investigative team not in
23 uniform and they filter throughout the resort
24 property. And they're watching and observing.

1 We are looking for activity or conduct that may
2 be indicative of organized crime, triad activity
3 or other illegal activity.

4 What happens, everybody I know is
5 focused in the area of organize on the VIP rooms
6 in Macau. Frankly, that's part of the problem.
7 Honestly, there is an equal problem if you're
8 not careful on your main casino floor, because
9 organized gangs will attack at a variety of
10 levels in a casino.

11 For example, tip hustlers is a
12 common activity in Macau where an individual
13 usually in an organized gang will sit down at a
14 table, try to befriend a player, try to act like
15 they're giving them advice. And if the player
16 wins, they will ask for a tip under the premise
17 that their advice was helpful or perhaps their
18 presence was lucky.

19 And oftentimes the request turns to
20 more of a demand if you're not careful. So,
21 your security staff has to be very attuned to
22 that. Oftentimes, these are triad gang related,
23 not exclusively but they can be.

24 We have individuals, the point

1 pickers that will try to take the electronic
2 cards that are used in slot machines and try to
3 basically steal those cards and then convert
4 them to something of value.

5 We have thieves that are focused on
6 obviously stealing bags and other items of value
7 from our players. This occurs of course
8 worldwide. This is not unique to Macau. The
9 problem in Macau is that there are organized
10 gangs. And we have a level of gaming cheating
11 in Macau that obviously bears watching.

12 So, the security staff has to be
13 trained not only in general criminal matters --
14 And I said earlier in my comments that crime in
15 Macau is actually very low. You can walk 24
16 hours a day almost any area of Macau without any
17 danger. It's a very safe environment.

18 But the organized criminal activity
19 is what you really have to focus on. So, we
20 have to train our security staff in Macau in
21 ways where they are focused on this organized
22 activity so that we can stop it immediately.

23 We know that the triad organizations
24 in Macau, besides some of the criminal activity

1 that I've outlined for you this afternoon,
2 they're involved in prostitution activity,
3 loansharking, sometimes extortion, occasionally
4 kidnapping. Although again, it's very low by
5 our standards proportionately to the population.

6 They also are involved in the
7 protection rackets where they may offer their
8 services to protect bar owners or nightclub
9 owners. And they provides services. They tend
10 to be car parking services and maybe queuing
11 services that they may offer at different public
12 transportation areas. So, you have to educate
13 your security staff very specifically.

14 What we do is our strategy is not to
15 allow these organized gangs to get a foothold on
16 our property. So, we're constantly vigilant.
17 And the security team ejects these individuals
18 immediately if we detect them. We coordinate
19 with the police constantly to take action as
20 appropriate.

21 But my view would be VIP room focus
22 is one part of the strategy but you have to
23 focus at multiple levels.

24 MR. CASIELLO, JR.: I have no

1 further questions.

2 CHAIRMAN CROSBY: Mr. Mackey?

3 MR. MACKEY: Just a couple.

4

5

6 EXAMINATION BY MR. MACKEY:

7

8 Q. Mr. Mefford, you talked about the
9 vetting process for the gaming promoters. It
10 sounds like that process has been significantly
11 enhanced over the last five or six months.
12 Would that be a fair statement?

13 A. Actually, when I was retained by Mr.
14 Bowie in 2010, we started looking at it. And on
15 a part-time, on a specific task basis we started
16 upgrading back then. And we've slowly been
17 improving it as we've become better educated as
18 to the environment.

19 Q. What do you do to make sure that the
20 promoters don't have hidden ownership, hidden
21 shareholder associations that might not be
22 apparent on the face of the paper that you're
23 getting?

24 A. It's a challenge at times. And

1 frankly, it's a challenge in any business
2 environment worldwide not just the Macau gaming
3 promoters.

4 But we try to maintain an effective
5 intelligence base, effective liaison with law
6 enforcement so that perhaps we can receive
7 information. As I mentioned earlier, we try to
8 observe what's occurring in the VIP rooms to see
9 if we can detect activity that might indicate
10 ownership. Sometimes, you can detect these
11 types of activities just by surveillance. But
12 it's a variety of things and it's challenging.

13 Q. Do you make any effort in the
14 vetting process for the gaming promoters to try
15 to figure out what collaborators they're going
16 to work with? For example, they give you a
17 list?

18 A. I know we receive a list on a
19 quarterly basis, but as Mr. Bowie indicated, my
20 understanding it's a list of collaborators that
21 that promoter may use Macau wide.

22 So, the list that I've seen for over
23 4000 names, and they change constantly. Plus,
24 the operators are very secretive about the list,

1 because they don't want competitors to steal
2 potential collaborators that are very effective.

3 So, it's difficult at times to
4 obtain accurate records exactly who they're
5 working with. Our approach is to watch what's
6 occurring in the VIP rooms from the different
7 levels that I've described to see if we can
8 detect activity that we are not comfortable
9 with.

10 Q. In terms of watching what's going on
11 in the VIP rooms, are you familiar -- I'm sure
12 you are familiar with the STRs, suspicious
13 transaction reports?

14 A. Yes.

15 Q. Could you describe what those are to
16 the Commission?

17 A. Yes. A suspicious cash transaction,
18 just like in the US, employees in Macau are
19 trained and certain employees, AML employees and
20 cage employees will file those reports with the
21 Macau government. Same thing they have an
22 equivalent of a CTR, cash transaction report,
23 where they file those reports with the Macau
24 government.

1 Q. I take it with respect to what goes
2 on in the VIP rooms, the responsibility for
3 filling out these STRs, the suspicious
4 transaction forms, rests with the gaming
5 promoters, correct?

6 A. I think right inside the room, yes.

7 Q. Can you just give me a couple of
8 examples of what a suspicious transaction might
9 be?

10 MR. MCMANUS: I think this is a
11 little bit better suited if I can --

12 MR. MACKEY: Absolutely.

13 MR. MCMANUS: Thank you. The CTRs,
14 or the equivalent of the CTR in the US is called
15 a ROVE report in Macau. And that's a form
16 that's mechanical based on the size of a
17 transaction.

18 So, much like in the US you have a
19 variety of personnel, primarily cage personnel
20 who collect that information and then it's
21 gathered and it's filed.

22 With the suspicious transaction
23 reporting, it's not as simple as there's a form
24 in the casino or in the cage that a line-level

1 employee will fill out. In the case of one that
2 is generated by the MGM Macau property that
3 there is a committee that reviews effectively an
4 instant report that comes back. The committee
5 works through it and they decide on the legal
6 requirements, whether it's appropriate to file
7 the STR. We file many of those on an annual
8 basis.

9 With respect to the VIP rooms, it's
10 really a dual responsibility. MGM Macau has
11 responsibility to still file STRs on activity
12 that it observes within that environment as does
13 the promoter. And this is the area where Mr.
14 Bowie was talking about the training that we do.
15 We file STRs from time to time on the activity
16 that occurs within those rooms.

17 MR. MACKEY: Can you just give me a
18 couple of examples of what would trigger the
19 filing of a suspicious transaction report? Are
20 there two or three kind of typical cases that
21 result in that?

22 MR. MCMANUS: Yes. It could be a
23 variety of things. But you could have
24 politically exposed person who you discover

1 where you don't have an independent source of
2 funds that you can confirm. You could have --

3 MR. MACKEY: Is the risk there that
4 there are state funds being used to --

5 MR. MCMANUS: Typically, the
6 restrictions on politically exposed persons and
7 the reporting requirements related to them is to
8 help governments police that type of activity.

9 MR. BOWIE: I think it's important
10 to note that it's actually illegal for Chinese
11 government officials to be in Macau. That's the
12 basis of the PEP.

13 MR. MCMANUS: Yes. And PEPs are not
14 limited to China. We would be searching for
15 PEPs from other countries as well. Another
16 example would be in the US you would see
17 somebody come in and perhaps have a large buy-in
18 for chips and then they would play for a short
19 period of time, experience a short loss and then
20 try to cash out. If they walk in with cash
21 chips or trying to create a perception that they
22 have gained more than they have.

23 MR. MACKEY: In other words, they're
24 taking their cash, they're buying chips, and

1 then they're taking the chips and cashing them
2 back.

3 MR. MCMANUS: Yes. And that is
4 probably a bad example in the VIP room
5 environment with the nonnegotiable chips but
6 that type of activity. Other types of activity
7 would include somebody who is trying to cash
8 chips without a record of play, things of those
9 sort. So, it's very similar to what we do in
10 the United States.

11 MR. MACKEY: How carefully, if at
12 all, does MGM monitor the STRs that are created
13 by the gaming promoters?

14 MR. MCMANUS: The STRs specifically?

15 MR. MACKEY: Yes.

16 MR. MCMANUS: Versus the ROVES?

17 MR. MACKEY: Yes.

18 MR. MCMANUS: The STRs we don't
19 monitor specifically those filings. They have
20 an independent obligation to file them. We
21 train them. In addition to the training they
22 receive from us, they also get required training
23 directly from the DICJ.

24 More recently in the context of this

1 investigation we have sent notices that we
2 expect to be informed of these filings pursuant
3 to our contract.

4 MR. MACKEY: When you say be
5 informed, to actually get a copy of them?

6 MR. MCMANUS: I'd be speaking out of
7 school. I don't recall whether we're entitled
8 to copy or just a notification. I just don't
9 recall.

10 MR. MACKEY: Mr. Bowie, you might be
11 the best person for this but whoever it is, the
12 DICJ, what is your overall impression of the
13 rigor with which they apply the gaming rules and
14 regulations to the various licensees in Macau
15 relative to domestic jurisdictions here?

16 MR. BOWIE: I think they are very
17 rigorous. As indicated, they have a permanent
18 presence in the property. They are very
19 particular about approvals, moving equipment and
20 all of the activities that we need to seek
21 approvals for and for which they need to
22 actively participate in.

23 Clearly, at this point in time for
24 example, they are particularly focused on gaming

1 machines because within the context of that
2 market that's actually new.

3 So, we are currently implementing
4 new regulations for the conduct of gaming
5 machines. So their rigor is severe to the
6 extent some of the properties have hundreds of
7 machines switched off because the government is
8 no longer is comfortable with the practice. So,
9 I think that they are particularly focused.

10 I think that the DICJ themselves are
11 probably much more comfortable because of their
12 historical context with the gaming promoters
13 than potentially we are. But they are also very
14 focused on AML, as I indicated earlier. They
15 conduct their own audits. So, I think they are
16 very active.

17 One of the challenges that they have
18 is resourcing. And that's a discussion that we
19 have been having with DICJ ourselves is that
20 they're struggling to get enough inspectors.
21 And they're competing in a very aggressive labor
22 market the same as we are.

