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MISSOURI GAMING COMMISSION

STATE OF MISSOURI

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Commission Meeting

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March 29, 2017

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MISSOURI GAMING COMMISSION

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COMMISSION MEETING

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Missouri Gaming Commission

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3417 Knipp Drive

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Jefferson City, Missouri

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March 29, 2017

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BEFORE: Herb Kohn, Chairman

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Rick Lombardo, Commissioner

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Thomas Neer, Commissioner

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Larry Hale, Commissioner

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Brian Jamison, Commissioner

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REPORTED BY:

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1 (WHEREUPON, the meeting of the
2 Missouri Gaming Commission began at 10:01 a.m.)

3 CHAIRMAN KOHN: Good morning,
4 everybody. Thank you for being here for the
5 March 29 Gaming Commission meeting, and we'll call
6 that meeting to order. Angie, please call the
7 roll.

8 MS. FRANKS: Commissioner Lombardo?

9 COMMISSIONER LOMBARDO: Present.

10 MS. FRANKS: Commissioner Neer?

11 COMMISSIONER NEER: Present.

12 MS. FRANKS: Commissioner Hale?

13 COMMISSIONER HALE: Present.

14 MS. FRANKS: Commissioner Jamison?

15 COMMISSIONER JAMISON: Present.

16 MS. FRANKS: Chairman Kohn?

17 CHAIRMAN KOHN: Present. The first
18 item of business will be the consideration of the
19 minutes of our meeting of March 1. We had two
20 meetings this month. Is there a motion to approve
21 those minutes?

22 COMMISSIONER LOMBARDO: Motion to
23 approve.

24 COMMISSIONER JAMISON: Second.

25 CHAIRMAN KOHN: Angie, please call

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1 the roll.

2 MS. FRANKS: Commissioner Lombardo?

3 COMMISSIONER LOMBARDO: Approve.

4 MS. FRANKS: Commissioner Neer?

5 COMMISSIONER NEER: Approve.

6 MS. FRANKS: Commissioner Hale?

7 COMMISSIONER HALE: Approve.

8 MS. FRANKS: Commissioner Jamison?

9 COMMISSIONER JAMISON: Approve.

10 MS. FRANKS: Chairman Kohn?

11 CHAIRMAN KOHN: Approve.

12 MS. FRANKS: By your vote, you've
13 adopted the minutes of the March 1st, 2017 meeting.

14 CHAIRMAN KOHN: So before we get to
15 business, we'll begin by doing what I think has
16 become one of our most favorite things to do at
17 these meetings, and that is to have an employee
18 presentation. Mr. Seibert?

19 MR. SEIBERT: We have some
20 recognition for Missouri Gaming Commission
21 employees. Deputy Director Tim McGrail will make
22 the presentations.

23 MR. McGRAIL: Again, as part of our
24 strategic plan, what we do is we recognize
25 employees, especially ones that have been here for

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1 a long time. They've been dedicated. They like
2 the work for the fact that they do spend a lot of
3 time with us and that they stay with this agency.
4 So we recognize for five-year increments. So first
5 if we could have Kathy Cardenas come forward and
6 recognize her for five years of dedicated service
7 with the Missouri Gaming Commission.

8 (Applause.)

9 CHAIRMAN KOHN: Congratulations from
10 the Commission as well.

11 MR. McGRAIL: The second one is for
12 ten years of service, and that will be for Anthony
13 Linhardt.

14 (Applause.)

15 CHAIRMAN KOHN: Congratulations,
16 Anthony.

17 MR. McGRAIL: And she started right
18 out of high school, so if Tina Amick would come
19 forward for 15 years.

20 (Applause.)

21 CHAIRMAN KOHN: You got three
22 pictures.

23 MR. McGRAIL: The other is where
24 Executive Director Seibert had started when he came
25 into that position as far as recognizing employees

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1 quarterly for taking that extra effort and going
2 above and beyond the call of duty as far as their
3 work and such.

4 So if Tabitha Perkins would come
5 forward, please. Again, we recognize quarterly.
6 Through this the executive director has a reserved
7 parking spot for you, and even though Tabitha is
8 out of the St. Louis area, she does have a reserved
9 spot when she comes to Jefferson City for the next
10 quarter. And I believe that the Executive Director
11 actually will come up sometime and take you out for
12 lunch if I'm correct on that. So he owes you a
13 lunch. Don't forget it.

14 Let me read just a little bit of
15 summary as far as why we're here today recognizing
16 Tabitha. This past year Ms. Tabitha Perkins
17 volunteered to assist in a complex regulatory
18 investigation. Without hesitation she began
19 conducting multiple interviews and scanned over and
20 reviewed nearly 13,000 e-mails. A lot of time.
21 She reviewed the entire documentation provided and
22 began identifying the root of the issue for the
23 regulatory investigation, and in the end resulted
24 in a successful conclusion.

25 Prior to this investigation, Tabitha

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1 had been promoted from a senior office support
2 assistant to an EGD specialist, and as a new
3 employee to the department, she never deferred any
4 task related to this investigation. She did all of
5 this while still carrying out her day-to-day duties
6 and always with a smile on her face and a positive
7 attitude.

8 Because of Tabitha's self-initiative
9 surrounding this complex regulatory investigation
10 that spanned, again, multiple months and an
11 enormous amount of material, she was recognized by
12 her peers and supervisor for her willingness to go
13 the extra mile. This is the reason why her name
14 and performance was submitted for the employee of
15 the quarter and that we're pleased and proud for
16 her to achieve -- to recognize her for achievement
17 today. So congratulations.

18 (Applause.)

19 CHAIRMAN KOHN: So when the executive
20 director takes you to lunch, make sure he takes you
21 to Ted Drewes for ice cream afterwards.

