

ORIGINAL

BEFORE THE INDIANA GAMING COMMISSION

PUBLIC MEETING

TRANSCRIPT OF PROCEEDINGS

DATE: May 16, 1995

PLACE: Indiana Government Center Auditorium
302 West Washington Street
Indianapolis, Indiana

REPORTED BY: Sherry L. Malia, RPR, Notary Public

MEMBERS OF THE COMMISSION

Alan I. Klineman, Chairman
Thomas F. Milcarek
Dr. David E. Ross, Jr.
Donald R. Vowels
Ann Marie Bochnowski

ALSO PRESENT

John J. Thar, Executive Director,
and Members of the Staff

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1 MR. KLINEMAN: Good morning, everyone.
2 I think we'll try to come to order. We're still
3 operating from the recess that we took last night.
4 I, again, would ask those people who are going to
5 be speaking today to remember that we have a court
6 reporter; and if they would please speak slowly
7 and distinctly and above all identify themselves
8 as they start to speak, that will make the record
9 look a little better than it would if we were
10 trying to guess who is saying what.

11 Before we get started, I think Mr. Thar
12 has an announcement for us and then we will
13 probably move down to the first row as we did
14 yesterday and receive the presentation for
15 Pinnacle Gaming Development. Mr. Thar.

16 - - -

17 (Mr. Thar's announcement is transcribed
18 separately.)

19 - - -

20 MR. KLINEMAN: I guess with that, I
21 think we're ready for the presentation and we'll
22 move down to the front row.

23 You may proceed. My watch tells me it's

1 about ten after 9:00 so if you would proceed,
2 please.

3 MR. KINGSLEY: Thank you. Good morning,
4 Mr. Chairman, and members of the commission,
5 Executive Director Thar and staff, and a special
6 welcome to our friends from Switzerland County.
7 My name is Bob Kingsley, and I'm president and
8 chief operating officer of National Gaming Corp
9 and HFS Gaming Corp.

10 For the past two years, commencing well
11 before the gaming referendum, our team has been
12 working in Switzerland County to develop a gaming
13 project which will produce substantive benefits
14 for all participants: enhancement of tourism and
15 economic value for the state of Indiana, community
16 contributions to Switzerland County and revenue
17 sharing among the approximate six counties,
18 entertainment value for our customers, and a
19 viable long-term, financially-attractive business
20 venture for the participating companies.

21 In an industry where the most
22 irresponsible bidder often has an advantage, we
23 believe our concept, based on reasonable costs,

1 achievable financial projections, and a realistic
2 funding structure will be a real winner. This
3 morning we will summarize for you why we believe
4 Switzerland County should be allocated a gaming
5 license and that license awarded to the Pinnacle
6 team.

7 In addition to our team members
8 presenting this morning, we have in attendance Mr.
9 Erwin Haitzmann, chairman and CEO of Century
10 Casinos; Mr. John Kuhlman, of Kuhlman Design
11 Group, project architects; Ms. Rhonda Fuller,
12 counsel of Pinnacle; and Mr. Ron Hocker, local
13 counsel from Switzerland County.

14 We have assembled a project team which
15 brings together formidable strengths: National
16 Gaming Corp, a public-traded company with solid
17 financial strength, sophisticated business and
18 development expertise, and substantive investments
19 in the gaming industry; Century Casinos, whose
20 principals have developed and operated more than a
21 hundred and twenty casinos in seventeen countries;
22 Casino Development Corp, a female-owned real
23 estate development company with experience in site

1 selection and general project development; and
2 Hospitality Franchise Systems, the world's largest
3 hotel company with access to a hundred and thirty
4 million customer base.

5 Our concept provides for a river boat
6 convention and entertainment complex, which will
7 be described in detail later on in the
8 presentation, at a total cost of \$70 million; \$6.4
9 million in community grants, which recognize the
10 stated needs of Vevay and Switzerland County; a
11 land-based hotel convention and recreation complex
12 to attract tourism at \$21.5 million, and a gaming
13 riverboat and associated facilities at \$42.1
14 million as the economic engine of the enterprise.
15 This, then, is Pinnacle.

16 (WHEREUPON, a slide presentation was
17 viewed, text follows:)

18 . . . From the fertile ground of
19 Switzerland County on the banks of the Ohio River,
20 a new gaming, leisure, and community facility will
21 grow, Legends of Indiana. Built by Pinnacle
22 Gaming Development Corporation, this will bring
23 forth a fully faceted development designed to

1 stimulate economic growth and to provide the best
2 in gaming and entertainment facilities. Designed
3 to compliment the rich riverboat history of the
4 area, Legends of Indiana will be built and
5 financed by Pinnacle Gaming Development
6 Corporation, a unique collaboration between three
7 financially strong, community minded, and
8 experienced companies. Pinnacle was created
9 specifically for developing riverboat gaming in
10 Indiana.

11 MR. FORBES: My name is James Forbes,
12 president of Century Casinos and president of
13 Pinnacle Gaming Development. I'll start by
14 outlining the key components of this development.

15 At the heart of the project is a
16 historic restored riverboat. The riverboat will
17 contain all the gaming facilities and will be
18 supported by comprehensive shore-sided facilities.
19 The focus on this activity is around a two hundred
20 ninety-six room Ramada hotel. In planning the
21 associated entertainment and recreation
22 facilities, we have focused on amenities that are
23 currently lacking in the community, together with

1 elements that make this a destination resort in
2 its own right.

3 Currently, we have a show room and
4 cinema, entertainment facilities which are not to
5 be found in the surrounding counties. We have
6 banquet suites and function rooms. Furthermore,
7 we've employed elements which will appeal to a
8 broad range of age groups, catering to families,
9 children, and to more mature audiences. We have a
10 health club, food courts, retail areas, game
11 arcades, and, for the young people, a miniature
12 golf area. I would like to tell you a little bit
13 more about Century Casinos.

14 (WHEREUPON, a slide presentation was
15 viewed, text follows:)

16 . . . Using a classic riverboat as its
17 centerpiece, Legends of Indiana will be managed by
18 Century Casinos. With a wealth of casino
19 experience and a sensitivity to community needs,
20 Century is committed to hiring local residents,
21 utilizing local businesses, and being a good
22 neighbor by actively participating in the
23 community. This is what sets Century Casinos

1 apart. The management team at Century Casinos
2 boasts a unique combination of talent, expertise,
3 and innovation, bringing an impressive track
4 record to the project. In addition, the team has
5 indepth experience working within regulatory
6 environments and adding dimension in their
7 capabilities.

8 MR. FORBES: Although a relatively new
9 small company, the experience of the management
10 team at Century Casinos is literally world class.
11 As the senior management team of Austria
12 International, the principals of Century developed
13 over one hundred casinos in seventeen countries
14 world wide over a ten-year period to establish
15 that company as the world leader of international
16 casinos. Many of these countries were new to
17 gaming; many cities and communities had not seen
18 gaming in their surroundings.

19 We at Century Casinos are career
20 professionals, working in the gaming industry all
21 our work lives. For example, the chairman of
22 Century, Erwin Haitzmann, and myself, both entered
23 the gaming industries as dealers and have worked

1 at every concept of the operation as we have
2 developed our careers. We have proven success in
3 competitive markets world wide.

4 For example, in Colorado we've competed
5 against twenty-three other casinos in the town of
6 Cripple Creek, and after one year we have
7 transformed a failing casino into one of that
8 town's leading facilities. Just this past week,
9 the influential publication "Colorado Gambler"
10 announced its 1995 Readers Awards. The Legends
11 Casino headed up categories in dining,
12 hospitality, and promotion. Equally rewarding
13 were the industry nominations, that saw Legends
14 receiving recognition for the best community
15 support program and the best general manager.

16 Century Casinos has experience in
17 diverse jurisdictions. We've been approved by the
18 authorities in Colorado, Louisiana, and by the
19 National Indian Gaming Commission. The team
20 members have been approved in Australia, New
21 Zealand, throughout Europe; and significantly
22 during that time, fifteen years of casino
23 business, no member of the team, no casino under

1 our management or control, no part of our company,
2 has had any disciplinary action taken against it
3 by any jurisdiction.

4 Currently we have casinos in operation
5 in Colorado, with a band of Mission Indians in
6 California, and also casinos aboard various cruise
7 vessels cruising the seven seas of the world.
8 Under development we have a property in Nevada, we
9 have an application pending with the Missouri
10 Gaming Commission, and also we are pursuing
11 developments in South Africa in conjunction with
12 some of that country's leading financial
13 institutions.

14 In Louisiana, we were responsible for
15 the design, preparation, and development of the
16 riverboat you see here, the Crown Casino. Before
17 this project was taken over by Casino America, we
18 had brought this through to a turn-key readiness,
19 setting up the gaming systems, working with the
20 state commission and the police to develop
21 internal control systems, recruiting and training.
22 In fact, all aspects relating to the preoperation
23 and development of that casino.

1 Moving back to Switzerland County. We
2 would like to highlight the location of the site,
3 which as you see from the screen is approximately
4 equidistance between the major population cities
5 of Cincinnati and Louisville and also within easy
6 reach of Lexington and Indianapolis. The main
7 feature that brought us to this site was the key
8 access along this I-75/I-71 corridor linking the
9 population of Cincinnati and Louisville. It is in
10 this area along this highway that we believe in
11 the region of 70 to 80 percent of our gaming
12 visitors will come in to Switzerland County.

13 The site is located in Switzerland
14 County just a mile away from the Markland Bridge.
15 The Markland Bridge, which you see in the back of
16 this photograph, is the artery that links the
17 Indiana shore through Kentucky and to I-71. As
18 you see, coming off the bridge we have a clear,
19 straight road leading us to the site, a road that
20 leads through no residential areas. The site
21 itself is clear, readily developable land and is
22 located in a part of the river with stable water
23 conditions and significant amounts of Indiana

1 water for cruising.

2 To talk a little more about the site, I
3 would like to introduce Catherine Faestel, the
4 owner of Casino Development Corporation.

5 MS. FAESTEL: Good morning. My name is
6 Catherine Faestel, and I am chairwoman and sole
7 owner of Casino Development Corporation, and my
8 company owns 5 percent of Pinnacle Gaming
9 Development. For Pinnacle, my firm provides real
10 estate development services. Along with my staff,
11 that includes my husband as president, David
12 Faestel, we were responsible for securing the land
13 options, preliminary design and engineering
14 analyses for the entire Pinnacle property.