23 They're looking at introducing new
24 forms of technology, which would allow them to

1 improve and streamline their reporting
2 processes. So, I will always -- In any
3 jurisdiction I've worked in, I've always found
4 that the gaming regulators take their role
5 extremely seriously. They understand the
6 responsibility.

7 They understand that the gaming
8 environment is only dependent on the probity and
9 the integrity of the games. And I think that
10 the DICJ has continued to demonstrate and that
11 they're comfortable to continue to evolve their
12 system.

13 And Chair, if you could indulge me
14 for a moment, I would strongly encourage if our
15 application is successful, that your
16 organization develop a collaborative arrangement
17 with Macau. I think it's understood that some
18 people have found it difficult to actively
19 engage with DICJ. And I think there's an issue
20 there of language, of culture. And I think that
21 it would be behooving upon all of us,
22 particularly us as a registrant that all of the
23 regulators in all of the jurisdictions that we
24 operate have a positive and constructive

1 relationship going forward.

2 And unfortunately, that's taken a
3 little bit of time for some of the jurisdictions
4 in the Unites States to feel comfortable with
5 that sort of relationship. But I would strongly
6 recommend that's positive. That they're
7 effective and they engage and they are very
8 mindful of the role that they play in
9 maintaining the integrity of the games.

10 MR. MACKEY: Just one more question
11 on the DICJ. What should the Commission make of
12 the statistics that are in the report about
13 notices about quantities of notices of
14 violations? And in particular from pages 62
15 through the next several pages, the report notes
16 that the Nevada gaming authorities issued 17
17 notices of violations from 2007 to present. In
18 Mississippi there were 25 notices of violation
19 letters. In Michigan there were 20.

20 Yet, for that same period of time,
21 the DICJ did not issue any violation notices or
22 take any enforcement action against MGM Macau
23 since the opening of the property in 2007?

24 MR. BOWIE: In fairness, I don't

1 think you should read anything into it, because
2 I think it's a response to the different
3 environments, the mechanisms that they've used.

4 There is no question that on, as
5 I've indicated, that on an active basis they are
6 counseling with us. They don't have it within
7 their normal enforcement practices to issue
8 specific notices. That's not to say that they
9 do not provide direct direction to us and
10 provide insights into things that they find is
11 unacceptable.

12 I do know that they have withheld
13 approvals for certain actions. That seems to be
14 the preferred method of enforcement. That is
15 that they believe that holding a concession is a
16 privilege. And if you can't respect that
17 privilege then they will withhold approvals for
18 you to be able to conduct your business.

19 So, I don't think you should read
20 anything into it. I think it is one of the
21 characteristic differences between the different
22 systems. Again, with collaboration, I think
23 people understand how their systems work and how
24 that relationship should work. So, that's my

1 experience.

2 MR. MACKEY: Thank you.

3 CHAIRMAN CROSBY: Commissioners?

4 COMMISSIONER CAMERON: I had a
5 couple of questions. Mr. Mefford, is this a new
6 position this senior VP of global security or
7 did someone else leave the position and you took
8 that position?

9 MR. MCMANUS: We previously had a
10 similar position that was eliminated several
11 years back that was another one of Mr. Mefford's
12 colleagues from the FBI had held that position.
13 I think it was about a three-year period where
14 we covered that in different ways. Then we
15 decided it was appropriate to bring it back.
16 And that's when we brought on Larry having had
17 the working relationship with him.

18 COMMISSIONER CAMERON: I read in the
19 report here that you were brought on as a
20 consultant in April 2013, but I think you
21 mentioned something about consulting since 2010?

22 MR. MEFFORD: Yes. I actually
23 started consulting for Mr. Bowie in Macau in
24 2010. And I was brought on full-time with MGM

1 Resorts in April '13. So, I assumed my position
2 in April.

3 COMMISSIONER CAMERON: Then later on
4 you took on this new title, is that right or was
5 that in April as well?

6 MR. MEFFORD: No, in April.

7 MR. MCMANUS: I think that's an
8 error in the report.

9 COMMISSIONER CAMERON: That's an
10 error?

11 MR. MCMANUS: Yes.

12 COMMISSIONER CAMERON: Okay. Did
13 your position, did the decision to fill this
14 position recently have anything to do with this
15 investigation?

16 MR. MCMANUS: No. In fact, when the
17 investigators were over in Macau and even before
18 that when we were here in Boston in the spring
19 for a compliance presentation, Mr. Mefford and
20 Mr. Lyle were with us in March of this year as
21 consultants. And we had already been in
22 discussions to bring them both on. I think that
23 had started end of '12 or beginning of '13. So,
24 we didn't reveal that but it was an ongoing

1 discussion at that point.

2 COMMISSIONER CAMERON: You saw the
3 need as a company? I mean these are tremendous
4 upgrades which Mr. Mefford just explained.
5 First of all, the recognition that there are
6 issues with organized crime and then these
7 various steps to upgrade background
8 investigations, to train folks in particular
9 security. These are all very positive steps.
10 And I'm just wondering if you saw that need as a
11 company or as a result of regulators asking
12 these questions?

13 MR. MCMANUS: No, it was not
14 regulators asking the questions. Mr. Holobowski
15 who is the vice president of security at Macau
16 is the other former Hong Kong colleague of Jim
17 Lyle's had been full-time with the company for a
18 number of years. Mr. Mefford and Mr. Lyle had
19 been retained as consultants for a number of
20 years and were essentially doing a lot of the
21 same functions.

22 What Mr. Bowie and I had discussed a
23 number of times was really the need to get more
24 of their time and to have a full-time commitment

1 from them, because we thought we could use it.

2 Obviously, that has assisted us
3 particularly in Las Vegas with other areas of
4 security that needed a higher level of
5 organization, training and sort of standardizing
6 of practices among our Las Vegas resorts. So,
7 that was another component for Mr. Mefford.

8 COMMISSIONER CAMERON: Mr. Mefford,
9 when you talked about criminal checks and you
10 need the consent before you could do those.
11 What's the percentage of consent and if someone
12 fails to consent would you continue to work with
13 them?

14 MR. MEFFORD: The answer is if
15 they're going to be an employee it's 100
16 percent. And if they refuse, they're not
17 hired. If they're a junket operator and they
18 refuse, we don't work with them.

19 COMMISSIONER CAMERON: Okay. That's
20 all I have at this time. Thank you.

21 CHAIRMAN CROSBY: Commissioner
22 McHugh?

23 COMMISSIONER MCHUGH: I don't have
24 any questions for Mr. Mefford. I had couple for

1 Mr. Bowie, which I will hold or ask now.

2 I thought I understood this, but I
3 just want to make sure that I do. Is the use of
4 nonnegotiable chips required by any Macau rule,
5 regulation or law?

6 MR. BOWIE: No, not specifically.
7 It's just the mechanism that we've created, the
8 industry created.

9 COMMISSIONER MCHUGH: The industry
10 has created it. All of you use it?

11 MR. BOWIE: Yes.

12 COMMISSIONER MCHUGH: Is it part of
13 your AML strategy?

14 MR. BOWIE: Is clearly is part of
15 the AML strategy, yes.

16 COMMISSIONER MCHUGH: Because your
17 only transactions are with the junket operators.

18 MR. BOWIE: Yes.

19 COMMISSIONER MCHUGH: And you don't
20 have to be concerned or involve yourself in the
21 details of their transactions with their
22 customers where money-laundering may occur?

23 MR. BOWIE: No. We would say it as
24 part of AML, because we see it as a mechanism to

1 ensure that through the gaming activity, it
2 reduces the opportunity for change up and
3 suspicious transactions.

4 So, I don't think the nonnegotiable
5 chip program is put in place in terms of AML to
6 eliminate our role from the other customer
7 activities. So, I'm trying to differentiate
8 between the two parts of your question. And I
9 may be reading too much into your question.

10 COMMISSIONER MCHUGH: No, I'm just
11 asking. I don't know what's in the question.

12 MR. BOWIE: The nonnegotiable chip
13 program was created under the monopoly operator
14 as a way to reduce the workload to actually be
15 able to calculate the activity on the game. So,
16 it was actually a business decision. Because if
17 you don't then you've actually got to put an
18 individual at each table to record the bets.
19 So, it was a mechanism to actually simplify the
20 mechanism of determining the turnover which was
21 the basis upon which the commission would be
22 paid. So, it was to simplify the process of
23 accounting.

24 COMMISSIONER MCHUGH: Right. So,

1 you didn't have to have two counters at the
2 table, one for the casino operator and one for
3 the junket operator?

4 MR. BOWIE: Correct.

5 COMMISSIONER MCHUGH: But it does
6 have the collateral consequence and benefit, I
7 suppose, of keeping you out of the details of
8 the transactions between the junket operator and
9 the junket operator's customers?

10 MR. BOWIE: I'm a little bit
11 concerned, because I don't want you to think
12 that what we do is put in place to push away our
13 obligation. But it does I think significantly
14 improve the accountability at the table in terms
15 of the activities that take place.

16 MR. MCMANUS: Thank you. I just
17 wanted to add one point that I think is
18 responsive to your question. If you take the
19 example where credit has been extended by the
20 gaming promoter to the ultimate customer, so
21 there isn't a cash transaction occurring at the
22 property, with the nonnegotiable chips, they
23 only receive back a cash chip on a winning hand.

24 COMMISSIONER MCHUGH: That's right.

1 MR. MCMANUS: And they retain their
2 nonnegotiable. The nonnegotiable are ultimately
3 deposited only after a loss at the table. The
4 customer who is in, whether it's China or
5 somewhere else, who is taking credit makes
6 payment back to the gaming promoter whoever is
7 extended credit.

8 There wouldn't be an AML reporting
9 obligation where there is no cash involved in
10 the casino. That's really irrespective of
11 whether the chip is nonnegotiable or credit is
12 extended in some other fashion.

13 So, where you have a credit
14 transaction, you have very different concerns
15 than with the AML. And this goes to the
16 movement of currency and all of the related
17 items.

18 COMMISSIONER MCHUGH: That's when a
19 credit transaction is involved. Right. I think
20 I understand the answer. A collateral
21 consequence is a separation between you and the
22 transactions between the junket operator and the
23 customer.

24 MR. BOWIE: Yes.

1 COMMISSIONER MCHUGH: Thank you.

2 CHAIRMAN CROSBY: Commissioner?

3 COMMISSIONER ZUNIGA: I just have a
4 little historical context here. I think
5 Director Wells mentioned that China in 1999 was
6 perhaps a pivotal point. Before that year there
7 was some activity of triads in Macau. And then
8 during or right after China took strong measures
9 to capture and execute triads.