22 MS. PERKINS: So is it a five-course
23 meal?

24 CHAIRMAN KOHN: It is, and don't let
25 him skip even one course.

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1 MS. PERKINS: Wonderful. I look
2 forward to it.

3 CHAIRMAN KOHN: So we also have some
4 serious business this morning. Mr. Seibert?

5 MR. SEIBERT: The first order of
6 business, Mr. Chairman, is consideration of renewal
7 of Class A licensure, and Sergeant Mike Finnegan
8 will present. I might have that backwards. If you
9 want to wait --

10 SERGEANT FINNEGAN: Do you want to
11 have them do the presentation?

12 CHAIRMAN KOHN: Troy, I think you're
13 going to be up.

14 MR. SEIBERT: Mr. Troy Stremming will
15 make a presentation.

16 CHAIRMAN KOHN: I thought maybe you
17 decided to skip Troy's part.

18 MR. STREMMING: Forgot I got paid by
19 the word. Good morning, Mr. Chairman,
20 Commissioners, Mr. Executive Director. My name is
21 Troy Stremming. I'm Executive Vice President of
22 Government Relations and Public Affairs for
23 Pinnacle Entertainment. Glad to be here this
24 morning for our renewal of our Class A license for
25 Pinnacle.

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1 I've got several of our team members
2 and our leaders that are located here in the state
3 with me today, and I'd like to take a moment to
4 introduce them and ask them to stand when I
5 recognize them. I'll start with Neil Walkoff,
6 who's our Executive Vice President of Operations.
7 Chris Plant is our Vice President and General
8 Manager of our River City Casino. Ward Shaw is our
9 Vice President and General Manager of Ameristar
10 St. Charles.

11 I also have with me today Matt Block,
12 who's our VP of Government Relations, who I work
13 closely with on a daily basis. And then we have
14 also our regulatory compliance team with us here
15 today as well. So I just want to thank everybody
16 for being here to be a part of this presentation.

17 I know you've previously been
18 provided with our presentation, so I will try to be
19 brief today and keep my comments short and leave
20 time to answer any questions you may have of us at
21 the conclusion of the presentation.

22 So this first slide just I thought
23 would be nice to show you the growth of Pinnacle
24 across the U.S. We now have 16,500 team members
25 which work at our 16 properties in ten states, and

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1 you can see that we have quite a geographic spread
2 now across the United States.

3 Slide 3, I know there's a lot of bars
4 and numbers on here, most of them too small to
5 read, but I would just say that it kind of has an
6 overview of our financial performance since 2008.
7 And over that period you can see we have
8 experienced approximately \$1.4 billion or
9 155 percent net revenue growth, \$484 million or
10 almost 300 percent of EBITDA growth, and operating
11 margins have increased over 11 points over that
12 period of time. So we're very pleased with the
13 financial performance of the property and of the
14 company.

15 And this slide touches on Pinnacle's
16 historic debt and cost of borrowing, which you all
17 know is critically important in our industry. And
18 post the GLPI transaction you'll see that Pinnacle
19 now has the lowest weighted average cost of debt in
20 our company's history at 4.4 percent.

21 You'll also see post transaction now
22 we have just about a fourth of the debt that we had
23 a year ago with the company, and we think that that
24 is primarily due to prudently paying down debt,
25 negotiating good borrowing terms and, again,

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1 maintaining strong operating margins within the
2 company.

3 This slide just speaks briefly to the
4 evolution of Pinnacle over time, and it touches
5 some of the milestones over about the last seven
6 years. And you can see that Missouri has been a
7 common thread in that growth with the opening of
8 River City in 2010 and then in 2013 acquiring
9 Ameristar Casinos and two additional Missouri
10 properties.

11 It also touches on our latest
12 acquisition, which we continue to grow, and that's
13 the Meadows Racetrack in Washington, Pennsylvania,
14 which is right outside of Pittsburgh, Pennsylvania.
15 We've grown the company over this period of time
16 from \$1.1 billion in net revenue in 2010 to about
17 \$2.4 billion in 2016.

18 Slide 6. I'll be brief on this. It
19 just reflects the growth of our share price over
20 the last year and that growth that I talked about
21 earlier. And since the Pinnacle spinoff and the
22 GLPI transaction, our share price has increased by
23 over 70 percent. In fact, we put this dec together
24 back for you on 3/17 when we were trading at 18.53,
25 and we closed yesterday at a near 52 week high of

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1 \$19.37. I was actually surprised to see Neil
2 Walkoff here today, that he actually came with that
3 share price where it is.

4 Slide 7. Again, I know a year ago
5 when we went through the transition or the
6 transaction with GLPI there were a lot of questions
7 about that transaction and the impact that that
8 might have on our business in Missouri, and a year
9 later I'm just here to report that that
10 relationship has been a very positive one, and we
11 believe, and I think most would tell you, that it's
12 really been seamless to both our guests and our
13 team members. And for our shareholders it has
14 created a lot of value, and as I showed you
15 earlier, if they invested in the new Pinnacle,
16 they've received even more value over time.

17 But most importantly, there's been no
18 changes in the operations, and we continue to be
19 focused on maintaining our high quality properties
20 and reinvesting in those properties both through
21 growth and maintenance capital. So I think, in
22 summary, it really has had very little impact and
23 very -- it's been seamless to our guests and our
24 team members, which is most important to us.

25 The next slide just touches on the

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1 economic --

2 CHAIRMAN KOHN: Troy, can I stop you?

3 MR. STREMMING: Sure.

4 CHAIRMAN KOHN: So as a result of
5 that transaction, there's been no surprises, no
6 down side, nothing negative at all?