15 The Pinnacle property totals 52 acres.
16 This consists of an option to purchase 18 acres on
17 the eastern portion of the site and an option to
18 lease 10 acres with the right of first refusal for
19 an additional 24 acres on the western portion of
20 the property. The 18-acre tract in the eastern
21 portion of the property is at this location, and
22 the 10-acre option to lease, that could be
23 expanded to 34 acres, is on the western portion of

1 the property.

2 The entire property extends along State
3 Route 156 approximately 3000 feet and along the
4 Ohio River approximately 3600 feet. For all
5 properties under option, title abstracts have been
6 perfected through May 2nd, 1995, showing no
7 judgments or mortgages present, and the options to
8 both purchase and lease 52 acres underlie the
9 entire development as proposed in our amended
10 application.

11 MR. FORBES: Shown on this screen is the
12 full development that we're proposing as the
13 initial stages of the Pinnacle application. In
14 fact, this shows approximately half of the land
15 under our control; the balance of the land is off
16 the screen to the left-hand side. The centerpiece
17 of the development is the two hundred ninety-six
18 room Ramada hotel. This area will also contain
19 the convention areas and the more significant
20 entertainment areas. The river walk will become
21 an attractive promontory overlooking the Ohio
22 River. Adjacent to the hotel development will be
23 the miniature golf facility, and this will be

1 further linked along the river walk with the
2 boarding and entertainment areas together with the
3 docking position for the riverboats at this stage.

4 Moving further along we have the RV park
5 development. Initially for thirty-two vehicles,
6 it will be expanded out to seventy. The remaining
7 areas of the initial development comprise
8 principally the parking for in the region of
9 fourteen hundred cars and buses. Indicated above
10 are further areas of landscaping to make an
11 attractive water feature of the existing river
12 inlet adjacent to the site.

13 The concept of this project was
14 initially developed by Kuhlman Design Group and
15 involved working through a number of different
16 designs and drawings to put together the original
17 concepts that you see here. As we progressed with
18 our preparation, we further refined these concepts
19 to bring us through to more detailed planning and
20 more detailed costing scenarios. For example, in
21 the next slide we -- we then transferred all the
22 design information on the computers to present
23 accurate community drawings and models to enable

1 us to further refine our design. For example, the
2 next slide is a view of the river walk to prepare
3 the vistas to make sure we had an integrated and
4 attractive development.

5 I'd like to touch now on the history of
6 the project. When gaming was first introduced in
7 Indiana in 1993, we looked at a number of counties
8 and sites, including Rising Sun. Together with
9 our engineers, we evaluated a number of locations
10 before choosing Switzerland County over its
11 neighboring counties.

12 Among many factors considered was the
13 appropriateness of putting a major development in
14 or adjacent to a small community. A development
15 on this scale could only dwarf a small town like
16 Vevay, irreparably changing its character and the
17 character of its community, overburdening its
18 infrastructure, disrupting its social structures.
19 For us, Disney downtown was not the answer.

20 Pinnacle funded and led the referendum
21 effort. Myself and other members of my team spent
22 several weeks in the county campaigning, meeting
23 with community groups, listening and responding to

1 concerns, making changes to our proposed
2 development, and discovering that our site and
3 plans met with popular support. Referendum
4 results showed support levels among the highest in
5 the state and comparable to neighboring Ohio
6 County. Even though the issue was divisive, the
7 community has since reunited behind a strategy of
8 support for a considered, responsible introduction
9 of riverboat gaming to the county. Make no
10 mistake, Switzerland County and its residents are
11 keen to see this project come to fruition.

12 In our site selection, this is what we
13 were looking for, this was the basis of our
14 evaluations: Accessibility to major target
15 markets, suitability of land for development, and
16 favorable river navigational conditions. This is
17 what we found: Proximity to the Markland Bridge,
18 giving ideal access to the main I-71 artery,
19 favorable environmental wetland safety and
20 engineering studies all completed indicating the
21 likelihood of rapid development, and between 3- to
22 800 feet of Indiana cruising water to enable us to
23 fully meet the intent of the original legislation

1 for cruising riverboats in Indiana.

2 As we look in more detail at the results
3 of our evaluations, you will see us draw
4 comparisons between Switzerland County and
5 neighboring Ohio County. We do this because these
6 are the comparisons we made when selecting
7 Switzerland County as our chosen location.
8 Rightly or wrongly, we conceive that these
9 comparisons will be relevant to the commission. I
10 would now like to introduce Daroll Hawkins of CTI
11 Environmental.

12 MR. HAWKINS: My name is Daroll Hawkins.
13 I'm a past chief of the north section permitting
14 branch for the Louisville district of permitting
15 in the State of Indiana, and I hired and trained
16 the current chief that's serving there. I'm also
17 a registered engineer in the State of Indiana.

18 Our approach to looking at environmental
19 concerns was an alternative site analysis for both
20 Switzerland and Ohio Counties. This slide shows
21 site consideration factors, such as Indiana
22 navigable waters, general navigation use, flood
23 plane identification, and high water problems.

1 When viewing these two areas, it becomes obvious
2 that the Rising Sun site has more problems to
3 overcome.

4 The areas shown in dark blue, the area
5 shown in dark blue on the Indiana shore is the
6 Indiana navigable water pool. In terms of average
7 length from shoulder to the Kentucky boundary, the
8 two sites are practically the same. The Pinnacle
9 site has about one more mile of river length than
10 the Rising Sun site. The extra available length
11 would reduce the number of turns during a two hour
12 cruise.

13 The area shown in light blue, when added
14 to the blue, represents the distance from the
15 Indiana shore to the center of the observed
16 sailing channel. The observed sailing channel, or
17 navigation line, is used by tow boats passing an
18 area. A tow boat, with a maximum barge load, is
19 pushing nearly two and one-half acres of cargo.
20 This makes for a very unwieldy vessel.
21 Consequently, tows try to minimize their angle of
22 change and direction. The light blue also
23 represents the separation between the normal tow

1 operations and the casino boat operations.

2 At the Pinnacle site, the down-down tows
3 will, upon arrival in the casino boat operational
4 area, bear towards the Kentucky shore to approach
5 the Markland locks and dams, which is located on
6 the Kentucky shore. Likewise, up-end tows will
7 cut toward the Kentucky shore to make the corner
8 at the other end of the casino boats' operational
9 area. Note the wide separation through the entire
10 reach of the casino boat operation. At the Rising
11 Sun site, the barges will cut towards Rising Sun
12 in order to make the Arnold Creek bend and as they
13 come off of Lowrey Island. Note the narrow
14 separation that exists in the Indiana waters at
15 this site.

16 In addition to the navigational line of
17 travel, note the location of two emergency mooring
18 buoys. The buoy location effectively eliminates
19 the upper end of the cruise area and the most
20 favorable turn around site for the Rising Sun
21 facilities. These buoys are used when tow boats
22 experience an emergency and need a secure mooring
23 site. Maneuvering two and a half acres of barges

1 with 23,000 tons of cargo under emergency
2 conditions cannot be easily dismissed by the
3 simple assurance that, quote, we will coordinate
4 with tow boat pilots and captains.

5 The yellow area represents the land
6 subject to frequent changes in water elevation.
7 This is the area also that's subject to the Corps'
8 review in their considered special aquatic sites,
9 including wetlands. You will note that the
10 associated problems of this factor are not even
11 discernible at the Pinnacle site. The Rising Sun
12 site does have extensive areas that need to be
13 addressed.

14 The brown area represents the area
15 inundated by high waters during the last twenty
16 years. This is based on flood frequency data. A
17 flood of this magnitude is again due to occur. At
18 the Pinnacle site, the flood area is designed to
19 existing water features. At the Rising Sun site,
20 the flood impact area is quite extensive, as you
21 can imagine with all of this being underwater and
22 bearing down on this site. The purple and pink
23 areas represent the areas flooded during the 1937

1 flood. Although regulations only address the 100
2 year flood, which is lower, proposals such as
3 being contemplated would want protections from all
4 known flood problems.

5 The problem with pool fluctuation is
6 clear when viewed by the change of elevation of
7 the floating facility itself. Again, the annual
8 fluctuation is discernible here and not
9 discernible at the Pinnacle facility. The highest
10 flood elevation in the last ten years exceeds the
11 flood elevation in the last twenty at Pinnacle,
12 and the one at Rising Sun is 19 feet above normal
13 pool where Pinnacle is only 9 and a half feet
14 above pool.

15 Looking at the comparative site
16 analysis. This comparison is based really upon a
17 descriptive analysis impact of "N" being no
18 impact, "S" being some impact, "I" being would
19 require additional investigation, "L" meaning that
20 it would need to have permits or legal procedural
21 steps, "M" is mitigation or special
22 considerations, and "I" is that extensive
23 structural modification is unavoidable and

1 unmitigable resource losses. Now, this is a Corps
2 of Engineers EIS method for comparing sites. You
3 rank the analysis, then, in order of magnitude and
4 apply a number analysis, with the number analysis
5 to identify the problem areas.

6 After years of reviews with permit
7 applications, identification of these types of
8 problems is almost instinctive, and the Corps'
9 assignment of their resources reflects these
10 instincts. Based upon the Corps' assignment, it
11 is clear that the Pinnacle site is a better site.
12 If we throw in vehicular traffic, the Pinnacle
13 site quickly becomes superior because it's just
14 across the Markland Bridge, whereas Rising Sun
15 fits the old saying: You can't get there from
16 here. Mr. Forbes will now summarize the traffic
17 analysis data.

18 MR. FORBES: To assist us in considering
19 the access of the traffic issues, we engaged the
20 Indiana firm of Pflum, Klausmeier & Gehrum and
21 worked closely with one of its partners, Jim
22 Klausmeier. His studies confirmed for us a number
23 of factors. Rather than using the conventional

1 and often misleading radial analysis for
2 considering a particular market, and those radial
3 analyses are normally based on mileages, we asked
4 Mr. Klausmeier to evaluate the sites on the basis
5 of drive time, a much more realistic basis for
6 measure of accessibility.

7 On this first chart we see the drive
8 times, those areas within a 30 minute reach of the
9 two locations, the Pinnacle site and Rising Sun.
10 The red-shaped areas indicate those parts within a
11 30 minute reach of the Pinnacle site. The yellow
12 areas, including the overlap between the two
13 counties, the yellow area indicates the Rising Sun
14 30 minute reach, and the orange area is the
15 overlap. As you can see from here, there's a
16 significant difference because of the I-71
17 corridor as to those areas that can be reached
18 within 30 minutes from the Pinnacle site.

19 As we move on to the 60 minute site, we
20 come into a much more critical area of evaluation,
21 which I'll return to later. This is the 60 minute
22 drive time which we discovered encompassed 50
23 percent more residents relative to the Pinnacle

1 site as compared to the site in Ohio County.