10 Take us to today, could that happen
11 again? Does China retain that sort of
12 intelligence and ability to take measures?

13 MR. BOWIE: I'll let Larry answer,
14 but I would like to clarify one point. At no
15 time did the PLA enter Macau as you indicated in
16 your report. I think that is quite significant.
17 They clearly did however significantly increase
18 their policing over triad and organized crime
19 activity to improve the safety of Macau.

20 So, I'll let Larry probably carry
21 on.

22 MR. MEFFORD: I know there's close
23 relationship obviously between Macau law
24 enforcement and PRC law enforcement. So, the

1 public security police in Macau works,
2 obviously, very effective liaison, exchange of
3 information.

4 I'm not certain that Chinese
5 authorities would come into Macau, but certainly
6 if warranted, the Macau authorities would make
7 an arrest and perhaps deliver somebody to the
8 border. That's what happened in the mid-90s.
9 And I'm not sure that you could discount that
10 today.

11 COMMISSIONER ZUNIGA: Thank you.

12 CHAIRMAN CROSBY: Commissioner
13 Stebbins?

14 COMMISSIONER STEBBINS: On that
15 happy note. You said the surveillance extends
16 with inside the gaming rooms. Does the
17 surveillance capabilities that you have extend
18 to the cash cage area within the VIP room?

19 MR. MEFFORD: Yes, it does.

20 COMMISSIONER STEBBINS: Just to get
21 a sense of how much resources you are putting
22 behind keeping up with obviously the growth
23 you're seeing, what if even by a percentage
24 figure can you tell me your budget, staff

1 resources, are going up each year as the market
2 continues to grow?

3 MR. MEFFORD: Maybe I'll refer to
4 Mr. Bowie since I've only been with the company
5 since April. So, today we probably have with
6 investigators and security staff in Macau 400
7 officers. And I know on the investigative side,
8 Mr. Bowie has agreed for increases just
9 recently.

10 Obviously, we brought Mr. Lyle on
11 board as the vice president of global security
12 for Asia. So, he oversees our investigative
13 team in Macau and operates to support the
14 company throughout Asia where he has the
15 particular expertise.

16 And we're looking to hire a director
17 of investigations, as I mentioned earlier. So,
18 significant increase. And we're looking for
19 specialists that have specific experience in the
20 areas that obviously we're interested in.

21 MR. BOWIE: From surveillance,
22 because those numbers didn't include
23 surveillance, surveillance team is in the order
24 of 100 and we on a daily shift would have

1 probably -- there's 25 surveillance stations
2 available for the 427 tables. And we just
3 upgraded those again. One of the critical
4 points is that what we're looking to do is also
5 introduce additional technology, technology
6 solutions to improve the overall oversight over
7 the property.

8 I would reiterate that, and please
9 don't tell Larry or Mike but we don't actually
10 put a budget on what we need to do to protect
11 ourselves even though I keep telling them that.
12 We will take the affirmative action if we see
13 the necessity. We will add the resources.

14 It's critical, quite frankly,
15 personally to me. As the chief executive, I am
16 responsible for the integrity and probity of the
17 gaming operation. And security, surveillance,
18 investigations and intelligence gathering is one
19 of the primary resources that I use to
20 anticipate issues as they emerge.

21 We don't wait for them to happen.
22 We want to anticipate what's happening. Hence
23 the reason why Larry and Jim and myself and Mike
24 have worked together for an insurmountable time.

1 I think one of the strengths of any organization
2 and a system is to be aware of the challenge,
3 aware of the risk and try to anticipate.

4 We're not perfect. And we will
5 never be perfect. Larry talked about other
6 criminal activities. Our logic is very simple.
7 We can't fix everybody else's place. We just
8 want to make it more difficult for people to
9 operate in our property.

10 And those people who want to
11 participate in that are lazy, by and large. And
12 they tend to go to the soft targets. And what I
13 want to try and ensure is that we have a tough
14 target. We have 5800 employees. We are
15 responsible for keeping them safe. And we take
16 that responsibility very seriously.

17 We have 25,000 customers a day. We
18 take very seriously the responsibility to give
19 them a positive environment in which to game in
20 which to enjoy their leisure activity. And
21 that's going to be critical in Macau if we're
22 able to grow the destination. We currently have
23 28 million visitors. We see that growing to 40
24 million visitors.

1 So, that's the role that we at MGM
2 take. We think it's a very important role. And
3 we will deploy the resources necessary to make
4 sure we can keep the organization safe.

5 COMMISSIONER STEBBINS: Do you need
6 any approval to institute some of the technology
7 advances you want to bring in?

8 MR. BOWIE: I would always discuss
9 that with -- It would always come through as the
10 executive. We clearly have a budgeting process.
11 And we talk at length at the board. The
12 compliance committee, I would indicate you are
13 very technically savvy. In fact, they're
14 wanting us to get every piece of CSI equipment
15 that they've ever seen on TV.

16 But I'm saying that we have a team
17 that are very proactive at bringing to our
18 attention the opportunities we have to improve
19 performance and improve activities.

20 COMMISSIONER STEBBINS: But do the
21 local authorities have any ability to reject or
22 to not give your approval to institute those?

23 MR. BOWIE: To the extent of the
24 security plan for surveillance and the

1 implementation of cameras and the like, yes,
2 they would. I have never had an application for
3 an enhanced security or surveillance declined or
4 in any way questioned. I see that as very
5 proactive.

6 I'd also indicate that they have
7 onsite inspectors that actually monitor our
8 equipment that have their own surveillance room
9 inside our property. They have access to all of
10 the cameras. Plus they have certain dedicated
11 cameras available only to themselves.

12 COMMISSIONER STEBBINS: Thank you.

13 MR. MEFFORD: I might, if I could,
14 I'd just like to add in my role as head of
15 global security for MGM Resorts, the senior
16 management is completely supportive of our ideas
17 and our view on how to approach security. And
18 they've given us recent improvements and
19 enhancements to our budget and to our staff.
20 So, I find a total commitment from the company
21 to support a very effective global security
22 program.

23 COMMISSIONER STEBBINS: Thank you.

24 CHAIRMAN CROSBY: Mr. Mackey

1 anything else?

2 MR. MACKEY: Nothing further.

3 CHAIRMAN CROSBY: Commissioners
4 anything else? Sir, you get the last words.

5 MR. CASIELLO, JR.: May I just ask
6 one last question of Mr. Mefford? Do you have
7 any intelligence on the extent to which there is
8 smuggling of Chinese currency into Macau?

9 MR. MEFFORD: We do. And actually
10 my information is that a very small amount at
11 least on our property of renminbi, Chinese
12 currency, actually comes to Macau, because we
13 don't see very much.

14 In fact, 95 percent of the currency
15 that we see in my information at MGM Macau is
16 Hong Kong dollars not renminbi. So, my view is
17 that the actual transportation of Chinese
18 currency, PRC currency into Macau is very low.

19 MR. CASEILLO, JR.: Nothing further.

20 CHAIRMAN CROSBY: Okay. I think
21 we're ready to adjourn. We have other folks
22 scheduled for tomorrow?

23 MS. WELLS: We still have Mr.
24 Barletta and Mr. Gillis.

1 CHAIRMAN CROSBY: Tomorrow morning?
2 I thought I had heard you say your last witness?

3 MR. WELLS: This is a separate
4 trust.

5 CHAIRMAN CROSBY: It's about quarter
6 to five, what do you want to do? We're
7 scheduled to be back here tomorrow.

8 MS. BLUE: We should finish this
9 this evening.

10 CHAIRMAN CROSBY: Okay. Then let's
11 take a quick break and we'll do that.

12
13 (A recess was taken)

14
15 CHAIRMAN CROSBY: We are ready to
16 start. Would you introduce?

17 MR. TODD: Mr. Chairman,
18 Commissioners, may I introduce Vincent Barletta,
19 Ronald Gillis, John Bowman and I am Owen Todd.

20 MR. CHAIRMAN: Welcome.

21 MR. TODD: Mr. Chairman, Mr.
22 Barletta and Mr. Gillis were not present when
23 you swore the witnesses in.

24

1 WITNESSES, Sworn

2

3 CHAIRMAN CROSBY: Note that they
4 both said yes. Thank you.

5 MR. TODD: In the interest of time,
6 Mr. Chairman, we will forgo presenting our
7 video.

8 CHAIRMAN CROSBY: That's as good as
9 my Mike Napoli joke.

10 MR. TODD: Mr. Chairman,
11 Commissioners, I believe that you're aware of
12 the fact that the gentleman sitting beside me
13 are not owners of Blue Tarp nor do they in any
14 way have any control over Blue Tarp's
15 operations. Rather they run a successful
16 fourth-generation construction operation and
17 they acquire land for development.

18 Mr. Vincent Barletta is the head of
19 operations. He is the CEO of Barletta
20 Engineering and Barletta Heavy Equipment
21 Division.

22 Ronald Gillis is a CPA whose
23 principal client are the Barletta entities. And
24 John Bowman is an attorney and the General

1 Counsel to the Barletta entities.

2 I believe that you, Mr. Chairman and
3 Commissioners, are also aware of the fact that
4 Rolling Hills Trust and Rolling Hills, LLC and
5 Mr. Gillis and Mr. Bowman obtained their less
6 than 1/2 a percent interest, which is capped in
7 the revenues of any casino that might be built
8 in Springfield as a result of the Rolling Hills
9 Estate Trust having entered into an option
10 agreement with Blue Tarp where Blue Tarp had the
11 option to buy a great deal of land in Brimfield
12 a part of a neighboring town from these folks
13 and the Callahan interest.

14 When Blue Tarp wished to leave that
15 location and build in Springfield, they
16 discussed breaking that option agreement. And
17 as a result of that agreed that they would pay
18 as a breakup fee a small percentage, less than
19 half a percent of revenues of any operating
20 casino going forward.

21 It would not be unreasonable for the
22 Commission to conclude based on reports and
23 investigations that were submitted that my
24 clients were cavalier or careless or perhaps

1 even misleading in the applications and in
2 answering the questions on the applications and
3 the waivers.

4 My task is to try to describe for
5 you, to recreate for you the circumstances of
6 time pressures and financial pressures, which
7 weighed on these men during this time period of
8 November 21 and December 27, when in addition to
9 things I will describe briefly they were sent
10 these documents, these qualifier documents I'll
11 call them by the MGM, Blue Tarp folks and asked
12 to fill them out because they were qualifiers.

13 The first time they ever heard of
14 the word qualifier. First time they heard they
15 were regarded as qualifiers. But they were
16 asked by these folks.

17

18 (Telephone rings)

19

20 The first time it's ever rung.

21 But they were asked by the MGM folks
22 to fill out these qualifier documents in that
23 short period of time. They had never seen a
24 qualifier document prior to this time. And they

1 undertook to fill them out as best they could.