7 MR. STREMMING: There really hasn't.
8 I would equate it to moving from one apartment
9 complex where you have a landlord, even though we
10 didn't have one, to another complex where you have
11 a landlord, and as long as you make your payments
12 on time, you really never see nor hear from that
13 landlord. And again, there's absolutely no
14 involvement in operations, investments in the
15 property or anything to that effect. And I think
16 our guests and our team members probably feel that
17 they're in the same or better position today than
18 they were prior.

19 CHAIRMAN KOHN: And are you able or
20 will you be able to reinvest more money as a result
21 of your lower debt service cost?

22 MR. STREMMING: Yes. I mean, and I
23 think that it's -- you know, that number, whatever
24 that number will be, and I'll get to that later in
25 the presentation to show you what we've done over

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1 the last two years since the last time we were
2 here, I guess it's been a year ago, for
3 relicensing. But as you know, that depends on a
4 lot of things, what the market looks like, how our
5 businesses are working in every market, and where
6 we might need more maintenance capital in another
7 state versus this state at any given time.

8 I'll give you an example. Last year
9 we had significant improvements in Kansas City that
10 the guests and no one really saw because we had to
11 put new EIFS on the facility. We had to put an
12 entire new roof after 20 years. Those are millions
13 of dollars that we reinvested in that property that
14 no one really sees, but we pride ourselves on
15 maintaining class operations in each of our
16 markets.

17 So it really kind of depends on where
18 you invested over time, but yes, it does free up
19 capital for us to continue to invest in all of our
20 properties.

21 CHAIRMAN KOHN: Okay.

22 MR. STREMMING: This slide speaks to
23 just the combined economic impact in Missouri from
24 our three properties over the last fiscal year.
25 Ameristar St. Charles, Ameristar Kansas City and

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1 River City Casino generated over \$212 million in
2 tax revenue and city lease payments to the state
3 and to the home dock cities and \$121 million in
4 total employee compensation. So there's really the
5 two numbers I think that are the most important in
6 this slide.

7 And, you know, that also doesn't take
8 into effect the trickle-down effect that you have
9 in the local community when that money is spent on
10 other items in the community. But very proud of
11 the fact that those are some very significant
12 numbers that we have an economic impact in the
13 state and the local communities in which we
14 operate.

15 The next two slides will talk a
16 little bit about the reinvestment that you just
17 touched on, Mr. Chairman. You know, as promised,
18 we continue to reinvest in these properties, and we
19 have invested approximately \$69 million
20 collectively in Missouri over the last three years.
21 And this slide breaks down by city some of those --
22 or by location some of those specifics of where
23 that money was spent. But you can see in St.
24 Charles we've reinvested a little over \$32 million,
25 a little over \$23 in million Kansas City and nearly

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1 \$14 million in River City over that time frame.

2 And then you can see just a couple
3 of -- on this page and the next one you'll see some
4 of the larger projects that were completed over
5 that time frame. The Cibare Italian restaurant at
6 River City, if you have not seen it, is a really,
7 really nice concept. We're actually exploring
8 utilizing that same concept in some of our other
9 casinos throughout the country.

10 And then also at River City we put an
11 entire new Asian gaming and dining area in as well.
12 And in St. Charles we have a new Asia restaurant
13 and gaming area as well and revamped the high limit
14 slot area in St. Charles. We also did the same
15 thing in the high limit slot area in Kansas City,
16 as well as reinvested in the high limit table area.

17 So those are just a few, and I think
18 it gives you just a feel for the level of quality
19 when we are continuing to reinvest in these
20 properties.

21 Now, slide 11, I'd like to turn to
22 our MBE and WBE participation efforts in Missouri.
23 Pinnacle continues to focus on our MBE and WBE
24 participation at all of our properties. This is
25 not just a Missouri topic in our company but one

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1 that we look at at all of our properties. And I
2 will say that I think what has become part of our
3 culture at Pinnacle really started here in Missouri
4 with the focus and the effort and the success that
5 we have in this state.

6 You'll see that from 2012 to 2016 the
7 Missouri properties have spent over \$108 million
8 with minority and women-owned businesses. And when
9 you compare where we were in 2012 and '13 on
10 average to 2014 through 2016, you'll see that that
11 purchasing has grown from 24.2 percent of our
12 entire spend to 29.6 percent of our spend, and
13 that's a number that we're proud of, but at the
14 same time we're constantly looking for ways to
15 continue to grow those numbers.

16 CHAIRMAN KOHN: Do you have a goal?

17 MR. STREMMING: You know, we -- I
18 would not be able to speak directly to the goal
19 because I know that really is our purchasing
20 department. I will tell you that, from a culture
21 perspective, when we talk about this at the senior
22 level of management, we don't include goals. Our
23 philosophy is we should always be looking to grow
24 these numbers and not just be happy by hitting any
25 given number but doing the best that we can to make

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1 sure that all these MBEs and WBEs have the
2 opportunity to grow with our company.

3 COMMISSIONER JAMISON: We may have
4 talked about this a year ago. What was the reason
5 for your spike in '14?

6 MR. STREMMING: I don't know if I can
7 tell you. Does anybody have a reason for the spike
8 in '14? I don't know that I was going to talk as
9 much about the spike in '14 as, you know, over '15
10 and '16 we did lose a couple of vendors that make
11 that look more like a spike, I think. Our cleaning
12 services that we use in the St. Louis market was
13 decertified, so we couldn't count them any longer.
14 And then we also cut back on some of our marketing
15 spend, and just by cutting back, we utilized an MBE
16 for that work, and it cut back on the number.

17 But the other thing I wanted to point
18 to is, if you actually look at the overall number
19 in '16, we're up to \$25 million, but because we're
20 spending more money in other areas, our percentage
21 is down to 25 percent, but we actually are spending
22 more than we've ever spent.