2 We extended this study to demonstrate
3 here that in the 60 minute drive time area, the
4 Pinnacle site is readily accessible to the
5 residents of Louisville, to the surrounding
6 perimeters of Cincinnati, and reaching through
7 into the heartland between the Ohio River and
8 Indianapolis. This is a significant market reach
9 within a 60 minute drive time.

10 The secondary market falls in that area
11 which is 90 minutes and beyond this chart, which
12 shows a 90 minute drive time. And we'll move on
13 and look at access into the Pinnacle site off the
14 I-71 interchange.

15 You can see through the moving dots that
16 I-71 is the main artery here to the site on this
17 side of the river. We expect in the region of 35
18 percent to come south down I-71 from the
19 Cincinnati area, 35 percent plus to be coming up
20 from I-71 and the Louisville area. From
21 Cincinnati traffic will arrive down I-71 and take
22 this route through Warsaw, and from Louisville the
23 traffic will arrive and come down through this

1 location. Only 5 percent of our traffic will come
2 up 42 at this point, and we believe that no more
3 than 20 percent of our traffic will come up on the
4 Indiana shore through the town of Madison.

5 Significantly, we project that only 5 percent of
6 our visitation will come down through the towns of
7 Lawrenceburg, Aurora, and Rising Sun to this
8 particular place.

9 Another feature shown on this is a
10 proposed extension to the I-71 thoroughfare and a
11 link that will bring I-71 through to the Markland
12 Bridge. This is a link that's currently under
13 consideration by the Kentucky Department of
14 Transportation. This, again, summarizes the
15 location of the site, demonstrating clearly clear
16 access to the major residential areas.

17 What we've considered so far relates
18 primarily to developments in the core market, the
19 market within immediate reach. What we will now
20 look at is how we will reach beyond this to
21 generate revenues from a far broader market, how
22 we will bring new out-of-state revenues to the
23 benefit of Indiana.

1 (WHEREUPON, a slide presentation was
2 viewed, text follows;)

3 . . . Hospitality Franchise Systems is
4 located in hundreds of communities both large and
5 small. Few in the hotel industry can rival HFS's
6 financial strength. Fewer still have their
7 extensive sales network which, through HFS Gaming,
8 will substantially enhance the project's marketing
9 potential.

10 MS. HOUGH: Good morning. My name is
11 Penzie Hough. I'm the vice president of marketing
12 for HFS Gaming, and I am responsible for marketing
13 the Pinnacle Legends of Indiana casino.

14 From the Indiana code, and I quote,
15 "This article is intended to benefit the people of
16 Indiana by promoting tourism and assisting in
17 economic development." Promoting tourism, that's
18 why I'm here today. Experience has shown
19 development and operation of a successful gaming
20 venture is not simply a matter of: If you build
21 it, they will come. On the contrary, gaming is an
22 entertainment choice in competition for customers'
23 discretionary dollars, and they will make a

1 choice, and effective, broad-reaching marketing is
2 a key to inducing a customer to choose gaming in
3 Switzerland County.

4 At HFS, we can leverage our unrivaled
5 marketing capabilities to deliver additional
6 gaming visitors to establish a competitive edge so
7 that when Ohio and Kentucky, if and when they come
8 on board, will be prepared. We have a unique
9 capability to reach beyond the fifty to a hundred
10 mile radius, to draw new visitors from outside the
11 casino's primary marketing area. HFS will breathe
12 new visitors and new life into the community and
13 into the state of Indiana, and, actually, we're
14 going to develop promotions that tie in with the
15 local community and the state and county tourism
16 organizations. But what sets us apart is the
17 ability to draw a much broader customer base, and
18 no other company can do this.

19 HFS Gaming delivers these additional
20 visitors through our access to the HFS hotel
21 network. All of these hotel branches you see here
22 and are quite familiar with are part of that
23 network, and the reason that so many hotel owners

1 choose HFS is our leading track record in
2 providing marketing services designed to increase
3 revenue and profitability, a track record that is
4 increasingly bringing similar results to the
5 casino industry.

6 HFS is the world's largest hotel
7 franchisee. We have four hundred and twenty
8 thousand rooms nation wide, and we're growing at
9 an annual rate of 10 percent. This growth is
10 driven by HFS's ability to provide value-added
11 services that enable our clients not only to
12 compete but to win in a very competitive field;
13 and, as we all know, gaming is quickly becoming
14 competitive with new casinos coming in to
15 jurisdictions.

16 We provide lodging for a hundred and
17 thirty million customers annually who have the
18 same demographic profile as your casino customers,
19 and what that means is the guest that stays at our
20 hotel is the customer that's going to come to your
21 casinos. Outside surveys have shown that 68
22 percent of our hundred and thirty million guests
23 annually are predisposed to gaming. That means

1 we're already talking to a captive audience of
2 eighty-eight million people who visit casinos.

3 HFS spends over a hundred and thirty
4 million dollars a year in marketing. This gives
5 us tremendous purchasing power. It also gives us
6 one of the loudest voices in the travel industry,
7 and that voice is key to the success of any new
8 gaming venture. We have six million travel club
9 members made up of business, leisure, and senior
10 travelers, six million people who regularly
11 respond to HFS promotion and coupon offers.

12 For example, in the senior market, and
13 if you go to a casino you can see there's a
14 predominance of seniors, they had a hundred and
15 sixty billion dollars in discretionary income last
16 year. HFS owns that market. In the Days Inn
17 travel program alone, we have over three hundred
18 thousand senior club members. We also have many
19 strategic alliances with travel giants. For
20 example, HFS has an exclusive relationship with
21 Alamo, which allows us to promote our hotels
22 through the Alamo network. I mean, can you
23 imagine every rental car coming out of the

1 Indianapolis, Louisville, and Cincinnati airports
2 with a Legends of Indiana casino promotion in
3 their rental car agreements? I would say that's
4 pretty effective.

5 HFS filled over fifty thousand buses
6 last year, fifty thousand buses following an
7 itinerary put together by HFS. In this area
8 alone, with Mayflower Tours, we booked fifteen
9 thousand hotel rooms; twelve thousand with
10 Tri-Star Tours. These itineraries can easily
11 include a casino trip. In fact, the number one
12 selling trips today are casino destination trips.
13 We include casino literature, casino listings and
14 coupon offers, in fifteen million directories
15 annually. These directories can be found in HFS
16 hotels, they can be found in welcome centers up
17 and down the interstate, and they can be found in
18 seventy thousand travel agencies nation wide, and
19 I think the point is that these do get used.

20 50 percent of our reservations through
21 our reservation system comes off these directory
22 listings, and that's twenty-six million calls a
23 year to our reservation center. We have special

1 agents set up and their whole purpose is to
2 promote the casinos in that region, and when calls
3 come in from travelers coming in from anywhere
4 within a two hundred mile radius, surveys show
5 that the majority of our customers are predisposed
6 to gaming and we know how to talk to them.

7 This is a profile of the existing HFS
8 customer. It should look fairly familiar. This
9 is the profile of the typical casino visitor.
10 It's the profile of the majority of potential
11 visitors that are going to come to Switzerland
12 County, and we've been talking to them for years.
13 This may not be your typical Las Vegas or Atlantic
14 City gambler, but what it is is your mid-priced,
15 price-value traveler who's arriving by cars or
16 buses, and they are our customer and they are your
17 customer.

18 Let's look closely at Switzerland County
19 and what we can do for them. HFS has over
20 twenty-one thousand hotels within two hundred
21 miles of Switzerland County where we can influence
22 6.8 million guests per year. By using our hotels
23 to advertise casino packages, we will affect their

1 entertainment choices. In other words, we can
2 advertise exclusive offers from the casino and
3 local restaurants in every one of those twenty-one
4 thousand rooms. It's a captive audience. In
5 addition, we will provide shuttle service to and
6 from the casinos that are in close proximity to
7 our hotels.

8 Finally, HFS travel network has a
9 hundred and ninety thousand travel club members
10 within two hundred miles of Switzerland County
11 who, in looking for leisure and entertainment
12 opportunities, look to HFS. Our direct mail
13 efforts have generated millions of dollars for our
14 hotel, and HFS Gaming is proving to be equally
15 successful. For a casino that we market for in
16 Mississippi, our last direct mail effort had a
17 response rate, a remarkable response rate, of over
18 29 percent. A good, excellent response rate is 8
19 to 10 in this industry, so 29 percent is
20 remarkable. And what it did is generate \$4.3
21 million in additional coinage in the slots.

22 We continue, we don't stop there, but we
23 continue to develop subsequent mailings based on

1 these results, which build a data base to
2 stimulate repeat visits and build a far reaching
3 and loyal customer base. This generates the
4 incremental visits that makes the difference
5 between mediocrity and success. Within two
6 hundred miles of Switzerland County alone, HFS had
7 six thousand buses last year. Through out-bound
8 telemarketing and pre-existing relationships with
9 key tour operators, HFS Gaming will bring
10 substantial bus visits to the Switzerland County
11 area. In addition, we have an exclusive data base
12 that tells us who's traveling, where they are
13 traveling to, how much they are spending, and I
14 would suggest this is pretty valuable information
15 in the gaming business today.

16 You know, in the beginning, perhaps,
17 casinos in Indiana will enjoy exclusivity in their
18 market, but gaming in Indiana is eventually going
19 to see increasing competition from their
20 neighboring states in Ohio and Kentucky, and we
21 believe that the smart casino operator is the
22 group that is preparing for that from day one.
23 HFS Gaming can build a large loyal customer base,

1 we can reach beyond the immediate market,
2 maximizing revenues, and preparing for that
3 competition. In short, HFS Gaming can and will
4 ensure the ongoing success of Pinnacle's Legends
5 of Indiana casino in Switzerland County. Thank
6 you.

7 MR. FORBES: Our market projections are
8 based on a conservative approach, one that we have
9 used often in the past to meet the requirements of
10 the financial community. Generally that financial
11 community focuses on the worst-case, what-if
12 scenarios, factors that could affect the viability
13 of a new project, especially in an unproven
14 market, and this is an unproven market. Some new
15 jurisdictions, such as Illinois and parts of
16 Louisiana, have seen the actual performance of
17 their casinos comfortably exceeding the
18 projections that were made for them, while others,
19 such as Missouri, have seen results on the low end
20 of expectations.