2 But during this period of time, you
3 will hear that Mr. Ron Gillis, the CPA for the
4 entity, the Barletta entities was tasked with
5 filling out, finishing, preparing all of the
6 year -- not the year-end but the fiscal year-end
7 reports and tax reports for all of the Barletta
8 entities, about 50 Barletta entities. And he
9 had that work on his plate.

10 And he had to fill out his own
11 qualifier documents. Mr. Bowman had his
12 qualifier documents to fill out. And he was
13 also concerned with two huge bids that the
14 company had received far in excess of anything
15 they had ever received before, Longfellow Bridge
16 and Whittier Bridge in New Hampshire. By far
17 the largest construction opportunities they had
18 ever had.

19 So, it is into this environment, Mr.
20 Chairman, Commissioners, that the task of
21 gathering up the information necessary to fill
22 out these qualifier documents was introduced.

23 And I hope that we can persuade you
24 that it was these pressures, these time

1 pressures, these bid preparations and later
2 challenges to the bids that resulted in the
3 inaccuracies and the conduct which are cited as
4 concerns.

5 CHAIRMAN CROSBY: When did they
6 receive these documents?

7 MR. TODD: They were emailed to Mr.
8 Bowman on Saturday by MGM, on Saturday, November
9 17. Mr. Bowman does not work for the company on
10 Mondays. So, it would have been Tuesday, the
11 following Tuesday the 21st that these documents
12 were first introduced to the company.

13 CHAIRMAN CROSBY: The first of what
14 month?

15 MR. TODD: November, and later as it
16 turns out we were required by MGM or urged to
17 get them completed and back to them by November
18 27 --

19 MR. BOWMAN: December 27.

20 MR. TODD: Thank you, December 27
21 with Thanksgiving and Christmas intervening.
22 Now I'd like to call Mr. Gillis as my first
23 witness.

24

1 EXAMINATION BY MR. TODD:

2

3 Q. Mr. Gillis, would you introduce
4 yourself to the Commission?

5 A. I'm a CPA. I've been a CPA since
6 1986. I graduated from Salem State in 1979 and
7 got a master's from Bentley in 1986.

8 Q. I meant by that, Sir, just tell them
9 your name and where you live.

10 A. Ron Gillis, I live in Needham, Mass.

11 Q. And you live there with your wife
12 and three children?

13 A. Yes.

14 Q. Now on your education?

15 A. I graduated from Salem State in
16 1979. I have a master's degree from Bentley, an
17 MBA from Bentley in '86.

18 Q. You got your MBA from Bentley?

19 A. Yes.

20 Q. Did you later earn a CPA
21 designation?

22 A. Yes.

23 Q. When was that?

24 A. Right around 1986.

1 Q. Did you also acquire a Notary Public
2 designation?

3 A. Yes.

4 Q. When was that?

5 A. I believe in the 80s sometime.

6 Q. You are not an employee of the
7 Barletta entities; is that correct?

8 A. Yes.

9 Q. You have an outside accounting firm;
10 is that correct?

11 A. I am a self-employed CPA. I have
12 other clients besides the Barletta family.

13 MR. TODD: Are you able to hear?

14 COMMISSIONER MCHUGH: You ought to
15 pull that microphone just a little closer to
16 you, Mr. Gillis.

17 MR. GILLS: Is that better?

18 COMMISSIONER MCHUGH: That's better,
19 thank you.

20 Q. (By Mr. Todd) What percentage of
21 your accountancy work would you say was for the
22 Barletta entities?

23 A. Probably at this time, about 80
24 percent.

1 Q. Would you describe with a half dozen
2 words what the Barletta entities are involved in
3 as a business?

4 A. There are two major construction
5 companies, Barletta Engineering Corp. and
6 Barletta Heavy Division. They have a couple of
7 equipment companies and then there is probably
8 three main holding companies for real estate and
9 there's multiple to the tune of 30 trusts or
10 some odd involved.

11 Q. Is it fair to say that are in excess
12 of 50 business entities and trusts in total?

13 A. Yes.

14 Q. Do a number of these business
15 entities and trusts have fiscal year ends?

16 A. A few of the larger entities do,
17 yes.

18 Q. The fiscal year end is what?

19 A. For the Barletta Engineering Corp.
20 and Osprey Equipment Corp. is September 30. But
21 for Barletta Heavy Division has an April year-
22 end but we do a September year-end, September
23 fiscal financial statement form. So, that a lot
24 of time with the auditors spent in late

1 November, early December when the auditors are
2 in.

3 Q. With the September year-end entities
4 when are you making out the audit reports and
5 the tax reports?

6 A. Working on the audit reports
7 starting in middle November until the end of
8 December and the tax returns are due December 15
9 for the entities with September 30 year-ends.

10 Q. What professional duties are you
11 performing in connection with these year-end
12 entities as well as the other Barletta entities?

13 A. I oversee. I prepare the tax
14 returns and I oversee the audits, when the year-
15 end audits being done with the outside CPAs.

16 Q. Do you have any professional
17 assistance in making out these tax returns and
18 audits and keeping the books for the company?

19 A. We have a couple. We have a
20 controller who helps with the books of the
21 construction company. But as far as the tax
22 returns and that kind of thing that's on me.

23 Q. So in November, mid-November 2012 is
24 it fair say that you were very occupied with

1 preparing tax returns, audits, as well as your
2 ongoing work for the Barletta entities?

3 A. Yes.

4 Q. I want to take you back to mid-
5 November 2012. When did you first receive or
6 become aware of qualifier documents I'm going to
7 refer to them as, which was sent by MGM?

8 A. I believe it was Thanksgiving week
9 of 2012.

10 Q. Would it be fair to say November 21
11 that would be Tuesday?

12 A. In that week, yes.

13 Q. And this was during this period of
14 time that you're preparing year-end documents
15 and tax returns and audits and so forth?

16 A. Yes.

17 Q. And were some of those qualifier
18 documents to be filled in and executed by you?

19 A. Yes.

20 Q. Did you undertake to do that?

21 A. Yes.

22 Q. What was involved in filling out
23 your own documents?

24 A. Digging through a lot of old files

1 and paperwork for copies of deeds of houses, old
2 tax returns, old bank statements, financial
3 statements, investment statements, my passport,
4 driver's license, it was pretty detailed.

5 Q. Now at this time, mid-
6 November/December 2012, to your knowledge were
7 there two enormous bid proposals being made by
8 Barletta Heavy Division?

9 A. Yes.

10 Q. What were those?

11 A. The Longfellow Bridge, which I think
12 the final bid went in on December 21. And then
13 Whittier, which I believe the bid was going in
14 in January, both were the range of \$250 million.

15 Q. \$250 million each?

16 A. Yes.

17 Q. Whittier Bridge that's up in New
18 Hampshire spanning the Merrimack River?

19 A. Right near Amesbury.

20 Q. Were you involved in that work, the
21 bid work?

22 A. Only if needed, usually not in the
23 bid work, no.

24 Q. Who was principally preoccupied with

1 those two large bids?

2 A. The estimators, Mike Foley, Vincent
3 and John had to deal with any kind of legal
4 documents.

5 Q. Is it fair to say that Vincent
6 Barletta was overseeing those two bid
7 operations?

8 A. Yes.

9 Q. Do you have any knowledge of what
10 was involved on his part in overseeing those and
11 supervising those two bid operations?

12 A. Yes. He was dealing with the joint
13 venture partners we had as well as he had to
14 keep working with his guys as far as pricing,
15 making decisions, what do you do for profit that
16 kind of thing.

17 Q. You mentioned that it was
18 approximately November 21, the Tuesday of
19 Thanksgiving week that you first saw the
20 qualifier documents sent by Blue Tarp; is that
21 correct?

22 A. Yes.

23 Q. And included were four sets of
24 qualifier documents, Timothy Barletta, Vincent

1 Barletta, yourself and John Bowman?

2 A. I am not sure if all six were there
3 or four were there, but I know we had a set of
4 them.

5 Q. In addition, there are qualifier
6 documents for Rolling Hills Estate Trust?

7 A. Rolling Hills Development, LLC, and
8 VFB Dynasty Trust.

9 Q. Had you ever seen qualifier
10 documents before?

11 A. No.

12 Q. Had you been involved in the gaming
13 industry in any way prior to this time?

14 A. No.

15 Q. Is November 21 when you saw these
16 documents the first time that you knew that you
17 were considered a qualifier?

18 A. Yes.

19 Q. Did you know what a qualifier was?

20 A. No.

21 Q. Is it the first time you heard that
22 Mr. Barletta or Mr. Bowman were considered
23 qualifiers?

24 A. Yes.

1 Q. In light of the fact that you've got
2 your accountancy duties and Mr. Barletta and Mr.
3 Bowman have their legal and supervision of these
4 bids duties, was there an agreement reached as
5 to how you would allocate time between and among
6 the three of you to fill out Vincent Barletta's
7 qualifier documents?

8 A. Yes.

9 Q. Would you describe for the members
10 of the Commission what that agreement was?

11 A. On Vincent's application, he was
12 responsible for getting the personal information
13 together, which I would not have. The business
14 information, financial information that I had
15 and his corporate ownership, where he was an
16 officer, where he was a trustee that kind of
17 thing that was for me to gather because I had
18 most of the information anyway.

19 On the legal side of it, a lot of
20 that was on John as far as what lawsuits were
21 ongoing or he had had been involved with or the
22 company had been involved with.

23 Q. How did you transmit to Vincent
24 Barletta the personal information that he would

1 have to provide?

2 A. At a point, I gave him a sheet
3 listing the questions I needed answered from
4 him. I believe I also had given him a blank
5 copy of the application with stickies on it for
6 the things I needed answers for.

7 Q. Did you write out these questions
8 for Mr. Barletta?

9 A. Some of them, yes.

10 Q. And some you duplicated from the
11 qualifier documents?

12 A. Correct.

13 Q. And gave them to him to gather the
14 personal information, correct?

15 A. Yes.

16 Q. This was personal information not
17 only for Mr. Vincent Barletta but for members of
18 his family and members of his extended family;
19 is that correct?

20 A. Yes.

21 Q. And Vincent was tasked with getting
22 that information?

23 A. Correct.

24 Q. His in-laws, his out-laws,

1 everybody, correct?

2 A. Yes.

3 Q. What was your job?

4 A. To compile everything, make sure
5 everything was put together.

6 Q. At this point in time, did you know
7 that Vincent Barletta would be leaving with his
8 family for an annual vacation they took to Key
9 West?