23 COMMISSIONER JAMISON: I saw that the
24 dollars were closer to where they were in '14 but
25 your percentage was down by 6, 7 percent.

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1 MR. STREMMING: Yeah. Moving on to
2 slide 12. I'll shift gears here just a bit and
3 touch on what we view as our most valuable asset,
4 and that's our team members, and touch just a bit
5 on the culture in which they work in every day.

6 We currently have approximately 3,770
7 team members in Missouri. And like our customer
8 base, our team member base is a diverse one.
9 Almost 44 percent of our team members are
10 minorities, and that number has continued to grow
11 over time, as you can see there in that bullet
12 point at the top. This chart just sets forth each
13 of those minorities by race.

14 But, you know, one thing that we
15 constantly look for, we're happy with where these
16 numbers are, but we're constantly looking for ways
17 to continue to promote within the management level
18 of our employees, and that's an area where we think
19 we can do a little better and there's been more of
20 a focus on that within our company.

21 So I think one thing that we look at
22 as a company is, when you have great employees,
23 what do you do to hold on to those great team
24 members, and you do that by providing great wages
25 and excellent benefits. And this slide speaks to a

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1 policy that was put in place in our company in
2 2016, and we implemented a company-wide minimum
3 wage of \$10.15 per hour for all non-tipped
4 positions, and we did that without any
5 encouragement from any government entity or any
6 requirement by any government entity.

7 We also looked at incremental
8 increases and provided them where -- there were
9 certain positions where people were already making
10 beyond \$10.15 an hour, so we also incrementally
11 raised those wages. And you can see on this slide
12 that 942 team members in Missouri received
13 increases, and the average increase for those team
14 members in Missouri was approximately 8 and a half
15 percent.

16 Lastly, I just wanted to speak a
17 moment about the culture of Pinnacle, and one of
18 our core values is care, you see represented there,
19 and that core value care, we bring it to life
20 through three giving focus areas, and you can see
21 where they are: Veterans, caring for senior
22 citizens in the community as well as supporting
23 efforts in finding cure for cancer and then food,
24 spreading food throughout our communities.

25 You would imagine we feed a lot of

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1 people at our properties, and there's a lot of food
2 that's left at the end of the day, and if you can
3 find a way to utilize that food through food
4 pantries or having great relationships with not for
5 profits like Harvesters and other companies, it's
6 another way that we can give back and something
7 that we're very focused on.

8 This is just a page to show you a few
9 of our team members out in the community, and it's
10 exciting to be a part of such a committed group of
11 team members who are so actively involved in our
12 communities and show such compassion and concern
13 for those that they help. These are just a few
14 examples of each of our teams out in the community
15 giving back and something that I know that all of
16 our GMs here are very, very proud of.

17 And this last slide, it just speaks a
18 moment actually to dollars in giving back, and not
19 only do our team members give of their time, but
20 they also give with their hard-earned wages. And
21 you'll see that in 2016 through our giving campaign
22 all of our team members company-wide pledged over
23 \$800,000 to not for profits in local communities.
24 And when you add to that the over \$400,000 they
25 raised for our Baton Rouge team members which were

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1 impacted by the recent floods, they raised more
2 than \$1.2 million to help others last year. And I
3 think that says a lot about our team members and
4 why we certainly think that they are our best asset
5 in our company.

6 And that concludes my presentation,
7 and I'd be more than happy to answer any questions
8 you may have.

9 CHAIRMAN KOHN: Are you going to have
10 any other member of your team present?

11 MR. STREMMING: No, I was not.

12 COMMISSIONER LOMBARDO: I had a
13 question. I was looking at the financial
14 information that was provided, in particular the
15 balance sheet and the income statement. It looks
16 like from 2015 -- 2015 you had shareholders equity
17 of \$363 million, and as of 2016 you had negative
18 shareholders equity in the amount of \$372 million.
19 That's what I'm seeing on the balance sheet. I was
20 wondering if I'm reading that right, No. 1, and
21 No. 2, if there's a particular explanation for
22 that, an event or a property.

23 MR. STREMMING: No. And I'd almost
24 question if that's accurate because how we have
25 negative shareholder value with the company

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1 trade -- with a one and a half billion dollar
2 market cap company and the shares trading at an
3 all-time high, I don't know how there would be a
4 negative shareholder value. And I haven't reviewed
5 that or seen it.

6 COMMISSIONER LOMBARDO: It's on the
7 balance sheet, and I understand the stock price
8 and, you know, I understand everything you've said
9 and I believe it's accurate.

10 MR. STREMMING: Sure. Sure.

11 COMMISSIONER LOMBARDO: I was just
12 curious.

13 MR. STREMMING: I'd be more than
14 happy to look into what you were provided and get
15 you an answer.

16 COMMISSIONER LOMBARDO: Well, then
17 the other thing, which goes right along with this,
18 is it looks like in 2016 on the income statement,
19 it shows an operating loss of \$457 million.
20 Previous years there was a gain. So, once again, I
21 was just wondering if there's some particular event
22 or explanation or maybe that information is
23 incorrect.

24 CHAIRMAN KOHN: Is that the company's
25 statement or the Commission's?

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1 COMMISSIONER LOMBARDO: It's the
2 company's statement.