21 We believe our numbers to be
22 conservative. For example, analysts in the
23 financial community have projected revenues for

1 the southeast Indiana market at between six
2 hundred million and one billion dollars annually,
3 a market that will be served initially by perhaps
4 no more than three boats. Although we have used
5 every effort to rationally predict the number of
6 visitors that we will attract, no applicants at
7 this point can reasonably claim that their numbers
8 are initially anything more than a somewhat
9 refined gaze into a crystal ball. Each market is
10 different, and markets in the new jurisdictions
11 bear little relation to the experiences of the
12 markets in Nevada or New Jersey.

13 However, although the levels of
14 visitation may in reality differ significantly
15 from the projections, certain factors will remain
16 consistent, and the most significant of these is
17 the impact of convenience, a factor that is more
18 important in determining the direction that
19 visitors will go than the actual mileage that we
20 have to travel. Drive time is the most important
21 measure of this factor. For casinos serving a
22 large metropolitan or residential area, better
23 than 90 percent of the potential market will lie

1 within a two hour drive. Significantly, though,
2 60 percent, in excess, of the total visits will
3 come from within a 60 minute drive. These are
4 factors over which the casino operator has no
5 influence, because this is where people live, and
6 it is these factors that determine the market
7 potential of the core area, the area from which 90
8 percent of the business will come.

9 If we look at the one hour and two hour
10 drive times for Switzerland and Howard counties,
11 we see some key data. The Pinnacle site has
12 almost 50 percent greater potential within that 60
13 minute drive than Ohio County. In excess of five
14 hundred thousand people more can be reached within
15 60 minutes of the Pinnacle Gaming Development
16 site. This is a factor that you will see
17 important in the retail industries and it's the
18 old story, it's location, location, location.

19 It would have been relatively easy to
20 come to you with an inflated set of projections,
21 but we believe that would have been irresponsible
22 to our investors, to the gaming commission, and to
23 the people of Switzerland County. After all, we

1 cannot change the market potential; we can only
2 promise to use our efforts and skill to realize
3 the full potential of that market with a world
4 class operation and effective marketing.

5 On the subject of marketing, these are
6 the principle factors that influence success.

7 The size of our marketing budget and commitment
8 speaks for itself. The HFS connection brings a
9 unique dimension in providing extended reach and
10 penetration. This is a tool, but it's an
11 effective tool only in skilled hands.

12 Commissioners, judge us not by our forecasts but
13 by our access to the skills and resources
14 necessary to deliver, the factors that will most
15 likely realize the maximum potential of the market
16 and generate maximum revenues, regardless of the
17 projections.

18 Community benefits that we have
19 discussed with the residents of Switzerland
20 County. We've entered into a development
21 agreement with the county that provides security
22 and protection for the interest of the county
23 during the development phase and will provide for

1 expedited development allowing us to start rapid
2 operations. The county itself has established a
3 revenue sharing scheme to benefit the surrounding
4 six counties. We will also establish an advisory
5 board made up of representatives of Pinnacle and
6 residents of the community to advise the company
7 as to how it best harmonizes and fits into the
8 life of Switzerland County.

9 Community grants have been principally
10 focused at those areas where Switzerland County
11 has the greatest needs, in the areas of medical
12 and emergency facilities. Those areas that
13 Switzerland County will need to respond to to
14 ensure easy integration of this development into
15 the community, such as infrastructure and roads.
16 We've also put together a revenue bonus, a means
17 by which we can put extra money into the community
18 dependent on the size of our revenues.

19 Over the five-year period, over and
20 above those amounts that were paid by the taxes
21 mandated by the statute, the county will benefit
22 in the region of \$7 million, schools will see
23 benefits of between three and three and a half

1 million dollars over a five-year period, and other
2 organizations within the community will benefit
3 from within three and a half to \$4 million. And
4 as for employment, one thousand direct full time
5 equivalent jobs, annual payroll of \$22 million,
6 and proven training programs that will bring
7 people real opportunities for real jobs in a real
8 industry. These are programs that we at Century
9 Casinos have developed over many years of
10 experience working in different countries, working
11 in areas with no existing gaming infrastructure to
12 bring those skills to the people who will then
13 develop a future and a career in the gaming
14 industry.

15 At Century Casinos, we're proud of our
16 record with minorities and female recruitment.
17 Currently Century Casinos has in the region of 44
18 percent of its employees from minority groups. 48
19 percent of our employees are women, many of them
20 in senior and executive management positions. To
21 assist us in integrating the question of
22 women-owned businesses, minority-owned businesses,
23 achieving the right level of penetration for

1 opportunity in those areas, we will be working
2 with Britt Wagner of Wagner & Coe, and they will
3 be specializing in identifying women-owned
4 businesses, qualified minority-owned businesses,
5 and assessing our ability to meet the target set.
6 We will be establishing appropriate goals in the
7 area of hiring and putting together compliance
8 programs to make sure that those are met.

9 We believe that this operation has the
10 capability to be running by the end of this year.
11 As to the specific suitability, at end of June or
12 early July, we believe that with a temporary
13 riverboat and our readily permitable and
14 developable site, we can start operations by the
15 end of 1995.

16 I'd now like to introduce Henry
17 Silverman, chairman and chief executive of
18 Hospitality Franchise Systems, chairman and CEO of
19 National Gaming Corp.

20 MR. SILVERMAN: Thank you, and good
21 morning. As James said, my name is Henry
22 Silverman. I am the founder and largest
23 shareholder and chair and CEO of both HFS, HFS

1 Gaming, and National Gaming Corp, or as Jack Thar
2 would say, the dumb money is now in the room. I
3 would like to say good morning to all of you and
4 make a brief presentation about summarizing the
5 strengths of HFS to show you what we do, in fact,
6 bring to the table.

7 As Penzie has already told you, we are
8 the world's largest hotel company, with seven
9 hotel chains, over four thousand four hundred
10 hotels, and close to four hundred and thirty
11 thousand hotel rooms open and operating in the
12 United States of America. We are a New York Stock
13 Exchange listed company with about a two billion
14 dollar market cap. Our debt is rated investment
15 grade by both Moodys and Standards & Poore. The
16 importance of that, for those of you who are
17 financially sophisticated, you know that money
18 becomes a commodity, but money (inaudible) and is
19 always available.

20 As Penzie has told you, we service over
21 a hundred and thirty million U.S. consumers
22 annually in our hotel rooms, and, of course, as
23 you know from our application, HFS remains

1 contingently liable, behind National Gaming Corp,
2 to supply the equity for this project, and our
3 financial ability to do that is unparalleled by
4 any other applicant.

5 National Gaming Corp, who is the direct
6 participant in the project, is a company which we
7 founded and spun off last year. It currently has
8 about \$50 million of cash in the bank. But, as
9 many of you know, we are closing on the
10 acquisition of Par-A-Dice Casino in Peoria,
11 Illinois, which is scheduled for June 20th, good
12 Lord willing and the Illinois gaming board willing
13 to meet that date. But it is scheduled for June
14 20th, and suffice it to say our 15 million dollar
15 equity commission is, quote, in the bank. It
16 literally is in the bank.

17 We additionally have lines of credit
18 available to us, and we, simply with one phone
19 call to Bankers Trust Company, arranged a hundred
20 and fifty million dollar credit facility for the
21 acquisition of the Par-A-Dice. As you can see,
22 National Gaming has the cash on hand to provide
23 the equity funding that's required for the Legends

1 Casino, as we agreed and represented to this
2 commission continuously since our involvement with
3 the project, which is almost two years ago.
4 Equally important is our track record of
5 completing projects of far greater magnitude and
6 frequently greater risks than our Switzerland
7 County venture.

8 HFS and NGC have arranged over \$1
9 million of bank financing over the past several
10 years. Our team, HFS, NGC, and Century Casinos,
11 has been together now some eighteen months. It's
12 the same team we started with and we've played by
13 your rules since the project's inception. We are
14 ready, if you will award us a license, to be in
15 the this project. On behalf of Pinnacle and its
16 team, I encourage your favorable consideration to
17 our application.

18 I would like to just summarize very
19 quickly. The Legends of Indiana application
20 provides ideal access to target markets, unrivaled
21 marketing capacity, as you can see from the
22 slides, strong operations and development
23 expertise, and an attractive and stable

1 development, and a team ready, willing, and able
2 to start. Thank you, very much, for your
3 consideration.

4 (WHEREUPON, a slide presentation was
5 viewed, text follows:)

6 . . . Century has the operating
7 expertise, HFS Gaming has the marketing strength,
8 National Gaming Corporation has the financial
9 resources. Together they have the capability to
10 realize the full potential of this opportunity, to
11 meet competitive challenges, and to maximize
12 long-term revenues for the state of Indiana. From
13 environmental and urban issues, to safety and
14 marketing accessibility, this is a superior site.
15 From community commitment to employment and
16 economic growth, this is an exceptional
17 development. From operational expertise to
18 marketing strength, this is an unequalled
19 opportunity for Switzerland County and Indiana.

20 MR. KLINEMAN: Thank you.

21 (Applause.)

22 MR. KLINEMAN: I think we'll take about
23 a 15 minute break right now and we'll come back

1 here in 15 minutes.

2 (A recess was had.)

3 MR. KLINEMAN: Thank you, very much, for
4 your presentation. I guess as of this morning you
5 have made available to the commission the
6 development agreement between Pinnacle Gaming
7 Development Corporation and Switzerland County,
8 and, frankly, we've not had a chance to review it.
9 If we have questions about it, we might have to
10 defer those questions and submit them to you in
11 some manner before we conclude the proceedings
12 concern the southeast.

13 I would start off getting into the
14 traffic question. We saw your graphic
15 presentation of the circles coming together and
16 all arriving at the site, et cetera, and your
17 drive times. I guess my first question would be:
18 The drive times which have been computed, I
19 presume they are computed based upon the way the
20 little red circles run around the map. Is that
21 correct?

22 MR. FORBES: The red circles on the map
23 there indicated principally the volumes that would

1 be coming from any particular direction, so the
2 density of those circles generally demonstrated
3 those factors, showing that we had in excess of 70
4 percent of our visitors coming through the I-71
5 corridor, an additional 5 percent coming up
6 through Carrollton, Kentucky, 20 percent coming up
7 the Indiana shore line through Madison, and just 5
8 percent coming down through Lawrenceburg.

9 MR. KLINEMAN: And could you briefly
10 describe the nature of the highways, particularly
11 the ones that you are going to rely upon pretty
12 heavily in Kentucky, the cut off that goes to
13 Warsaw from the north and then, of course, the
14 highway which in your map would accommodate the
15 people coming from the south of 71?

16 MR. FORBES: What I'd like to do is to
17 bring on James Klausmeier, who did a lot of those
18 studies for us and did the evaluation for us, and
19 perhaps he could give you more technically correct
20 statements on this matter.