10 A. Yes.

11 Q. They've done that for years and
12 years?

13 A. Correct.

14 Q. Did you come to understand when you
15 would be required to return these completed
16 qualifier documents to MGM?

17 A. Yes.

18 Q. When was that?

19 A. I'm not sure exactly when they told
20 us that they weren't due January 10, they were
21 due the third. And they wanted them two days
22 after Christmas, I think.

23 Q. 27th of December 2012?

24 A. I believe that was it.

1 Q. Did you receive back from Vincent
2 Barletta some material or the material on
3 personal information?

4 A. Yes.

5 Q. Had you been asked to help Vincent
6 Barletta fill out documents and forms and so
7 forth in the past?

8 A. Yes.

9 Q. Why is help necessary or helpful for
10 Mr. Barletta to fill out forms?

11 A. Vincent is dyslexic. And I'm not
12 sure if that's why we do it, but part of my job
13 is filling out personal financial statements for
14 him because I have most of the information. So,
15 a lot of forms I do fill out for him.

16 Q. Does Mr. Bowman also help fill out
17 those forms in terms of legal questions that
18 come up?

19 A. Yes.

20 Q. So, on December 22 did Mr. Barletta
21 and his family leave for Key West?

22 A. I believe so, yes.

23 Q. The day before that, the companies
24 had filed a bid for the Longfellow Bridge,

1 correct?

2 A. Yes.

3 Q. And on either December 21 or
4 December 22, Mr. Barletta learned that he had
5 lost the bid for Longfellow Bridge because his
6 bid was received eight seconds late; isn't that
7 correct?

8 A. Yes.

9 Q. Prior to Mr. Barletta --

10 CHAIRMAN CROSBY: Excuse me you're
11 talking December --

12 MR. TODD: 2012.

13 CHAIRMAN CROSBY: So, this whole
14 discussion is about a year ago, last year?

15 MR. TODD: Yes.

16 COMMISSIONER ZUNIGA: Remember, our
17 deadline was January 15.

18 CHAIRMAN CROSBY: Yes, right.

19 Q. (By Mr. Todd) So, prior to December
20 26, 2012 when the Barletta family left for Key
21 West on its routine vacation, did you ask Mr.
22 Barletta to sign certain of these, all of these
23 qualifier documents?

24 A. Yes.

1 Q. Had they been completed at the point
2 in time that you had asked him to sign?

3 A. The signature pages, the full
4 document had not been completed but the
5 signature pages had been signed.

6 Q. Repeat that please?

7 A. I was still working on finalizing
8 and compiling all of the information for that
9 final CD that I had to send overnight.

10 Q. But you gave the documents in
11 whatever state of completion they were to Mr.
12 Barletta to sign them before he left; is that
13 correct?

14 A. I believe so.

15 Q. There are initials on each page of
16 these documents. Did you put those initials on?

17 A. Yes.

18 Q. Did you ask Mr. Barletta for his
19 authority for you to initial these documents
20 prior to his leaving?

21 A. I'm not sure if I asked before or
22 after he left, but I did ask him.

23 Q. Had you been authorized by Vincent
24 Barletta in the past over the -- How many years

1 have you worked for the company?

2 A. Twenty-five.

3 Q. But Vincent Barletta has only been
4 the CEO for how many years?

5 A. Seventeen maybe, something like that
6 in that range.

7 Q. And over that 17-year period, have
8 you signed, been authorized to sign Vincent
9 Barletta's signature to documents?

10 A. Yes.

11 Q. And to initial documents?

12 A. Yes.

13 Q. Mr. Barletta and his family have
14 left for Key West. Is Mr. Bowman around or is
15 he gone as well?

16 A. I'm not sure exactly when he left.
17 Christmas week he was gone. I'm not sure what
18 day he was gone.

19 Q. He leaves for New Hampshire on a
20 Christmas vacation, correct?

21 A. Correct.

22 Q. So, he's gone. So, you're by
23 yourself in the office; is that correct?

24 A. For the most part, yes.

1 Q. Now we are approaching December 27,
2 2012. You've completed the documents, correct?

3 A. I went through and compiled them on
4 the 26th. I believe I was compiling through to
5 finalize everything to get everything together
6 so I could put it on the CD.

7 Q. Did you operate the computer to fill
8 out these documents?

9 A. Some of them, yes.

10 Q. Did you examine these documents to
11 see whether they were all signed?

12 A. Yes.

13 Q. What did you see then?

14 A. I found the waiver of liability had
15 not been signed.

16 Q. By Mr. Barletta?

17 A. Yes.

18 Q. You had initialed it, correct?

19 A. I'm not sure if it needed
20 initialing. I think it's just the signature.

21 Q. Had not been signed. What did you
22 do then?

23 A. Something that I shouldn't have
24 done. I signed his name and notarized it.

1 Q. Did you consider that you were under
2 time constraints?

3 A. Yes. I wasn't sure how that was
4 going to affect everything. Because I know that
5 I had to get it onto a CD and get it shipped --
6 I'm not sure where I had to ship it to whether
7 it was New Jersey or whether it was in Boston.

8 Q. And you were up to the last day to
9 do that, correct?

10 A. Correct.

11 Q. Did you determine in your own mind
12 whether you had time to send these unsigned
13 documents down to Vincent Barletta in Key West
14 and get it back and still make that deadline?

15 A. I didn't think we had the time.

16 Q. So, did you in your own mind
17 consider had Vincent Barletta been by your side
18 that he would've authorized you to sign his
19 signature?

20 A. Yes.

21 Q. What did you do next after you had
22 signed Mr. Barletta's signature?

23 A. I notarized it.

24 Q. You notarized it?

1 A. Correct.

2 Q. Why did you do that?

3 A. Because the form required it.

4 Q. And you had been a notary for some
5 significant period of time; is that correct?

6 A. Yes.

7 Q. A couple of more questions. When
8 you were filling out the qualifier documents of
9 Vincent Barletta, did you check -- there was a
10 question, I think it's question 28, but I may be
11 wrong. But did you notice a question that asked
12 whether Vincent Barletta had graduated from
13 college?

14 A. Yes.

15 Q. And had Mr. Barletta given you
16 information on that to answer that particular
17 question?

18 A. No.

19 Q. Did you answer it?

20 A. Yes.

21 Q. In answering it did you check yes?

22 A. Yes.

23 Q. Did you assume that Mr. -- strike
24 that.

1 You knew that Mr. Barletta had
2 attended Northeastern University for five years;
3 is that correct?

4 A. Yes.

5 Q. And indeed you were working for the
6 company when he went to Northeastern?

7 A. Yes, correct.

8 Q. And did you when you were filling
9 out these documents did you assume that Vincent
10 had graduated from Northeastern University in
11 the five years he attended?

12 A. Yes.

13 Q. Had you ever heard Mr. Barletta in
14 your presence say that he attended Northeastern
15 University?

16 A. Yes. He had talked about going to
17 classes there and school there.

18 Q. Did you ever hear him say that he
19 had graduated from Northeastern?

20 A. I don't know if I have. I don't
21 think so.

22 Q. There was another question -- And I
23 think this is the question 28. -- on the forms
24 that asked whether Mr. Barletta's license had

1 ever been suspended?

2 A. Yes.

3 Q. Did you see that question on the
4 form?

5 A. Yes.

6 Q. It was on your form as well, wasn't
7 it?

8 A. Yes, it was.

9 Q. Did Mr. Barletta leave you with
10 information on these papers that gave you the
11 answer to that whether his license had ever been
12 suspended?

13 A. When he gave me the forms back, he
14 hadn't written anything on that question.

15 Q. Did you have access to any database
16 for the Registry of Motor Vehicles or any CORI
17 information to determine whether Mr. Barletta's
18 license had ever been suspended?

19 A. No.

20 Q. So, did you answer that question no,
21 it had not been suspended?

22 A. I believe I answered it had not been
23 suspended.

24 Q. And on what basis did you answer

1 that?

2 A. I've known him for past 17 years
3 since he's been in the company. I have never
4 knew his license to be suspended.

5 MR. TODD: That's all I have.

6 CHAIRMAN CROSBY: Thank you. Mr.
7 Mackey?

8 MR. MAKARIOUS: Thank you, Mr.
9 Chairman.

10 CHAIRMAN CROSBY: Your name?

11

12

13 EXAMINATION BY MR. MAKARIOUS:

14

15 Q. Mr. Gillis, thank you for being
16 here. One quick question. I just wanted to
17 confirm, you testified earlier that you had
18 notarized and signed Mr. Barletta's form; is
19 that correct?

20 A. Yes.

21 Q. And you also testified that you
22 believed that that action was inappropriate? In
23 hindsight you believe that was inappropriate?

24 A. Yes.

1 Q. Thank you.

2 MR. MAKARIOUS: Thank you. No
3 further questions for Mr. Gillis.

4 CHAIRMAN CROSBY: Commissioners?

5 COMMISSIONER CAMERON: A couple of
6 questions, Mr. Gillis. Wouldn't it have taken a
7 simple phone call to verify information from the
8 form rather than you just assuming the answers?

9 MR. GILLIS: In hindsight, yes. It
10 was the day after Christmas. I was stressed.
11 My wife was angry at me because I wasn't up in
12 Maine with her and the family. So, I'm not sure
13 if that jaded anything or not. I'm not really
14 sure.

15 COMMISSIONER CAMERON: Had you ever
16 as a notary signed a form and notarized it with
17 two different names?

18 MR. GILLIS: No.

19 CHAIRMAN CROSBY: With a forged
20 name.

21 COMMISSIONER MCHUGH: It wasn't
22 forged.

23 COMMISSIONER CAMERON: This was the
24 first time you had used the notary for that

1 purpose; is that correct?

2 MR. GILLIS: Yes. And I don't
3 really notarize much anymore.

4 COMMISSIONER CAMERON: Thank you.

5 COMMISSIONER MCHUGH: I have no
6 questions. I note that Mr. Todd and I were
7 colleagues on the Superior Court for a number of
8 years. And it's always a pleasure to hear
9 somebody who is good at direct examination.

10 MR. TODD: I thought you were
11 ashamed to bring that up.

12 COMMISSIONER MCHUGH: No. I have no
13 questions.

14 CHAIRMAN CROSBY: Commissioners?

15 COMMISSIONER ZUNIGA: No questions.

16 COMMISSIONER STEBBINS: No
17 questions.

18 CHAIRMAN CROSBY: Why did you get
19 these documents so late?

20 MR. BOWMAN: If I may, Commissioner?

21 CHAIRMAN CROSBY: Whoever knows.

22 MR. BOWMAN: I'm John Bowman. I'm
23 counsel for Barletta. And I was dealing with
24 Jackie Krum who was counsel at MGM. I have no

1 idea why.