3 CHAIRMAN KOHN: Prepared by the
4 company?

5 COMMISSIONER LOMBARDO: Shows that
6 it's audited.

7 COMMISSIONER HALE: It's contained in
8 the report, right?

9 MR. STREMMING: I'll be more than
10 happy to look into it and let you know. I mean,
11 I --

12 COMMISSIONER LOMBARDO: Well, I would
13 just feel remiss if I didn't ask the question since
14 it's --

15 MR. STREMMING: Absolutely. I
16 totally agree. I will definitely look into it.

17 CHAIRMAN KOHN: You'll look into it
18 and communicate with commission staff?

19 MR. STREMMING: Absolutely.

20 CHAIRMAN KOHN: Other questions? Is
21 there a motion with respect --

22 MR. SEIBERT: We need to have
23 Sergeant Finnegan.

24 CHAIRMAN KOHN: I'm sorry. We
25 reversed it, didn't we?

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1 MR. STREMMING: Thank you all very
2 much.

3 CHAIRMAN KOHN: Sergeant.

4 SERGEANT FINNEGAN: Good morning,
5 Mr. Chairman, Commissioners. The Missouri State
6 Highway Patrol investigators conducted the
7 relicensing investigation of one Class A licensee
8 currently licensed in Missouri. This investigation
9 consisted of jurisdictional inquiries, feedback from
10 affected gaming company clients, a review of
11 disciplinary actions, litigation and business
12 credit profiles, as well as a review of the key
13 persons associated with the company.

14 The results of this investigation
15 were provided to the MGC staff for their review,
16 and you possess a comprehensive summary report
17 before you which outline our investigative
18 findings. The following Class A licensee is being
19 presented for your consideration: Pinnacle
20 Entertainment, Incorporated.

21 MR. SEIBERT: Staff does recommend
22 approval.

23 CHAIRMAN KOHN: Any questions of the
24 sergeant?

25 COMMISSIONER JAMISON: No, sir.

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1 COMMISSIONER LOMBARDO: No.

2 CHAIRMAN KOHN: If not, is there a
3 motion with respect to the resolution?

4 COMMISSIONER LOMBARDO: Before we do
5 that, I'm wondering, Mr. Stremming, is there
6 somebody else here who could perhaps answer those
7 questions?

8 MR. STREMMING: I just asked the
9 group here and I don't know that we have the
10 answer. The only thing I can think of is it has
11 something to do with the GLPI transaction and the
12 sale of that Pinnacle stock because you had to flip
13 and create a new company. But without actually
14 looking at them, I hate to speculate and just
15 guess.

16 CHAIRMAN KOHN: Well, I started
17 looking at this just since Commissioner Lombardo
18 asked the question. Your total liabilities are
19 about the same. So I -- I don't know.

20 COMMISSIONER LOMBARDO: If you look
21 at page 8, which is the second page of the balance
22 sheet -- excuse me, the balance sheet, that's the
23 numbers I looked at.

24 MR. SEIBERT: Mr. Chairman, if you
25 would, Maggie White, who's over the financial

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1 investigators, can explain.

2 COMMISSIONER LOMBARDO: That would be
3 great.

4 CHAIRMAN KOHN: Good. Do we have an
5 answer?

6 MS. WHITE: Yes. Maggie White, Chief
7 Financial Analyst. These are the audited
8 statements, and really this does, as he mentioned,
9 relate to the transaction. If you'll notice on the
10 statement of operations, we have like in the 2016
11 we have impairment of good will.

12 COMMISSIONER LOMBARDO: What page are
13 we on of our presentation, or do we know?

14 MS. WHITE: I don't know if it
15 corresponds to what I have. Page 9.

16 CHAIRMAN KOHN: You're looking at
17 revenues?

18 MS. WHITE: Yes. If you'll look at
19 2016, the column for 2016, if you'll notice down
20 there, impairment of good will and intangible
21 assets, that really drives the negative amount
22 there. So if you really back that out, it really
23 makes the result very similar to before. So
24 it's -- it's really driven by accounting entries.

25 COMMISSIONER LOMBARDO: Impairment of

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1 good will 322 million, impairment of other
2 intangibles 146 million?

3 MS. WHITE: Right. Right.

4 COMMISSIONER LOMBARDO: If you back
5 those numbers out, then you're going to come up
6 with a positive number?

7 MS. WHITE: Correct.

8 COMMISSIONER LOMBARDO: Okay. I was
9 just trying to correlate it with all of the
10 information that Troy provided in terms of the
11 shareholder price and the other --

12 MS. WHITE: Sure.

13 COMMISSIONER LOMBARDO: -- things,
14 and I just was having a hard time correlating the
15 two.

16 MS. WHITE: Okay. Any other
17 questions?

18 CHAIRMAN KOHN: Any other questions?

19 COMMISSIONER NEER: No.

20 MR. SEIBERT: We recommend approval.

21 CHAIRMAN KOHN: Is there a motion
22 regarding Resolution 17-018?

23 COMMISSIONER JAMISON: I move for
24 approval.

25 COMMISSIONER NEER: Second.

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1 CHAIRMAN KOHN: Discussion on the
2 motion? Angie?

3 MS. FRANKS: Commissioner Lombardo?

4 COMMISSIONER LOMBARDO: Approve.

5 MS. FRANKS: Commissioner Neer?

6 COMMISSIONER NEER: Approve.

7 MS. FRANKS: Commissioner Hale?

8 COMMISSIONER HALE: Approve.

9 MS. FRANKS: Commissioner Jamison?

10 COMMISSIONER JAMISON: Approve.

11 MS. FRANKS: Chairman Kohn?

12 CHAIRMAN KOHN: Approve.

13 MS. FRANKS: By your vote, you've
14 adopted Resolution 17-018.

15 CHAIRMAN KOHN: Mr. Seibert?

16 MR. SEIBERT: Next order of business,
17 Mr. Chairman, is consideration of disciplinary
18 actions. Mr. Ed Grewach will present.