21 MR. KLINEMAN: That would be fine. I'm
22 personally acquainted with him from another
23 position that I hold in government.

1 MR. FORBES: Thank you.

2 MR. KLINEMAN: Welcome.

3 MR. KLAUSMEIER: Good morning. My name
4 is James Klausmeier. I am a partner in the firm
5 of Pflum, Klausmeier & Gehrum, consultants. We
6 have offices in the Indianapolis, Cincinnati, and
7 the Cleveland areas, and we provide services
8 throughout the Midwest.

9 Yes, it was our firm that helped to
10 create the graphic that you saw, Mr. Chairman. My
11 staff and I spent several pleasant days in
12 southern Indiana driving those routes, and the
13 driving times reflect the actual stop watch time
14 from the site to the interstates, and then from
15 the interstates on we used the posted speed limits
16 to calculate those various runs, so we feel they
17 accurately reflect the actual driving times.

18 Unlike some of the other sites in and
19 along the river in southern Indiana, this one is
20 located particularly well along the flattest and
21 straightest spot of State Road 156 along the
22 river, and it's within, within two miles of the
23 Markland Bridge, which is going to be a principle

1 way of ingress and egress to the site. As we --
2 as you know, if you've been there, there's a
3 partial interchange at either end of that bridge
4 which serves the traffic well, and then as we move
5 up the hills of northern Kentucky to I-71, we find
6 two lane roads that are hilly and curvy and, but
7 it's less than ten miles from, from the valley,
8 eight miles, actually, from Warsaw up to the top
9 of the hill.

10 We have counseled our client to pay
11 particular attention in working with the state
12 highway agencies on both sides of the river to
13 upgrade pavement markings, signs, to develop an
14 incident management plan to detect and respond to
15 any incident that might happen along the roadways
16 that are critical to serving this site, whether
17 it's a simple flat tire or a, or an accident.
18 There must be an operational plan in effect to
19 take care of incidents like that. So we're
20 concerned about advising our client about the
21 safety and operational issues on some of these
22 roads that are of concern to you. This particular
23 site, as I said, is particularly well suited and

1 has a minimum amount of those concerns compared to
2 some of the other sites.

3 MR. KLINEMAN: I particularly, and I
4 don't know whether it's a designated numbered
5 highway or not, but this so-called cut off from
6 Cincinnati into Warsaw, how long of a stretch is
7 that? What's the character of that road and
8 what's the condition of that road?

9 MR. KLAUSMEIER: From the interchange
10 down to Warsaw?

11 MR. KLINEMAN: Correct.

12 MR. KLAUSMEIER: I would characterize it
13 as a rural two lane road. Much of it is marked
14 for no passing lanes. It's in fair to good
15 condition. We feel that, once again, the highway
16 agencies and our client should work with the
17 highway agencies to upgrade some of the safety
18 features along that road, simple things like edge
19 striping, center lines, and high reflectivity and
20 traffic signs to clearly direct patrons to and
21 from the site so they can get there and return
22 home safely.

23 MR. KLINEMAN: Is it as wide as a normal

1 two lane state road?

2 MR. KLAUSMEIER: Yes, sir. It's 22 to
3 24 feet in width.

4 MR. KLINEMAN: Does it have a
5 designation, if you know? Is it a county highway?
6 Is that it?

7 MR. KLAUSMEIER: Yes. It is a, it is a
8 Kentucky marked route. 455, I believe it is.

9 MR. KLINEMAN: So who would have
10 jurisdiction over that, the county in Kentucky or
11 the state highway department?

12 MR. KLAUSMEIER: I would expect in
13 Indiana, like in Indiana, both agencies would have
14 something to say about it.

15 MR. KLINEMAN: Okay. And then the other
16 cut off, the one that you indicated would be for
17 the Louisville traffic which is coming from the
18 south?

19 MR. KLAUSMEIER: That one interchanges
20 -- there's an interchange known as the Sparta
21 interchange, and also we would expect some of
22 these patrons from Louisville to perhaps get off
23 at Carrollton and come up U.S. 42 along the river,

1 and some of our traffic assignments reflect that
2 pattern as well. U.S. 42, between Carrollton and
3 the Markland Bridge, has been upgraded quite a bit
4 because of the business and industrial development
5 along the river between Carrollton and the
6 Markland Bridge, and that's what's driving the
7 interest in Kentucky to build a new road from U.S.
8 42 up to I-71.

9 MR. KLINEMAN: We've heard about that.
10 We were down in Switzerland County. You know,
11 it's a definite possible maybe, I guess would be
12 the best way to put it.

13 MR. KLAUSMEIER: That's right. It's
14 just a matter of money.

15 MR. KLINEMAN: Have you gone up 156 to
16 56 and into Cincinnati in that direction and
17 evaluated that route?

18 MR. KLAUSMEIER: Yes, sir. We have
19 driven that.

20 MR. KLINEMAN: And are you familiar with
21 the plans to five lane 56 in Dearborn County?

22 MR. KLAUSMEIER: Absolutely. I'm
23 familiar with it.

1 MR. KLINEMAN: And what do you think
2 that construction will do to the traffic coming in
3 to Ohio County?

4 MR. KLAUSMEIER: Well, you're speaking
5 of U.S. 50 in Lawrenceburg, and that's fine there,
6 but it does nothing for State Road 156.

7 MR. KLINEMAN: Right.

8 MR. KLAUSMEIER: It goes along the river
9 and following the curves and ups and downs of the
10 river bank.

11 MR. KLINEMAN: Okay. But the
12 construction of 50, I think you're right, in
13 Dearborn County, where they are starting
14 supposedly with the letting this July to upgrade
15 that to five lanes.

16 MR. KLAUSMEIER: That's correct.

17 MR. KLINEMAN: Yes. And have you
18 evaluated what that would do to the flow of
19 traffic coming towards Ohio County?

20 MR. KLAUSMEIER: Well, yes. As I
21 mentioned, it will be helpful through Lawrenceburg
22 to improve. There's particular concern along that
23 segment that's being improved with left turns

1 bottling up the through traffic, and what they are
2 doing is enabling a center left turn lane to be
3 installed which would remove the left turn
4 vehicles. So that will improve the operating
5 efficiency of that segment. Nevertheless, we
6 still have the long segment on down into Rising
7 Sun and along the river.

8 MR. KLINEMAN: Okay. Back to the
9 Markland Dam south into Kentucky, which is your
10 major access as you show along your graphs.

11 MR. KLAUSMEIER: Yes.

12 MR. KLINEMAN: What is the drive time
13 from 71 up to the Markland Dam?

14 MR. KLAUSMEIER: From 71 to the Markland
15 Dam? It's approximately ten miles.

16 MR. KLINEMAN: And that's the south leg
17 or the north leg? I guess there's differences,
18 isn't there?

19 MR. KLAUSMEIER: To the bridge.

20 MR. KLINEMAN: To the bridge?

21 MR. KLAUSMEIER: Yes.

22 MR. KLINEMAN: From 71, if you're coming
23 from Cincinnati, you would go up on this rural

1 road through Warsaw to the edge of the dam. What
2 would be that approximate drive time?

3 MR. KLAUSMEIER: Well, you're going to
4 make me do some mental arithmetic. It's about ten
5 miles. I would guess the average driving speed
6 would be 40 miles an hour, so that would make it
7 maybe 10 minutes, 15 minutes, something like that.

8 MR. KLINEMAN: It's a total of ten miles
9 from the interchange of 71 to the Markland Dam --

10 MR. KLAUSMEIER: To the bridge, yes.

11 MR. KLINEMAN: -- coming from the north
12 and approximately the same coming from the south?

13 MR. KLAUSMEIER: To I-71?

14 MR. KLINEMAN: Yes.

15 MR. KLAUSMEIER: Yes, yeah.

16 MR. KLINEMAN: Okay. And you say you
17 drove those with a stop watch during what time
18 period?

19 MR. KLAUSMEIER: That was during a
20 weekday afternoon.

21 MR. KLINEMAN: Okay. Particularly light
22 traffic then? No work traffic?

23 MR. KLAUSMEIER: I would guess it was

1 around 3:00 to 4:00 o'clock in the afternoon.

2 MR. KLINEMAN: Okay. Was there light
3 traffic that day?

4 MR. KLAUSMEIER: I wouldn't, I would
5 characterize it as probably a little less than a
6 peak hour. Peak hour in that area is usually
7 around, from 4:00 to 6:00 in the evening.

8 MR. KLINEMAN: Uh-huh. Anyone else have
9 anything on this particular subject?

10 (No response from the commission.)

11 MR. KLINEMAN: Okay. Well, thank you.
12 Questions?

13 MS. BOCHNOWSKI: Okay. I have several
14 questions. One is in regard to Mrs., how do you
15 pronounce your name, Faestel?

16 MS. FAESTEL: Faestel.

17 MS. BOCHNOWSKI: Faestel. Now, you are
18 a hundred percent owner of The Benefit Group; is
19 that correct?

20 MS. FAESTEL: I'm Catherine Faestel,
21 Casino Development Corporation.

22 MS. BOCHNOWSKI: So you're a hundred
23 percent owner?

1 MS. FAESTEL: Yes.

2 MS. BOCHNOWSKI: And your percentage of
3 ownership of Pinnacle is 5 percent?

4 MS. FAESTEL: 5 percent ownership;
5 that's correct.

6 MS. BOCHNOWSKI: Okay. What concerns me
7 is that we got personal financial disclosure
8 information from you, as you needed to do, but it
9 occurs to me from the information that I've been
10 reading that your husband is extremely involved in
11 your business although in name you are a hundred
12 percent owner.

13 MS. FAESTEL: I am a hundred percent
14 owner and he's president.

15 MS. BOCHNOWSKI: I understand that, I
16 understand that. But during conversation with our
17 investigators, your husband was the one who
18 answered the questions, seemed to have an
19 interest. And you are married, and it occurs to
20 me that maybe we're missing some information here.
21 I want to make sure that this isn't in your name
22 in order -- we have information that you had some
23 financial difficulties in the past, and I want to

1 make sure that we have all the information we
2 need. I don't want to be granting licenses
3 without all the information that we need.

4 MS. FAESTEL: Certainly. I am the 100
5 percent owner. I started the company in 1989. I
6 saw the potential of the gaming industry and where
7 it could go nation wide. We began very strongly
8 with casinos in 1991, when Colorado first passed
9 the gaming laws and made gaming allowed in Central
10 City, Black Hawk, and Cripple Creek. At that
11 time, David was still involved with the oil and
12 gas industry, was winding that business down, and
13 he joined my firm at that time, in approximately
14 1991. And since then casinos in that area, in
15 Central City and Black Hawk mainly, along with
16 Missouri, Iowa, Indiana, have been the focus of
17 the Casino Development Corporation. We do work
18 together. He is the president. We work at it
19 full time. I don't think you're missing any
20 information.