2 We had received no information about
3 even a determination of qualifiers. Quite
4 honestly, we were a little surprised that we
5 were even considered qualifiers since we had
6 ended our business relationship and this was a
7 breakup. I realize we had discussions when they
8 were going to build a casino in Brimfield about
9 the potentially if you get a percentage.

10 But I don't know why we didn't get
11 them until the end of November. I have no
12 answer for that. That's when they were
13 forwarded. I have the email from Jackie Krum.
14 And that's the first we saw of them and the
15 first we hear of being qualifiers.

16 CHAIRMAN CROSBY: Do you Director
17 Wells remember when it was determined that they
18 were going to be qualifiers and with whom?

19 MS. WELLS: I don't. I think the
20 scope of licensing was done before I started.
21 So, I can't answer that question.

22 MR. MCMANUS: I know we had -- It
23 was after the IAGA conference in Singapore,
24 which was the very end of October of last year,

1 a week or two later. Maybe Ted was there, I
2 don't know. There was a meeting to talk about
3 who would be the qualifiers. So, I would say
4 was probably right around the first part of
5 November, mid-November. I guess I'm being told
6 the official letter came later.

7 CHAIRMAN CROSBY: The official
8 qualifier letter saying who was going to be
9 qualifiers.

10 MR. MCMANUS: Yes. I know the board
11 was also very upset for the amount of time they
12 had to complete these. So, it was rushed.

13 MR. BOWMAN: If I may, Commissioner
14 -- Mr. Chairman, I'm sorry. Until I was
15 actually on the Commission's website last week,
16 I had never seen the list of qualifiers for Blue
17 Tarp. We never received a letter.

18 Again, we have never completed any
19 forms like this before. So, we don't have a
20 database that has every trust that everybody is
21 a trustee of or every lawsuit that we've been
22 involved in for 20 years.

23 So, putting together the information
24 was onerous at least for us because it's not

1 something typical for us in our industry. We
2 usually keep a record for prequalification
3 purposes maybe five years' worth of legal
4 involvement that kind of thing.

5 CHAIRMAN CROSBY: Would they have
6 been qualifiers? On what criteria were they
7 qualifiers?

8 MS. WELLS: They are qualifiers
9 because the trust is going to make millions in
10 perpetuities. So, there's significant
11 involvement.

12 CHAIRMAN CROSBY: How is that
13 difference from say a passive 5.3 percent
14 investor?

15 MS. WELLS: Under 205 CMR 116 the
16 Commission at its sole discretion can require
17 anyone to be a qualifier. Although I wasn't
18 there at the scope of licensing, my
19 understanding is that it was this interest in
20 perpetuity and the local element and the fact
21 that it was a trust.

22 Mr. Grove may be able to comment
23 further on that. But there's also remedy if
24 somebody disputes being a qualifier. But it's

1 done at the time of scope of licensing. At this
2 point to bring it up is really too late
3 especially where there is an issue with the
4 qualifier.

5 CHAIRMAN CROSBY: To bring up
6 whether they should be qualifiers?

7 MS. WELLS: Right.

8 CHAIRMAN CROSBY: Yes, I know. I'm
9 just trying to get a context as to what's fair
10 here.

11 MS. WELLS: It's the amount of money
12 that a local partner was going to get. Mr.
13 Grove, would you like to comment?

14 MR. GROVE: If I may, I wasn't
15 involved in the scope of licensing. Steven
16 Ingis from our office had been the point person
17 on that. But Director Wells is correct, because
18 of the in perpetuity revenue stream from gaming,
19 I understand that is the reason why they were
20 deemed qualifiers.

21 CHAIRMAN CROSBY: Okay.

22 MR. TODD: May I call my next
23 witness?

24 CHAIRMAN CROSBY: Sure.

1 MR. TODD: John Bowman.

2

3

4 EXAMINATION BY MR. BOWMAN:

5

6 Q. Would you identify yourself, please?

7 A. Members of the Commission, my name
8 is John Bowman. I am an attorney and I live in
9 Scituate, Massachusetts.

10 Q. And you live in Scituate with your
11 wife and your children?

12 A. Three children, yes.

13 Q. Three children, would you you're
14 your educational background?

15 A. I went to Bentley College and
16 graduated in June 1981. I went to Suffolk
17 University at night and graduated in May 1986.

18 Q. In addition to being an attorney are
19 you also a CPA?

20 A. I passed the November 1981 CPA exam
21 and practiced as a CPA until probably the mid-
22 nineties. I let my qualification expire. I
23 primarily became -- Mr. Gillis came to Barletta
24 sometime in the late 1980s. So, I didn't need

1 to maintain that certificate. So, I let it
2 expire.

3 Q. Are you General Counsel to the
4 Barletta entities?

5 A. I am, but I am not an employee. I
6 am a self-employed attorney.

7 Q. The entities include 50 companies
8 and trusts?

9 A. Generally, we have two large
10 construction entities. And we have a lot of
11 single-purpose entity trusts that hold
12 individual pieces of real estate and individual
13 businesses. So, it becomes a large number of
14 separate entities.

15 Q. Could you describe just very briefly
16 what the companies do?

17 A. Barletta Engineering Corporation
18 Division and Barletta Heavy Division, Inc. are
19 heavy civil highway, airport, Deer Island
20 Treatment Plant, bridge contractors. Rolling
21 Capital, LLC is a real estate development entity
22 that owns multiple pieces of real estate.
23 Rolling Hills Development, LLC is actually a
24 spinoff from Whirlwind that primarily owns 1500

1 to 2000 acres in Palmer and Brimfield off the
2 Mass. Pike that I actually purchased at auction
3 in the mid-nineties.

4 And those are the major entities.
5 So, the trusts are usually underneath those
6 entities and they're usually specific to a
7 property. There is one for University Ave.
8 property. There is a trust for almost every
9 building or separate property we own.

10 Q. Describe briefly what your duties
11 are for the Barletta companies.

12 A. General day-to-day, I'm in charge of
13 all of the real estate development, most of the
14 outside identities. And then I become involved
15 in the construction. I deal with subcontractors
16 if they want to modify our standard form. I
17 deal with assembling bids when they have
18 questions as far as I put together the joint
19 venture agreements, some of the votes that are
20 required.

21 I also deal with bid protest when we
22 have a problem with a bid. So, most of my
23 bidding involvement is probably post-bid if
24 there's an issue or pre-bid with joint venture

1 agreements.

2 I handle everything outside for the
3 Barletta individuals from I'm a trustee of
4 Vincent's father's family trust who passed away
5 in 1997, January '98. So, I handle everything a
6 lot of things for Vincent's mother and the
7 brothers and sisters as far as legal goes.

8 Q. Do you negotiate and draft
9 contracts?

10 A. Yes.

11 Q. And if there's litigation, are you
12 involved in the litigation?

13 A. I'm generally not what I consider a
14 litigator. I usually select outside counsel
15 unless it's a very small matter and it can't be
16 settled. So, I more manage outside counsel as
17 far as litigation goes.

18 Q. Rolling Hills Estate Trust has a
19 contractual right to a small percentage of the
20 revenues of any casino built in Springfield with
21 a cap; is that correct?

22 A. Yes.

23 Q. Did you negotiate that contract?

24 A. I did. Originally, I believe it was

1 in November of 2011 we signed a letter of intent
2 with MGM after going back and forth quite a
3 while on terms. In January, I believe, it was
4 2012 we signed a formal option agreement
5 regarding our property in Brimfield,
6 Massachusetts that involved the purchase of the
7 property and a payment of an annual royalty.

8 Sometime after that point, and that
9 contract had certain exclusivity provisions
10 meaning we couldn't talk to anybody else about
11 our property nor could MGM go someplace else.

12 At some point, MGM became interested
13 and thought Springfield was a better location
14 for their development. So, we had to come to
15 terms on a breakup. And quite honestly, the
16 breakup agreement, there's not a lot of magic to
17 it. There was no more property purchase, so all
18 of those dollars went away. I basically took
19 almost one half of what we were going to receive
20 as a royalty payment and a success fee and
21 negotiated that as what we would receive as the
22 breakup fee.

23 So, it's roughly 2/10's of one
24 percent of the revenue, less than 2/10 of a

1 percent of revenue for the first \$500 million.
2 Then I believe it's .25 percent of the revenue
3 over \$500 million. And it has \$1.5 and a \$3
4 million annual floor and cap. And that goes to
5 the trust which is then 50 percent Callahan and
6 50 percent Barletta.

7 So, our share of it was less than
8 2/10's of a percent on the first 500 and a
9 little over 2/10's of a percent of anything over
10 500.

11 Q. Mr. Chairman, I'd like to discuss
12 the relationship between the trust and the LLC
13 at this point. And I think it'd be helpful if I
14 provided you with a chart. May I do that? May
15 I approach?

16 CHAIRMAN CROSBY: Sure.

17 Q. (By Mr. Todd) Would you explain now
18 briefly the chart I've handed out to members of
19 the Commission and Counsel?

20 A. Certainly. As I referenced earlier,
21 and I believe it was probably the fall of 1994 I
22 went to an auction in the woods in Palmer,
23 Massachusetts for approximately 1250 to 1500
24 acres of property. It was actually Vincent

1 Barletta's father who had sent me out. He had
2 known of the property. It was in foreclosure.

3 I was the successful bidder on
4 behalf of the Barletta Company, Inc. to buy that
5 property. Shortly after that when I came back
6 to the office, Mr. Barletta, the father, called
7 Charlie Callahan who he knew from Palmer Paving
8 and basically said to Charlie do you want to be
9 partners with me on this property. They agreed.
10 We formed Rolling Hills Estate Realty Trust in
11 the joint venture to own that property.

12 One half of the property is owned by
13 the Callahan group and one half the property is
14 owned by the Barletta group. It was originally
15 the Barletta Company, Inc., which was Vincent's
16 father's predecessor company.

17 The Barletta Company transferred
18 that interest to Whirlwind Capital, LLC shortly
19 after we settled up Mr. Barletta's estate. And
20 then to further move it to a single-person
21 entity, it was moved into Rolling Hills
22 Development, LLC.

23 In 2006, 51 percent interest owned
24 by Vincent F. Barletta was transferred for

1 estate planning purposes to a dynasty trust of
2 which his wife and children are beneficiaries
3 and a disinterested third-party is a trustee.
4 Nineteen percent is owned by Timothy J.
5 Barletta, his brother. Fifteen percent is owned
6 by Mr. Gillis and myself, which is part of our,
7 I would say, retirement plan. And then zero
8 percent is owned by Vincent Barletta as an
9 individual. It's all in the dynasty trust for
10 his wife and children.