19 MR. GREWACH: Thank you, Director
20 Seibert, Mr. Chairman, Commissioners.

21 Under Tab C we have a preliminary
22 order of discipline arising from a follow-up audit
23 finding for Missouri Gaming Commission compliance
24 audit against Harrah's North Kansas City which was
25 completed on April the 1st, 2016. This audit

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1 covered the time period from January 1st, 2014
2 through November 30th, 2015.

3 As we routinely do during the course
4 of an audit, our auditors meet with casino
5 management and notify them of any potential
6 violations that have been found during the audit
7 process. Then once the audit is finished, our
8 staff then compiles a written audit report and
9 sends it to management.

10 And after management has received and
11 reviewed that, then our staff sets up an exit
12 audit, exit conference to go over the findings,
13 answer any questions that the property may have,
14 and obtain from the property's management their
15 plan to correct the violations that were found in
16 the audit.

17 Now, the violations in this audit,
18 there was a follow-up after the -- after the exit
19 conference that began in January -- July 25th,
20 2016. During the follow-up two significant
21 findings were found not to have been corrected.
22 The first one dealt with the failure to set
23 progressive electronic gaming devices to lock up at
24 the top progressive award amount.

25 Now, just as a little background,

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1 under the rules there are two different
2 circumstances where we require an electronic gaming
3 device to lock up and to be hand paid so that there
4 is documentation. The first deals with the IRS
5 requirement that a W-2G form be filled out for any
6 award of \$1,200 or more. So all machines are set
7 up that way.

8 The rule that's in play here is
9 Rule 5.200, subparagraph 3, which requires for a
10 progressive jackpot that it also lock up at the top
11 progressive jackpot award amount.

12 Now, the same rule requires that
13 there be a weekly reconciliation of the progressive
14 amount, and what a progressive amount is, that at
15 the electronic gaming device there's a display
16 which shows how much the progressive amount is, and
17 it starts at a specific number, let's say at \$800.
18 And then as play is done on that machine, then that
19 meter increments. So, for example, I might -- for
20 every dollar played on that machine, the
21 progressive amount might increase a penny or a half
22 a cent or whatever the progressive progression rate
23 is for that machine.

24 So to ensure that the machines are
25 incrementing correctly, we require that weekly

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1 reconciliation, and in that process they look at
2 the meter at the beginning of the week and they
3 look at the meter at the end of the week. Then
4 they do a calculation in which they take the amount
5 of money that went into the machine, multiply that
6 by the progression rate, subtract out jackpots that
7 have been won and add back in the reset amount.

8 But the key here that was missing was
9 the machines were not set to lock up at that top
10 progressive rate. So because of that, if a
11 progressive jackpot hit that was less than \$1,200,
12 there was no record of it. So that number wasn't
13 available for it to be put into the formula to
14 reconcile, because when you do the formula, it
15 should equal. The amount at the beginning of the
16 week and the amount at the end of the week after
17 the formula's been conducted should match up. And
18 if there's a variance, then that tells us there's
19 something wrong with the way the meters are
20 progressing.

21 So in the original audit, they found
22 machines that were not locking up as required.
23 Management's response was to -- that they would fix
24 that. In the follow-up we found two machines that
25 still were not locking up at the top progressive

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1 award amount.

2 CHAIRMAN KOHN: I'm sorry to
3 interrupt, but for those of us that aren't slot
4 experts, I don't know what locking up means. Is
5 that something that is programmed in? Is that
6 something that an employee has to do physically?
7 How does that work?

8 MR. GREWACH: Yes, it has to be
9 programmed in to the machine.

10 CHAIRMAN KOHN: One time forever or
11 every time that it hits a jackpot?

12 MR. GREWACH: It's programmed in one
13 time, and then for an amount less than -- and let's
14 make the example for the \$1,200 requirement. So
15 the machine can be set up if you win a jackpot of
16 \$900, it just gives you the credits. You can print
17 the ticket and take it to the kiosk or the cage
18 window to cash it in.

19 But if it hits over the \$1,200 or
20 hits over the top progressive amount, then the
21 machine has to lock up, and I believe there's a
22 signal or something on top of the machine that
23 signals the EGD attendant, the casino employee to
24 come by. Then they have to actually physically
25 hand pay the patron that money as opposed to the

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1 machine just kicking a ticket out. That way the
2 proper documentation gets done, whether it's a W-2G
3 because it's over \$1,200 or the form to note,
4 record the jackpot on the progressive amount so it
5 can be plugged into the formula for that
6 reconciliation.

7 CHAIRMAN KOHN: Okay.

8 MR. GREWACH: The second violation
9 involved the violation of minimum internal control
10 standards F3.03. Now, this is a process for
11 reconciling the assets in the poker room bank at
12 the end of a shift.

13 When the employee that's in charge of
14 the poker room bank's shift ends, in this case, in
15 this particular property, for example, the title of
16 that job was a poker brush. Then the outgoing
17 employee and the incoming employee do a
18 reconciliation of the assets, and if there is a
19 variance, then they have to note that on the -- on
20 the form, the cashier count sheet that they
21 conduct.

22 During the original audit, it was
23 found that they were -- there were variances that
24 were occurring, but they were not documented on
25 that cashier count sheet. During the follow-up, we

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1 found two count sheets where there were variances
2 and still had not been documented.

3 At that point in time, staff issued a
4 compliance directive to Zachary Mays, who's the
5 Director of Casino Operations, on October the 6th,
6 2016. Now, a compliance directive is a written
7 warning. It's a step short of any formal
8 disciplinary proceeding.

9 We followed up on the compliance
10 directive on October 26th, 2016, and found there
11 were still variances at that point in time that
12 were not being documented on the count sheet.

13 We then did a second follow-up on the
14 compliance directive on November the 16th, 2016,
15 and found that there were still variances that were
16 occurring that were not documented on the count
17 sheet. And as a matter of fact, on that date the
18 commission auditor went with Mr. Mays and stayed
19 with him until the problem was corrected and the
20 paperwork was straightened out.