21 MS. BOCHNOWSKI: Okay. I, it just
22 concerns me when, you know, that sometimes things
23 are put in different people's names for a

1 particular purpose.

2 MS. FAESTEL: No. There's no purpose
3 here. It was my company to start with. He joined
4 my company.

5 MS. BOCHNOWSKI: Okay. Thank you.

6 MS. FAESTEL: You're welcome.

7 MS. BOCHNOWSKI: Anybody else?

8 MR. KLINEMAN: Yeah. Tell me, what does
9 your company do and what is the track record?
10 What has it done in the past?

11 MS. FAESTEL: My company provides the
12 real estate development services.

13 MR. KLINEMAN: What does that mean?

14 MS. FAESTEL: Only the land-based
15 development. We do not, we are not building the
16 boat, we are not responsible for the boat. We
17 will take care of the, we coordinate the
18 engineering, the design, the land options, as you
19 said in the beginning. We will put all of this
20 together in developing and coordinating the
21 building, the construction of the facility, of the
22 land-based operation.

23 MR. KLINEMAN: You're not an architect

1 or an engineer?

2 MS. FAESTEL: No. We coordinate all of
3 those.

4 MR. KLINEMAN: And you do that, have
5 done it in other instances for what kind of
6 consideration?

7 MS. FAESTEL: As I indicated a moment
8 ago, with other, with casinos in the Colorado
9 area. We were responsible for the coordination
10 and the development of a casino in Central City.
11 We've been in the past involved with other real
12 estate, before being involved with riverboats and
13 casinos, in the area of shopping centers,
14 apartment projects. This is just --

15 MR. KLINEMAN: Well, are you a licensed
16 real estate broker in the State of Indiana?

17 MS. FAESTEL: David is a licensed real
18 estate broker in the states of Colorado and
19 Illinois. A broker, yes.

20 MR. KLINEMAN: And are you a licensed
21 broker in any state?

22 MS. FAESTEL: I am not a broker, no.

23 MR. KLINEMAN: Do you hold any

1 professional license at all?

2 MS. FAESTEL: Not a professional one.

3 MR. KLINEMAN: I'm not talking about a
4 driver's license.

5 MS. FAESTEL: No.

6 (Laughter.)

7 MR. KLINEMAN: And did you -- what did
8 you do for this project?

9 MS. FAESTEL: For this project, we began
10 with this project in, well, two years ago, a
11 little over two years ago, before the referendum
12 began. And at that time we worked with the county
13 and with the city of Vevay and then went on to
14 pass the referendum, work with the referendum, set
15 up the options for the land. Then we were
16 involved with the preliminary design work of the
17 project.

18 MR. KLINEMAN: Could you tell me what
19 you mean by setting up the options for the land?

20 MS. FAESTEL: Secured the options.

21 MR. KLINEMAN: You went out to the
22 people who owned the ground --

23 MS. FAESTEL: That's correct.

1 MR. KLINEMAN: -- and got the options,
2 secured the options?

3 MS. FAESTEL: That's correct, sir.

4 MR. KLINEMAN: Was it you or was it
5 David?

6 MS. FAESTEL: That was David.

7 MR. KLINEMAN: Okay. And were you --
8 you say you were also involved in what other
9 aspects of this particular project?

10 MS. FAESTEL: We were involved
11 extensively with Kuhlman Design in the
12 architectural design of the project, the overall
13 design of the project.

14 MR. KLINEMAN: Okay. And who was
15 involved in that aspect of it? Was it David or
16 was it you?

17 MS. FAESTEL: It was both of us.

18 MR. KLINEMAN: And was it 50 percent
19 each or was it 60-40 or what percentage?

20 MS. FAESTEL: I would say it was more
21 David than it was myself. I have been involved
22 with the project from the beginning also.

23 MR. KLINEMAN: You still, we still get

1 back -- this is the problem that we are having:
2 We still get back to the feeling that David is the
3 majority of this company and that you are
4 basically a nominee, and if that's where we are,
5 we need all the information that we, that has been
6 required of you on David also. We just need it,
7 and we need it like yesterday.

8 MS. FAESTEL: If there's any more
9 information that we can give you on either one of
10 us, we'll be more than happy to give you anything.
11 We have cooperated with the investigators and
12 answered all of the questions and given them all
13 of the information that they, that they've asked
14 for; and if there's anything else, we will be glad
15 to give you anything.

16 MR. KLINEMAN: And in connection with
17 this particular project, have you received any
18 compensation other than this 5 percent interest
19 that your company is to receive from Pinnacle?
20 Have you been paid any money?

21 MS. FAESTEL: We have been paid for
22 expenses in the beginning of the project. We were
23 paid for some of the travel expenses, that kind of

1 thing, and we have been paid for compensation for
2 agreements that we have worked out with Century
3 casinos.

4 MR. KLINEMAN: What do you mean by that?

5 MS. FAESTEL: Assignments of the, of the
6 leases, of the land options.

7 MR. KLINEMAN: Who paid you for that?

8 MS. FAESTEL: Century Casinos.

9 MR. KLINEMAN: Did the land owners pay
10 you anything for those options, for representing
11 the people in connection with those options?

12 MS. FAESTEL: The land owners have not.

13 MR. KLINEMAN: Okay. But Century did?

14 MS. FAESTEL: Yes, uh-huh. That was in
15 the agreement that we had with Century.

16 MR. KLINEMAN: Is there an agreement?

17 MS. FAESTEL: Yes. With we have
18 extensive agreements with Century, in complete
19 satisfaction to both Century and to Casino
20 Development.

21 MR. KLINEMAN: And do we have a copy of
22 that agreement?

23 MR. THAR: We do have.

1 MR. KLINEMAN: Okay. Does anyone have
2 any other questions along these lines?

3 MR. THAR: I do.

4 MR. MILCAREK: And I do.

5 MR. KLINEMAN: Okay. Go ahead.

6 MR. MILCAREK: Did you have a business
7 called Cousin Jack's Real Estate?

8 MS. FAESTEL: Yes.

9 MR. MILCAREK: Did you hold a real
10 estate license for that company?

11 MS. FAESTEL: I do not own a real estate
12 license, no. I do not hold one.

13 MR. MILCAREK: Did you have a real
14 estate license when you owned that company?

15 MS. FAESTEL: No, I did not.

16 MR. THAR: I'd like to return to the
17 same area of questions that Mr. Klineman and Ms.
18 Bochnowski and Mr. Milcarek have been asking you
19 about, and I want to preface that with this: The
20 purpose of your background information is to
21 determine who the real party of interest is in any
22 given ownership industry of the Casino
23 Development, and, unfortunately, in our

1 investigation it appears that while you own 100
2 percent of Casino Development Corporation, the
3 company is really operated and run by your
4 husband. Do you disagree with that observation?

5 MS. FAESTEL: Yes, I do.

6 MR. THAR: What specifically is it that
7 you do that your husband doesn't do?

8 MS. FAESTEL: I am involved with the
9 company on a day-to-day basis, all day, entirely,
10 full time. We do work as a team. He does, he
11 works in the company a lot. He's a broker, as I
12 mentioned before. He has an extensive real estate
13 background. We just, we don't -- we don't do the
14 same things, if that's what you're asking me. We
15 just both work together on the project, projects,
16 exclusively.

17 MR. THAR: The investigators have
18 reported to us that when they interviewed you and
19 your husband with regard to Casino Development
20 Corporation that all questions were either
21 answered by him or you specifically deferred the
22 answer to the question to him, whether in person
23 or on the phone. Would you agree or disagree with

1 that assessment?

2 MS. FAESTEL: I would disagree that he
3 answers all questions. No, he does not. I answer
4 questions also.

5 MR. THAR: During the course of the
6 background investigation, discussion was had in
7 relationship to some of the past businesses that
8 you may have had in relationship to the
9 controlling interest in Casino Development
10 Corporation, and it was indicated that from a
11 given point of a bankruptcy, that your husband
12 stated that all property was from then on to be
13 placed in your name, businesses would be listed
14 under his name, stock ownership of all business
15 would be controlled and owned by you. Do you
16 agree or disagree with that statement?

17 MS. FAESTEL: There was never a
18 bankruptcy that was filed.

19 MR. THAR: Not with regard to Casino
20 Development Corporation but prior bankruptcy with
21 regard to you and your husband.

22 MS. FAESTEL: We never filed bankruptcy.
23 I definitely disagree.

1 MR. THAR: You never had a company that
2 went bankrupt?

3 MS. FAESTEL: David had a company
4 previously that was put into involuntary
5 bankruptcy, which, if you would like him to answer
6 any questions on that, he would be more than glad
7 to. I had nothing to do with that company at all.

8 MR. THAR: We are not concerned about
9 the bankruptcy. What we are concerned about is
10 the background investigation seems to indicate
11 that stock was placed in your name not due to your
12 expertise but to avoid any future loss of assets
13 and that the company is really your husband's.

14 MS. FAESTEL: No.

15 MR. THAR: In fact, in a conversation I
16 had with your husband, he referred to it as his
17 company, and when the lawsuit was filed between
18 CDC and Century Casino, he referred to it as a
19 lawsuit that he decided that had to be brought.

20 We have a problem that while you appear
21 to be the 100 percent or you are on paper the 100
22 percent owner, that that's not in truth how the
23 company is. Do you wish to realign that stock

1 ownership?

2 MS. FAESTEL: No, I do not wish to
3 realign the stock ownership. I own it 100
4 percent. I own it and am 100 percent involved in
5 this company. We are married and we are a team,
6 but I own the company and I don't want to change
7 that.

8 MR. THAR: Okay.

9 MS. FAESTEL: I have no plans to change
10 that.

11 MR. THAR: I'll take that as your
12 answer. Thank you.

13 MS. BOCHNOWSKI: Would your husband be
14 willing to submit a financial disclosure such as
15 you yourself had to do?

16 MS. FAESTEL: Anything you want us to
17 do.

18 MS. BOCHNOWSKI: Would that be helpful?

19 MR. THAR: We'll have to discuss that
20 later.

21 MR. VOWELS: I just have a couple of
22 questions.

23 MS. FAESTEL: Sure.

1 MR. VOWELS: What is your husband's
2 educational background?

3 MS. FAESTEL: He has a master's in real
4 estate and finance with an emphasis in law.

5 MR. VOWELS: And your company is
6 essentially a real estate company that develops
7 options for the purchase of land; is that correct?