11 Q. It's recited that Mr. Callahan and
12 Vincent Barletta are trustees of the trust; is
13 that correct?

14 A. That is correct.

15 Q. And down in the Rolling Hills
16 Development, LLC, the managing members are
17 yourself and Mr. Gillis and Mr. Barletta,
18 correct?

19 A. That is correct.

20 Q. I think you made the point, but
21 you'll have to make it again, Mr. Vincent F.
22 Barletta is not a trustee nor owner in the
23 dynasty trust that owns 51 percent of the 50
24 percent of this revenue stream; is that correct?

1 A. It's correct. It was also something
2 that was done in 2006 long before this
3 application or any contact with MGM occurred.
4 It's an estate plan. The dynasty trust is an
5 estate planning vehicle.

6 Q. And indeed in a dynasty trust which
7 is a tax-defined entity, the donor cannot be a
8 trustee or a beneficiary; isn't that the case?

9 A. My belief is that unless you go to
10 another jurisdiction, in Massachusetts the donor
11 can neither be a trustee or a beneficiary or it
12 defeats the trust.

13 You can go to New Hampshire. Some
14 other jurisdictions do recognize dynasty trusts.
15 Mr. Gillis and I actually set up dynasty trusts
16 subsequently that are New Hampshire vehicles
17 that do allow you to do that.

18 Q. I just want to go back to this when
19 we received these qualifier documents. Would
20 you pin that down for us, please?

21 CHAIRMAN CROSBY: I think we know
22 when you got the documents. I'm not sure we
23 need to keep establishing that.

24 MR. TODD: Okay, the 21st.

1 CHAIRMAN CROSBY: Got it.

2 COMMISSIONER MCHUGH: Just before
3 Thanksgiving, two days.

4 MR. TODD: Just before Thanksgiving.

5 CHAIRMAN CROSBY: In 2012 and Mr.
6 Barletta was on vacation. Is there anything
7 else?

8 Q. (By Mr. Todd) Yes, were you on
9 vacation?

10 A. I left for New Hampshire sometime
11 before Christmas. My family goes far up where
12 there's no phones, no Internet. It's lovely.

13 And the only thing I will say that
14 transpired during that period is originally, I
15 believe, we thought the documents were going to
16 be due January 10, but I think something in
17 Springfield that involved their application
18 process required they be in Springfield on
19 January 3, which is why Mr. Nosal requested them
20 by December 27. So, I think it was independent
21 of this Commission's due dates. It was
22 something to do with Springfield that they
23 wanted to be complete by January 3.

24 Q. I've asked this question of Mr.

1 Gillis but have you in the past helped fill out
2 forms that are directed to Vincent Barletta?

3 A. Yes, but it's because most of the
4 information like the financial information
5 resides with Ron in his files. The legal
6 information and who's trustee of what a lot of
7 it is in my files. It's not even in Vincent's
8 world.

9 So, we compiled Timothy's, mine,
10 Vincent's, Ron's because we tend to be involved
11 in a lot of the same trusts and trusteeships.
12 And Ron and I helped each other make sure those
13 matrixes with all of the listings of officers
14 were as complete as we could make them.

15 I particularly do the lawsuits, but
16 I also was involved in the schedules of who is
17 an officer, who is a trustee of what property we
18 own that kind of thing.

19 Q. Does Vincent Barletta's dyslexia
20 play any part in that assignment?

21 A. You know what, I'm aware that
22 Vincent is dyslexic. I'm aware that it makes
23 him read slower. He's very intelligent. I
24 don't know the extent to which -- It's still,

1 the information resides with me or Ron. It
2 doesn't really even reside in his world. And
3 it's information that no other Barletta employee
4 has.

5 Q. Just a quick question with regard to
6 the two bids, Longfellow Bridge, Whittier
7 Bridge. Were you involved in those
8 controversies?

9 A. I was involved in the joint
10 ventures. On December 21, the Whittier Bridge,
11 you push a button -- the Longfellow Bridge, I'm
12 sorry, you push a button to submit the bid.
13 It's a new thing versus driving them in and hand
14 it through the window. It was actually one
15 minute and eight seconds late.

16 We hired consultants, everybody in
17 the world to try and check the clocks between
18 our computer. Unfortunately for us, we lost a
19 \$250 million job that we were low bidder on
20 because it was one minute late.

21 But that was a very rushed process
22 during that period to see if we could find a
23 reason why our bid should be accepted.

24 Q. Lastly, Mr. Chairman, members of the

1 Commission, in the reports, the file with
2 respect to my clients in Rolling Hills, there's
3 a discussion of a lawsuit that resided in the
4 Federal District Court in Maryland. I think
5 that was Clear Ventures versus the North
6 American Ship Recycling and so forth.

7 And Mr. Bowman can explain that
8 lawsuit, but the report contain the most very
9 unflattering, very unfair descriptions of what
10 that lawsuit was about, tossing around words
11 like RICO violations and fraud and so forth.

12 Mr. Bowman can testify it was a
13 collection case on a disputed right to extras
14 that Clear Venture had claimed under a
15 subcontractor between them. If that's a concern
16 to any Commissioner, I would like to go into
17 that.

18 CHAIRMAN CROSBY: Does anybody want
19 to hear about it?

20 MS. WELLS: I didn't identify it as
21 an issue for the Commission if that's helpful.

22 CHAIRMAN CROSBY: It's in a passing
23 reference in Mr. Bowman's summary conclusion.

24 MR. TODD: I just didn't want it

1 lurking in somebody's mind and not get
2 addressed?

3 CHAIRMAN CROSBY: No lurking.

4 MR. TODD: That's it. Thank you.

5 CHAIRMAN CROSBY: Let's see if we
6 have any more questions, Counselor?

7

8

9 EXAMINATION BY MR. MAKARIOUS:

10

11 Q. Thank you. A few very quick
12 questions for you, Mr. Bowman. First, on the
13 chart that was presented by Counsel. On the
14 bottom left-hand corner it notes Vincent
15 Barletta's a settlor but not a beneficiary?
16 Vincent Barletta's wife and four minor children
17 are the beneficiaries. And that's linked to the
18 VFB Dynasty Trust. Is that information accurate
19 to the best of your knowledge?

20 A. Yes, it is.

21 Q. Mr. Bowman were you present at the
22 sworn testimony of Mr. Barletta?

23 A. I believe I was.

24 Q. And there's a statement in the sworn

1 testimony. There's a question from Detective
2 Lieut. Connors states and on the document the
3 letter that your attorney had filed today that
4 indicated some changes to the original
5 application, specifically regarding your
6 education. If you could just flip to that page.

7 He was referencing corrections to
8 sworn testimony. No, sorry. That's the
9 question. He asked you to flip to a page at
10 that point. Do you recall submitting a letter
11 correcting any information on the day of his
12 sworn testimony?

13 A. I recall submitting a letter
14 correcting a spelling of Northeastern University
15 and still indicating that Mr. Barletta had
16 graduated from Northeastern University. And I
17 believe I received a subsequent phone call from,
18 and it wasn't Mr. Grove. I dealt with someone
19 else from John?

20 COMMISSIONER CAMERON: Mr. Bowman,
21 was it Mr. Bowman you dealt with?

22 A. I'm sorry. Probably. It's all up
23 there somewhere. Again, to my knowledge I
24 thought Mr. Barletta had graduated from

1 Northeastern University.

2 Q. Mr. Bowman, do you recall roughly
3 when the sworn interview was taken?

4 A. June of 2013, sometime in that
5 timeframe.

6 Q. I can just state for the record that
7 the testimony was July 2013.

8 A. Okay.

9 Q. Between when the application was
10 submitted and you resubmitted the corrected
11 form, did you have an opportunity to discuss the
12 application with Mr. Barletta?

13 A. I was there. So, I believe the way
14 it went is we had an original interview and the
15 sworn testimony was at maybe a second appearance
16 before IEB.

17 I'm sure I discussed the idea with
18 Mr. Barletta. But I can't specifically say that
19 I said did you graduate from Northeastern
20 University. It didn't come up. I'm trying to
21 think of the context it came up. I know it was
22 it was a misspelling. I don't know if I was
23 fixing other things at the same time.

24 Q. Do you recall anything else that was

1 fixed in that submission?

2 A. You know what, I thought there was
3 more than that schedule but I don't have it
4 before me.

5 Q. But it's fair to say that the fact
6 of graduation was not something that was
7 corrected on that --

8 A. It was not. As a matter of fact, I
9 know I corrected the spelling because I know it
10 was spelled wrong, but I know I still listed him
11 as graduated. And I remember the call from Mr.
12 Bowman saying is that correct.

13 There was a subsequent email from
14 Mr. Bowman where he asked me about that again.
15 And it was after the sworn testimony. I said I
16 believe Mr. Barletta has already testified that
17 he did not graduate. And that was incorrect.
18 So, I said I defer to his testimony.

19 Q. Thank you. With respect to the
20 statement Mr. Todd referred to earlier regarding
21 the suspension of the license, was that
22 something that was corrected in that letter?

23 A. When we left one of the interviews,
24 and I'm not sure whether it was the first or the

1 second I was going to correct a great deal of
2 information. I received an email from John at
3 Spectrum saying not to do anything about
4 resubmitting it until I heard from Detective
5 Lieut. Connors. Because I intended to actually
6 -- And it may have actually been after the sworn
7 testimony but I intended to go correct a myriad
8 of things. And I was told not to do anything
9 until IEB told me what to do.

10 MR. MAKARIOUS: Thank you.

11
12
13 FURTHER EXAMINATION BY MR. TODD:

14
15 Q. These myriad of things that you were
16 itching to correct, they were misunderstandings
17 by the investigators with respect to holdings
18 and ownership of various entities; am I correct?

19 A. I think I was going to correct his
20 driving record, because I think we identified
21 that he had in fact had his license suspended.
22 I think I was at that point -- I don't know what
23 else. There were some other things that were
24 incorrect. I don't remember what they were.

1 COMMISSIONER MCHUGH: Anything
2 further?

3 MR. MAKARIOUS: Not for Mr. Bowman,
4 no.

5 COMMISSIONER MCHUGH: Commissioners,
6 any questions? The Chair has deferred to the
7 Commission at the moment and will rejoin us just
8 as soon as he can. In the meantime, we will
9 proceed. Do you have another witness?

10 MR. TODD: Yes. Counsel behind me
11 advised me that the Commission may not be clear
12 on when the bid was due back.

13 MR. BOWMAN: And I believe that's
14 what I testified to and my recollection is that
15 Springfield was January 3 where the Commission
16 was a later date.