21 The staff is recommending a fine of
22 \$5,000.

23 CHAIRMAN KOHN: Questions? I'm
24 curious about, is the \$5,000 a composite of two
25 separate fines or is it one number that the staff

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1 thinks covers both? How is that arrived at?

2 MR. GREWACH: It's one number the
3 staff believes covers both. There's really -- we
4 don't really look at a mathematical formula or
5 split up the two violations. We just look overall
6 at the result of the follow-up and compare it to
7 prior disciplinary cases and make our
8 recommendation based on that.

9 CHAIRMAN KOHN: Other questions? Is
10 there a motion with respect to Resolution
11 DC-17-046?

12 COMMISSIONER NEER: Motion to
13 approve.

14 COMMISSIONER JAMISON: Second.

15 CHAIRMAN KOHN: Discussion on the
16 motion? Angie?

17 MS. FRANKS: Commissioner Lombardo?

18 COMMISSIONER LOMBARDO: Approve.

19 MS. FRANKS: Commissioner Neer?

20 COMMISSIONER NEER: Approve.

21 MS. FRANKS: Commissioner Hale?

22 COMMISSIONER HALE: Approve.

23 MS. FRANKS: Commissioner Jamison?

24 COMMISSIONER JAMISON: Approve.

25 MS. FRANKS: Chairman Kohn?

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1 CHAIRMAN KOHN: Approve.

2 MS. FRANKS: By your vote, you've
3 adopted Resolution DC-17-046.

4 CHAIRMAN KOHN: Mr. Seibert.

5 MR. SEIBERT: Next order of business
6 is consideration of settlement agreement. Mr. Ed
7 Grewach will present.

8 MR. GREWACH: Under Tab D we have a
9 resolution seeking approval of the settlement of a
10 preliminary order of discipline directed to a
11 Level 2 employee, Anter Soufi. Mr. Soufi was
12 employed as a dealer at Lumiere Place Casino on
13 October 30th, 2007, and worked there until his
14 resignation on December 21st, 2016.

15 In the interim, on September 23rd,
16 2014, Mr. Soufi signed on to the disassociated
17 person list. He executed that application to be
18 signed on to the list at the River City Casino. On
19 April 26, 2016, Mr. Soufi was arrested at the
20 Hollywood St. Louis Casino while playing a slot
21 machine.

22 The original preliminary order of
23 discipline recommended revocation. During
24 negotiations between the staff and Mr. Soufi's
25 attorney, the staff agreed to recommending a

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1 five-year suspension of Mr. Soufi's license,
2 subject to the Commission's approval.

3 CHAIRMAN KOHN: And that was agreed
4 to by Mr. Soufi?

5 MR. GREWACH: Yes. Yes. Mr. Soufi
6 and his attorney both executed that.

7 CHAIRMAN KOHN: Is Mr. Soufi here or
8 an attorney for him? Go ahead.

9 COMMISSIONER JAMISON: Ed, I just
10 want to make sure that I understand in this
11 agreement that the suspension is required to be
12 acknowledged by Mr. Soufi if he ever applies for a
13 license again or anyplace else? Is that part of
14 the agreement that I read? Because would this
15 appear as a discipline of a suspension, like any
16 other suspension or --

17 MR. GREWACH: Yes.

18 COMMISSIONER JAMISON: I thought I
19 read in there that he's -- you know, this is not
20 like a suspended imposition of sentence or what
21 we've dealt with in the past, that this is
22 something he has to acknowledge on any further
23 applications?

24 MR. GREWACH: Correct. If you look
25 at paragraph 19, I think it addresses that. You

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1 know, and it's typical on any gaming application
2 that that questions comes up, have you ever been
3 disciplined, suspended, revoked in any other
4 jurisdiction. He is required under this agreement
5 to report that.

6 COMMISSIONER JAMISON: So this is no
7 different than a regular suspension, he's just
8 agreed to it in the discipline portion of it?

9 MR. GREWACH: Correct, because the
10 bargain between the parties is that we agreed to
11 change our recommendation from revocation to five
12 years. He agrees to accept the five years
13 suspension that would start on the date of the
14 Commission's approval and agrees not to have any
15 right to appeal or contest that suspension. So if
16 you agree to it today, he'll be suspended for five
17 years starting today.

18 CHAIRMAN KOHN: Other questions? Is
19 there a motion with respect to Resolution
20 No. 17-019?

21 COMMISSIONER LOMBARDO: Motion to
22 approve.

23 COMMISSIONER HALE: Second.

24 CHAIRMAN KOHN: Discussion on the
25 motion? Angie.

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1 MS. FRANKS: Commissioner Lombardo?

2 COMMISSIONER LOMBARDO: Approve.

3 MS. FRANKS: Commissioner Neer?

4 COMMISSIONER NEER: Approve.

5 MS. FRANKS: Commissioner Hale?

6 COMMISSIONER HALE: Approve.

7 MS. FRANKS: Commissioner Jamison?

8 COMMISSIONER JAMISON: Approve.

9 MS. FRANKS: Chairman Kohn?

10 CHAIRMAN KOHN: Approve.

11 MS. FRANKS: By your vote, you've

12 adopted Resolution 17-019.

13 CHAIRMAN KOHN: Mr. Seibert.

14 MR. SEIBERT: Next order of business

15 is consideration of placement on list of excluded

16 persons. Mr. Ed Grewach will present.

17 MR. GREWACH: Under Tab E we have a

18 resolution to place Anthony Calandro on the

19 involuntary exclusion list. Mr. Calandro was a

20 chiropractor who practiced in St. Louis County.