8 MS. FAESTEL: We do the real estate, all
9 of the real estate development for the project and
10 have done it for many, many projects.

11 MR. VOWELS: Okay. I understand. And
12 my understanding is that your educational
13 background is that you have a bachelor's degree in
14 education and have been a school teacher. Is that
15 correct?

16 MS. FAESTEL: That's correct.

17 MR. VOWELS: And then from 1972,
18 February of 1972 through December of 1989, you
19 remained at home to raise your children. Is that
20 correct?

21 MS. FAESTEL: Yes. I was a full time
22 homemaker. I have been involved in and around
23 real estate throughout my life. I've been very

1 aware of real estate projects and involved in them
2 from that capacity but not full time with them. I
3 was a full time homemaker and mother. I decided
4 at that time that that was the most important
5 thing that I could do at that time in my life.
6 When my children were grown and in high school and
7 college, that is when I started my company.

8 MR. VOWELS: All right. I don't think
9 any of us mean to put you on the spot here. It's
10 just that there's a lot of people that want to
11 take us to the dance. So we don't have to
12 anything to worry about --

13 MS. FAESTEL: I don't want to do that,
14 no.

15 MR. VOWELS: Okay. We have a lot of
16 choices, is what I'm saying.

17 MS. FAESTEL: I understand that.

18 MR. VOWELS: Anything that gives us a
19 little bit of a catch we're very concerned about,
20 because we have a lot of other options.

21 MS. FAESTEL: Sure, I understand.

22 MR. VOWELS: Let me just read you
23 something here in the investigation. Mr. Thar

1 stated this and I just want to read it to you
2 verbatim and see if this is accurate. In the
3 investigation it says: Further discussions with
4 David and Catherine on their financial background
5 disclosed that when they moved from Illinois to
6 Colorado they had filed a business bankruptcy and
7 had lost their home. Is that correct?

8 MS. FAESTEL: Never, never. As I stated
9 a few moments ago, we never filed bankruptcy. We
10 have never lost a home. We've lived in two homes.
11 We had a home in Crystal Lake, Illinois, for
12 fifteen years. We have a home in, excuse me,
13 Colorado, which we have lived there now for ten
14 years.

15 MR. VOWELS: How long have the two of
16 you been married?

17 MS. FAESTEL: We've been married
18 twenty-four years.

19 MR. VOWELS: And then it quotes your
20 husband, it says: From that point on, David
21 stated that all property was placed under
22 Catherine's name, businesses were listed under
23 David's name, and stock ownership of all

1 businesses would be controlled and owned by
2 Catherine. This would ensure that if any further
3 businesses failed, that only David would be liable
4 and Catherine would own the stock and would have
5 no liability if any business failed and,
6 therefore, would not have to worry about losing
7 their personal assets. Is that a accurate
8 statement?

9 MS. FAESTEL: I own the home for -- we
10 had a prenuptial agreement that I would always own
11 the home. That was my compensation for staying
12 home, raising the children, being a full time
13 homemaker. That was what I wanted, and we set
14 that up in 1983 or '84, I believe it was. I own
15 the home.

16 MR. VOWELS: You set it up when? In
17 1983?

18 MS. FAESTEL: That I would always own
19 the home.

20 MR. KLINEMAN: Well, you said it was a
21 prenuptial agreement.

22 MS. FAESTEL: I'm sorry. It was not a
23 prenuptial agreement. We set it up in 1984, but,

1 I'm sorry, it was not a prenuptial agreement. It
2 was a nuptial, during our marriage. I wanted to
3 always own the home and we agreed to that. It has
4 nothing to do with business. It has nothing to do
5 with David's businesses. It was just something
6 that I wanted at that time and has continued.

7 MR. VOWELS: All right. So the home --
8 are the other personal assets solely in your name
9 also?

10 MS. FAESTEL: If you're talking about
11 furniture and accessories in the home, yes.

12 MR. VOWELS: Automobiles?

13 MS. FAESTEL: No.

14 MR. VOWELS: Bank accounts?

15 MS. FAESTEL: I have my bank account,
16 David has his bank account, I have my company bank
17 account. Nothing is because of his businesses,
18 his previous businesses.

19 MR. VOWELS: Is David, does he have the
20 ability to sign checks for the company bank
21 account?

22 MS. FAESTEL: Yes, he does.

23 MR. VOWELS: Do you also?

1 MS. FAESTEL: Yes, I definitely do. I
2 believe it is not a good practice to just have one
3 person in the company to be able to sign the
4 checks.

5 MR. VOWELS: Who, in the normal course
6 of business, signs the majority of the checks?

7 MS. FAESTEL: I do.

8 MR. VOWELS: How many employees are
9 there in your business?

10 MS. FAESTEL: At this time it's just
11 David and I that are working together in the
12 company.

13 MR. VOWELS: I don't have any further
14 questions.

15 MR. KLINEMAN: You stated a minute ago
16 that David had certain degrees. Could you tell us
17 again the degrees and where they are from,
18 educational background?

19 MS. FAESTEL: He has a bachelor's degree
20 from Marquette University in English and history.
21 He has a master's degree in real estate and
22 finance with an emphasis in pre, in law, from the
23 University of Wisconsin in Madison.

1 MR. KLINEMAN: Okay.

2 MS. FAESTEL: And my degree is from Iowa
3 State University.

4 MR. KLINEMAN: The Cyclones.

5 MS. FAESTEL: Pardon me? Oh, the
6 Cyclones. Yes, you're right, the Cyclones.

7 MR. THAR: Could you explain, please,
8 the reason for the lawsuit between CDC and
9 Pinnacle or with Century and the settlement, what
10 caused the suit and how it's been settled?

11 MS. FAESTEL: The reason for the lawsuit
12 was a disagreement in the agreements that were,
13 that were set up between Century and Casino
14 Development. And we did not interpret the
15 agreements the same way. We felt that this was
16 something that needed to be settled before this
17 hearing. We tried to get it settled and it wasn't
18 happening and, therefore, the lawsuit. We did get
19 it settled to complete satisfaction of both
20 companies, completely rewrote the agreements to
21 complete satisfaction of both companies, and it
22 has completely been settled.

23 MR. THAR: What was the settlement?

1 MS. FAESTEL: The amount of the
2 settlement?

3 MR. THAR: The amount of the settlement
4 and the terms of the settlement.

5 MS. FAESTEL: The amount of the
6 settlement was seventy-five thousand.

7 MR. THAR: And what other agreements
8 were reached? What is the, just explain to us
9 what the agreements were that were reached.

10 MS. FAESTEL: The agreements were
11 between the two companies on the percentage of
12 ownership on the shareholders, the proxy that was
13 part of the agreement that we had given to Century
14 and have now had it returned.

15 MR. THAR: This is the first applicant
16 that we've had where a lawsuit has ensued prior to
17 the application between the interest holders of
18 the applicant. How do we know we're not going to
19 continue to see these type of fights if you are to
20 get the license?

21 MS. FAESTEL: You won't see anything
22 happen between us anymore like this because the
23 agreements we have now are stated very

1 specifically. And if there was, if there was
2 anything that came up, we have a means for
3 arbitrating it now and it would not be settled
4 legally with a lawsuit. It would be renegotiated
5 through arbitration.

6 MR. THAR: Are there any other problems
7 presently existing between CDC and Century?

8 MS. FAESTEL: There aren't any other
9 problems. And I would also like to point out that
10 through the time that we were trying to settle the
11 former dispute, we were still working together
12 very well, very closely throughout that time, on a
13 daily basis --

14 MR. THAR: I understand that.

15 MS. FAESTEL: -- on this project.

16 MR. THAR: But you understand that the
17 lawsuit was, in fact, filed.

18 MS. FAESTEL: Yes, it was.

19 MR. THAR: So you were unable to revolve
20 some disagreement without going to the courts. So
21 I want to know what kind of assurances you have
22 for this licensing group that the people involved
23 can get along.

1 MS. FAESTEL: We have it stated in the
2 agreement that any dispute that would come up
3 between us would be settled in arbitration. There
4 will not be any more, any lawsuit that would be
5 filed.

6 MR. THAR: James?

7 MR. FORBES: Yes, if I may just comment
8 a little bit on the issue that you've raised
9 there, Mr. Thar.

10 The original agreements between Century
11 Casinos and Casino Development Corporation, then
12 known as The Benefit Group, were put together
13 during the mid or latter part of 1993 in the
14 period as we started the application process.
15 With the benefit of hindsight, it could be argued
16 that the agreements that we put together at that
17 stage reflected the circumstances that existed in
18 the middle and towards the end of 1993.

19 Now, circumstances change progressively
20 through the end of 1993 and through 1994, and we
21 learned during the earlier part of this year that
22 perhaps the way that those agreements had been
23 originally drafted did not cover a number of

1 issues that, of course, could not necessarily have
2 been foreseen at the time that they were put
3 together. As part of the settlement between the
4 two companies, we've been able to much more
5 comprehensively structure the agreements to make
6 sure that, I believe and I believe this view is
7 shared by Casino Development Corporation, that
8 these agreements are now structured in a manner
9 that we will not run the risk of having any
10 misunderstandings over the interpretation of those
11 agreements.

12 They are more comprehensive, they
13 contain more mechanisms, not just in the
14 settlement of disputes, but also concerning a
15 number of other issues that will relate to the
16 development process related to this project. So I
17 think that we've come a long way in making sure
18 that a situation like that doesn't occur again.

19 MR. THAR: In discussing the problems
20 and final result of the lawsuit and in discussing
21 the situation that resulted in the settlement, who
22 did you primarily deal with, Catherine or David?

23 MR. FORBES: I dealt primarily on the

1 telephone with both of them; in face-to-face
2 meetings, we had various meetings with the
3 attorneys of Casino Development Corporation, and
4 on occasion both parties were present, on occasion
5 only Mr. Faestel was present.

6 MR. THAR: Okay.

7 MR. FORBES: At that time Mr. Faestel
8 represented that he was representing Casino
9 Development Corporation as the president.

10 MR. THAR: Fine.

11 MR. KLINEMAN: Anything further on this?

12 MR. THAR: Not on those two issues.

13 MR. KLINEMAN: Okay. I think we ought
14 to just change a little bit and talk to Mr.
15 Silverman, please.

16 Tell us a little bit about the spin off
17 of NGC from HFS.

18 MR. SILVERMAN: Sometime in the summer
19 to fall of 1994, our casino practice, which had
20 begun initially by banking investments in casino
21 projects for whom we were marketing, began to take
22 on more of a developmental approach, i.e., we
23 purchased land in Pittsburgh and Erie,

1 Pennsylvania, joined with the, as you know, joined
2 with the Century group and Pinnacle on a series of
3 other developments that we attempted in states
4 which did not take on gaming.