17 COMMISSIONER MCHUGH: The point that
18 significant time pressures were involved has
19 been made crystal clear.

20 MR. TODD: Thank you. Mr. Barletta.
21 Should we wait?

22 COMMISSIONER MCHUGH: No.

23

24 (Telephone rings)

1 MR. TODD: Oh, God. I don't believe
2 it, twice.

3 COMMISSIONER MCHUGH: So, it's now
4 worked twice. So, I think you've got a good
5 product there, Mr. Todd.

6 MR. NOSAL: If we were in the
7 courtroom, you wouldn't have that phone right
8 now.

9 MR. TODD: I'd be in jail.

10 COMMISSIONER MCHUGH: But we're not
11 happily. It's just a conversation among
12 interested parties.

13 MR. TODD: My wife complains, what's
14 the point in calling you? You never have it on.

15 COMMISSIONER MCHUGH: Go ahead.

16

17

18 EXAMINATION BY MR. TODD:

19

20 Q. Vincent Barletta, Vincent how many
21 courses short were you from graduation from
22 Northeastern University?

23 A. Approximately a semester or two.

24 Q. Two courses?

1 A. No a semester or two, I can't
2 recall.

3 Q. Did something come up in your life
4 that required you to leave Northeastern and
5 work?

6 A. I had started working. And during
7 that time I was trying to finish up. Shortly
8 thereafter, my father became sick. And within a
9 year or two, I was back in the family business.
10 And I never made time.

11 Q. But you attended the school for five
12 years?

13 A. I did.

14 Q. Off and on?

15 A. Correct.

16 Q. With respect to the issue of
17 suspension of licenses, these occurred your
18 problems with traffic officials occurred as far
19 back as 19 years ago; am I correct?

20 A. Approximately, yes.

21 Q. 1997 was the first suspension?

22 A. Correct.

23 Q. What was that for?

24 A. I believe it was due to speeding

1 offenses.

2 Q. The second suspension was that a
3 year later?

4 A. Approximately.

5 Q. What was that suspension for?

6 A. Once again --

7 Q. Was it abandoning a car or some such
8 thing as that?

9 A. Perhaps, yes.

10 Q. What was that all about?

11 A. Just leaving a car on the street
12 where I lived in Watertown and it was towed.

13 Q. Were you not allowed to park?

14 A. Yes, correct.

15 Q. And you got your license suspended
16 for that?

17 A. I believe so.

18 Q. When you had your first deposition
19 taken, could you remember those suspensions?

20 A. I remember the one along the Mass.
21 Pike in '97. But the ones after that, no, I
22 couldn't.

23 Q. My last question to you is when you
24 left for Florida with your family on December

1 22, 2012, did you believe you had signed all of
2 the documents necessary?

3 A. Correct.

4 Q. When did you learn for the first
5 time that you hadn't that you had missed one?

6 A. At the interview with the
7 investigators.

8 Q. Was that the second interview or the
9 first?

10 A. I believe it was the first one.

11 MR. TODD: That's all I have.

12

13

14 EXAMINATION BY MR. MAKARIOUS:

15

16 Q. Mr. Barletta, for the sake of time,
17 I won't ask you to described the process for
18 filling out the applications, but what I will
19 ask is whether you think Mr. Gillis's testimony
20 regarding that process accurately describes it?

21 A. Yes.

22 Q. During your sworn testimony, I
23 believe, you testified that the information
24 regarding your graduation from Northeastern was

1 incorrect?

2 A. Correct.

3 Q. Correct it was incorrect?

4 A. It was incorrect.

5 Q. I'll try not to use two words
6 together. You also testified at your sworn
7 testimony that the information regarding your
8 license suspension was incorrect?

9 A. That's right.

10 Q. Would you say -- Can you explain the
11 reason why those were incorrect in your opinion?

12 A. Why those two items were what?

13 Q. Were incorrect?

14 A. In early December, I was compiling
15 personal information family bank accounts, and
16 quite honestly I didn't get to it. When I did
17 leave for break, I thought there was going to be
18 time afterwards. I think when Mr. Gillis
19 realized there wasn't, some of those holes were
20 filled in inaccurately, because I didn't give
21 him the information when I should have.

22 Q. Is it your testimony that you didn't
23 have a chance to review the application again
24 before it was submitted?

1 A. I went through collecting as much of
2 that personal information as I could. And those
3 were two areas that I didn't get to.

4 Q. If I could turn your attention to
5 Exhibit 9 of the Bureau's exhibits? Mr. Nosal
6 has it.

7 A. Yes.

8 Q. Mr. Barletta, do you recognize
9 Exhibit 9?

10 A. I believe it's from the website for
11 a company called Carletta that's trying to
12 permit renewable power.

13 Q. What is your relationship to
14 Carletta?

15 A. I'm an investor.

16 Q. Do you see on Exhibit 9 that states
17 directors and management. And there's a name
18 Vincent Barletta there. I assume that's you?

19 A. Correct.

20 Q. Do you recall providing information
21 for this website?

22 A. No, I do not.

23 Q. Do you see in the last paragraph
24 under your name, it states Mr. Barletta holds a

1 bachelor's degree in management from
2 Northeastern University?

3 A. Correct.

4 Q. Do you know where that information
5 came from?

6 A. No, I do not.

7 Q. Mr. Barletta, on the two forms that
8 were discussed in your sworn testimony, the
9 multijurisdictional form and the Massachusetts
10 supplement, there was a statement of truth
11 attached to each form, correct?

12 A. Correct.

13 Q. Do you remember signing that form?

14 A. I remember signing a number of
15 signature pages, yes.

16 Q. And this is included within Exhibit
17 8, which are excerpts of your application. The
18 statement of truth lists in it five different
19 things that you are swearing to. The first, if
20 you have it in front of you? Mr. Gillis can
21 help you find that.

22 A. Yes.

23 Q. The second item here says I
24 personally supplied the information contained in

1 this form. So, is it your testimony today that
2 that is not accurate?

3 A. Yes.

4 Q. And the fifth statement is I swear
5 that the foregoing statements made by me are
6 true. Is that statement accurate? Excuse me --
7 strike that.

8 Do you believe that all of the
9 statements in your application were true?

10 A. At the time of signing this?

11 Q. Yes.

12 A. Yes.

13 Q. At the time you signed it, was the
14 application complete?

15 A. No.

16 Q. And do you believe all of these
17 statements be true now?

18 A. No.

19 Q. Thank you.

20 MR. MAKARIOUS: I have nothing
21 further.

22 COMMISSIONER MCHUGH: Commissioners?

23 COMMISSIONER CAMERON: Just a couple
24 questions. You filled out a portion of your

1 application, Mr. Barletta; is that correct?

2 MR. BARLETTA: Correct.

3 COMMISSIONER CAMERON: And it's your
4 statement that you did not get to the yes or no
5 answers do I have a degree or has my license
6 ever been suspended?

7 MR. BARLETTA: Correct.

8 MR. TODD: May I just correct that?
9 Mr. Barletta did not fill out the application.
10 He provided on a hand written piece of paper
11 answers to the personal questions. It had to be
12 filled in by a computer, which he doesn't
13 operate. Mr. Gillis handled it.

14 COMMISSIONER CAMERON: But he had
15 the time to answer many questions but did not
16 have the time the answer two questions yes or no
17 that's you statement?

18 MR. BARLETTA: Yes.

19 COMMISSIONER CAMERON: That's all I
20 have.

21 COMMISSIONER MCHUGH: Commissioners?

22 COMMISSIONER STEBBINS: I am just
23 wondering is there a sense or awareness of why
24 the complete accuracy in filling out these

1 documents is important to the Commission's work,
2 is there an understanding of that on behalf of
3 your clients?

4 MR. TODD: Believe me there is, yes,
5 indeed. I think a lot of it is that they had no
6 idea what qualifying documents are or why they
7 were being asked to fill them out. Had no idea
8 what they were being required to do. And
9 undertook to do it the best they could under the
10 circumstances.

11 MR. BOWMAN: If I may? We took the
12 documents quite seriously. The number of hours
13 that we pulled away from and as we all do we
14 have regular things we have to do. And this was
15 an over and above. And Ron and I spent nights
16 and extra time and the schedules to complete all
17 of the holdings and the lawsuits and the
18 research to get the data and getting a hold of
19 counsel in other states. It was overwhelming.

20 And I certainly probably made
21 mistakes in my own application that I believe to
22 be absolutely true. So, we took it seriously.
23 Maybe we didn't review it quite enough. Maybe
24 we should've just said we're not ready yet. We

1 need some more time to finish it.

2 If we made a mistake I think that
3 was it. But it wasn't because we didn't take
4 the documents seriously. And that we didn't
5 understand. I will say that I still to this day
6 question the idea that a 2/10 of one percent
7 interest -- The idea that we're qualifiers are
8 still a bit funny to me because we're not part
9 of sort of an MGM team. We broke up.

10 But it didn't mean that we didn't
11 take the documents seriously. We took it very
12 seriously. And quite honestly, the volume of
13 information for someone who has never done it
14 before was tremendous. I think if you had that
15 database and filled them out all of the time, it
16 certainly would have been less onerous.

17 COMMISSIONER MCHUGH: Other
18 questions? All right. Thank you very much.

19 MR. TODD: If I may just say a word?

20 COMMISSIONER MCHUGH: You may have a
21 concluding word. Yes, Sir.

22 MR. TODD: You seem to be looking
23 over past me.

24 COMMISSIONER MCHUGH: Well, no. I

1 was looking at the exit.

2 MR. TODD: I think I heard Attorney
3 Wells at the end of her remarks observe that
4 there was some provision in the contract between
5 Blue Tarp and Rolling Hills Estate Trust that if
6 there was a disqualification there would be
7 payment and so forth and so on.

8 The fact is that if Mr. Barletta or
9 these gentlemen associated with the Barletta
10 Companies were disqualified from being
11 qualifiers, I think that would have very serious
12 ramifications to their business. They are
13 constantly engaging in public bidding. And I
14 think it would be hugely damaging to their
15 business if they were disqualified for these
16 bases. Thank you.

17 COMMISSIONER MCHUGH: All right.
18 Thank you. Thank you gentlemen. We are now
19 going to recess this hearing. We are not going
20 to close the hearing. The Commission will take
21 all of what we heard today under advisement and
22 deliberate as the Chairman said at the beginning
23 and as we have done in all the other hearings.

24 Deliberate, reach our conclusions as

1 to each of the issues before us, and issue a
2 written opinion in the near future dealing with
3 each of those. In the event that we need
4 further information, the hearing remains open.
5 We'll request that additional information and
6 then either close the hearing as we issue the
7 final opinion or close it with some formality
8 before we do. Thank you all and we are in
9 recess for the evening.

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11 (Hearing suspended at 6:07 p.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,
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2013.

LAURIE J. JORDAN My Commission expires:
Notary Public May 11, 2018