21 For his practice he established a self-administered

22 pension plan for his employees. He then took money

23 out of the pension plan and bought stock worth

24 approximately \$60,000 in his name. He also

25 purchased two condominiums in his name and made the

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1 \$40,000 down payment on each out of funds from the
2 pension plan. On January 23rd, 2013 he pled guilty
3 in federal court for mail fraud and was sentenced
4 to six years in the Federal Bureau of Prisons.

5 In a separate matter, he also stole
6 approximately \$50,000 from his subdivision
7 association. He was charged and pled guilty in
8 state court in the St. Louis County Circuit Court,
9 and he pled guilty there on August 1st, 2014. He
10 received a three-year prison sentence to run
11 concurrent with the six-year federal sentence.

12 Examination of his play history
13 showed he had extensive gambling history and with
14 losses from 2006 to 2011, the time period when this
15 activity was taking place, of approximately
16 \$60,000.

17 CHAIRMAN KOHN: So he has truly
18 earned his place for permanent placement on the
19 exclusion list.

20 MR. GREWACH: That is certainly our
21 position, yes. Just to kind of give a little
22 background of how this process works, this is a
23 little bit like a preliminary order of discipline.
24 So if the Commission passes this resolution to
25 place him on the list, he is sent a copy of that

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1 resolution. He then has 30 days to request a
2 hearing. If he wants a hearing, then he could come
3 in and argue why he should not be placed on the
4 list. If the 30 days expire without him requesting
5 a hearing, then he's placed on the list.

6 COMMISSIONER LOMBARDO: It doesn't
7 seem very likely, does it?

8 MR. GREWACH: I would doubt --

9 COMMISSIONER JAMISON: Unless he
10 wants a trip out of prison.

11 CHAIRMAN KOHN: Any other questions
12 or amusing comments?

13 COMMISSIONER JAMISON: I move for
14 adoption of Resolution 17-020.

15 COMMISSIONER LOMBARDO: Second.

16 CHAIRMAN KOHN: Discussion on the
17 motion? Angie.

18 MS. FRANKS: Commissioner Lombardo?

19 COMMISSIONER LOMBARDO: Approve.

20 MS. FRANKS: Commissioner Neer?

21 COMMISSIONER NEER: Approved.

22 MS. FRANKS: Commissioner Hale?

23 COMMISSIONER HALE: Approved.

24 MS. FRANKS: Commissioner Jamison?

25 COMMISSIONER JAMISON: Approve.

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1 MS. FRANKS: Chairman Kohn?

2 CHAIRMAN KOHN: Approved.

3 MS. FRANKS: By your vote you've
4 adopted Resolution 17-020.

5 MR. GREWACH: Thank you.

6 CHAIRMAN KOHN: Mr. Seibert, I see
7 this memo regarding waiver of licensure. Do we
8 need to ratify that?

9 MR. SEIBERT: No.

10 CHAIRMAN KOHN: You're just informing
11 us?

12 MR. SEIBERT: Yes.

13 CHAIRMAN KOHN: I believe we have set
14 a record, at least a modern day record. Is there
15 a -- we will adjourn the open session and go into
16 closed session, and if there's action requiring us
17 to come back into open, we will. Is there a motion
18 for a closed session, Mr. Jamison?

19 COMMISSIONER JAMISON: I move for a
20 closed meeting under Sections 313.847 and 313.945,
21 Revised Missouri Statutes, investigatory,
22 proprietary and application records, and 610.021,
23 subparagraph 1, Revised Missouri Statutes, legal
24 actions, subparagraph 3, and subparagraph 13,
25 personnel, and subparagraph 14, records protected

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1 from disclosure by law.

2 CHAIRMAN KOHN: Is there a second?

3 COMMISSIONER HALE: Second.

4 CHAIRMAN KOHN: Angie.

5 MS. FRANKS: Commissioner Lombardo?

6 COMMISSIONER LOMBARDO: Approve.

7 MS. FRANKS: Commissioner Neer?

8 COMMISSIONER NEER: Approve.

9 MS. FRANKS: Commissioner Hale?

10 COMMISSIONER HALE: Approve.

11 MS. FRANKS: Commissioner Jamison?

12 COMMISSIONER JAMISON: Approve.

13 MS. FRANKS: Chairman Kohn?

14 CHAIRMAN KOHN: Approve.

15 CHAIRMAN KOHN: So we will adjourn

16 into closed session.

17 (WHEREUPON, the open session of the

18 Missouri Gaming Commission meeting concluded at

19 10:49 a.m.)

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C E R T I F I C A T E

3

STATE OF MISSOURI)

) ss.

4

COUNTY OF COLE)

5

I, Kellene K. Feddersen, Certified

6

Shorthand Reporter with the firm of Midwest

7

Litigation Services, do hereby certify that I was

8

personally present at the proceedings had in the

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above-entitled cause at the time and place set

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forth in the caption sheet thereof; that I then and

11

there took down in Stenotype the proceedings had;

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and that the foregoing is a full, true and correct

13

transcript of such Stenotype notes so made at such

14

time and place.

15

Given at my office in the City of

16

Jefferson, County of Cole, State of Missouri.

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Kellene K. Feddersen, RPR, CSR, CCR

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MISSOURI GAMING COMMISSION
Second Open Session Minutes
March 29, 2017

The Missouri Gaming Commission (the “Commission”) went back into open session at approximately 11 a.m. on March 29, 2017, at the Missouri Gaming Commission’s Jefferson City office.

Commissioner Jamison moved to adjourn the open session. Commissioner Lombardo seconded the motion. After a roll call vote was taken, Lombardo – yes, Neer – yes, Hale – yes, Jamison – yes, and Kohn – yes, the motion was unanimously approved.

The meeting ended at 11:02 a.m.