5 And as those things began to take form,
6 our board and I concurred that that business was
7 not consistent with the stated approach that HFS
8 had espoused to our investors, our stock market
9 holders. We are a highly predictable business
10 which has grown at 56 percent a year since going
11 public. It does not have the volatility of the
12 Casino Development business, which, if one gets a
13 license and is successful in constructing a
14 casino, you can make a lot of money in a very
15 short period of time; you can also, as Mississippi
16 has shown many people, get a license and have the
17 opportunity to lose a lot of money in a very short
18 period of time; and the third thing that happens
19 is you don't get a license and you've wasted a lot
20 of capital on pursuing the license.

21 All of those were not objectives of the
22 HFS shareholder constituency, so we determined to
23 spin off National Gaming Corp, in which we

1 deposited all of the HFS assets in gaming, as well
2 as \$50 million in cash, into a new publicly-owned
3 company owned at that snapshot of time by the HFS
4 shareholders known as National Gaming Corporation.

5 MR. KLINEMAN: And what is the
6 relationship presently, particularly with focus on
7 the allegation, or the representation would be a
8 better way to put it, that HFS would guarantee
9 whatever is needed in NGC?

10 MR. SILVERMAN: I don't think anyone has
11 made that representation to you. In fact, I'm
12 sure no one has made that representation to you.
13 I certainly did not. I can speak specifically
14 about the undertakings that HFS has with National
15 Gaming Corp, and I can speak specifically about
16 the undertakings with respect to this project, but
17 I would not like the public record to reflect
18 anything other than that.

19 MR. KLINEMAN: Why don't you tell us
20 what the relationship is, if I've misinterpreted?

21 MR. SILVERMAN: When HFS bought out
22 National Gaming Corp, HFS agreed to provide a
23 seventy-five million dollar credit enhancement to

1 any financing which National Gaming Corp were to
2 undertake for the purpose of building or buying
3 casinos. That, in fact, is a linchpin of the
4 hundred and fifty million dollar financing which
5 National Gaming has secured from Banker's Trust
6 with respect to the purchase of the Par-A-Dice.

7 MR. KLINEMAN: Excuse me. The
8 seventy-five million dollar credit enhancement is
9 part of the hundred and fifty million or not?

10 MR. SILVERMAN: It is. It is part of
11 the hundred and fifty million dollar credit
12 facility provided by Banker's Trust in connection
13 with the purchase of Par-A-Dice casino in Peoria,
14 Illinois.

15 With respect to this transaction, we and
16 our partners at Century have agreed on funding
17 mechanisms which, as you know, NGC is going to put
18 up \$50 million of equity which, as you know, is
19 sitting in our bank account, and we have also
20 agreed, if necessary, to provide \$15 million in
21 mezzanine financing at a rate of 18 percent.

22 MR. KLINEMAN: How much was that
23 mezzanine financing?

1 MR. SILVERMAN: \$15 million in --

2 MR. KLINEMAN: Fifteen?

3 MR. SILVERMAN: 1-5, fifteen million in
4 mezzanine financing at a rate of 18 percent, which
5 is, as you know, consistent with what you heard
6 here yesterday. And, if required, which I don't
7 believe it will be, to guarantee a portion of the
8 bank debt, of the senior bank debt of fees, that
9 begin at \$2 million in year one and go down to \$1
10 million in year five, at which point we would
11 expect the senior financing to have been repaid.

12 MR. KLINEMAN: Even though you say these
13 things might not be necessary, tell me what HFS or
14 NGC is willing to do to make the additional moneys
15 which absolutely will be necessary available? I
16 mean --

17 MR. SILVERMAN: I just did that.

18 MR. KLINEMAN: -- other than write the
19 check.

20 MR. SILVERMAN: Well, I think I just
21 said that.

22 MR. KLINEMAN: We'll use our best
23 efforts is not something I can hold and feel real

1 good about.

2 MR. SILVERMAN: I don't mean to be
3 argumentative, Commissioner, but I didn't use
4 those words. I essentially said that NGC would
5 provide, meaning they would write the check, and
6 that HFS would guarantee the portion of the senior
7 debt as is necessary to complete the project.

8 MR. KLINEMAN: And what is the corporate
9 purpose that HFS would see in providing that?

10 MR. SILVERMAN: Well, there are two
11 purposes: Purpose number one is that HFS would be
12 paid a fee of \$2 million in year one going down to
13 \$1 million in year five. As far as marketing
14 services for this project, it would be paid 3
15 percent of gross gaming, effectively revenues, for
16 providing marketing services, which would be,
17 based upon our projections, another two and a half
18 to three million dollars a year. So shareholders
19 of HFS would obviously be benefiting from this
20 transaction if it occurred.

21 MR. KLINEMAN: Okay. Does that cover
22 all that's needed to build and operate this
23 casino?

1 MR. SILVERMAN: Yes.

2 MR. KLINEMAN: Do we have any plans
3 based upon all this putting the little pieces
4 together? Do we have all that we need?

5 MR. SILVERMAN: What you need to build
6 this concept, as Mr. Forbes identified, is \$70
7 million. You have \$15 million of equity, \$15
8 million in mezzanine financing, I would estimate
9 about \$10 million of equipment that would be
10 financed, and \$30 million of senior debt which
11 would be supplied by your bank group if, in fact,
12 that is required.

13 MR. KLINEMAN: And that totals \$70
14 million. Tell me what mezzanine financing is.

15 MR. SILVERMAN: Mezzanine financing
16 typically is, as the name implies, the mezzanine
17 between senior debt, which is typically provided
18 by banks, and the equity, which is in effect
19 common stock.

20 MR. KLINEMAN: And it bears 18 percent
21 interest as a pay back program over some limited
22 period of time?

23 MR. SILVERMAN: It obviously is

1 subordinated to the senior credit either as to
2 interest but particularly as to principal until
3 the senior credit has been extinguished, which is
4 typically in five years. So the pay back on the
5 mezzanine would generally start in year six. That
6 would be the typical format.

7 MR. KLINEMAN: Anything else?

8 MS. BOCHNOWSKI: Not on that. But you
9 stated that the project is a seventy million
10 dollar project. Now, just next door we've heard
11 of a ninety-nine million dollar project. Do you
12 feel that this is, do you feel that you're a good
13 competitor in front of us saying that a seventy
14 million dollar project is adequate for this
15 market?

16 MR. SILVERMAN: It's probably more than
17 adequate. I mean, as you heard this morning,
18 people can throw numbers at you. Being the high
19 bidder and the most irresponsible bidder does not
20 necessarily make the best economic decision for
21 the county or for the state. I would only point
22 out to you the state of Mississippi where a number
23 of projects have been built which were, in fact,

1 the most expensive project in a particular section
2 of Mississippi, and only because of financial
3 problems down the road, to be closed today. And I
4 ask you what good does that do to the citizens of
5 the State of Mississippi? And I will warn you, as
6 an owner of the gaming scene now for a number of
7 years, to be careful about only economic promises
8 as opposed to economic delivery. Yeah, we think
9 we would be very competitive, in fact.

10 MS. BOCHNOWSKI: And, in fact, your
11 predictions of the number of people you will be
12 having are like 20 percent lower, I believe, than
13 some of the other people have predicted.

14 MR. SILVERMAN: Well, we would like to,
15 we think that we are being realistic and I think,
16 again, realism is a virtue in this business.
17 Again, I point you to a number of publicly-owned
18 casino companies who have projected to their
19 shareholders and their lenders and, of course, to
20 the counties and states, a number of passengers
21 that have been proven to be wildly optimistic with
22 very severe consequences. I guess what I would
23 say is don't believe everything you've heard.

1 Hopefully we will be able to show you and
2 demonstrate that what we are telling you is, in
3 fact, realistic; not optimistic but realistic.

4 MS. BOCHNOWSKI: Now, in the past -- you
5 were talking about providing this financing or
6 arranging for it, backing it. In years past
7 you've had a negative cash flow. Now, I know
8 recently you haven't, but do you feel that your
9 company is strong enough to be able to back this
10 kind of financing?

11 MR. SILVERMAN: Which company and which
12 years?

13 MS. BOCHNOWSKI: Well, now, see, I'm so
14 confused about all the different companies, but we
15 have -- okay. Now here, I'll go back to it.
16 Okay, yeah. It was HFS and you're Century?

17 MR. SILVERMAN: No. I am, in fact,
18 representing HFS. HFS has never had a negative
19 cash flow and in 1990 --

20 MS. BOCHNOWSKI: Okay. No. It was
21 Century who had the negative cash flow.

22 MR. SILVERMAN: Century is not who you
23 are licensing with respect to the financial

1 wherewithal. With all due respect, Century is not
2 the one --

3 MS. BOCHNOWSKI: And you are the ones
4 who are backing this so I don't have to worry
5 about the fact that they had a negative cash flow
6 because you say you will --

7 MR. SILVERMAN: I can't tell you what to
8 worry about and what not to worry about. But if
9 your concern is for the equity or debt for the
10 project, the answer is no. Century will provide
11 the management expertise to develop the project,
12 build the boat, manage the boat, and produce the
13 revenues which we are all counting on.

14 MS. BOCHNOWSKI: Then it wouldn't
15 concern you that they've had these negative cash
16 flows in the past as far as the amount?

17 MR. SILVERMAN: No. We are a
18 shareholder of Century Casino.

19 MS. BOCHNOWSKI: I think that's why I'm
20 so confused, because everybody owns a little bit
21 of this and that and, you know, it really makes it
22 difficult for me to straighten it all out.

23 MR. SILVERMAN: Development companies

1 typically do run losses or negative cash flow
2 until they have developed the project and it is
3 producing revenues and positive cash flow. That's
4 not atypical.

5 MS. BOCHNOWSKI: And would that have
6 been the case, then, for Century?

7 MR. SILVERMAN: I believe it was.

8 MS. BOCHNOWSKI: That was during the
9 development phase of the project?

10 MR. SILVERMAN: That's correct. Century
11 recently, as you probably know from public
12 filings, has received a large infusion of cash
13 from the sale of their management contract of the
14 Crown Casino in New Orleans, and we're not
15 concerned at all about their financial abilities.

16 MS. BOCHNOWSKI: Or their management
17 abilities?

18 MR. SILVERMAN: We wouldn't be in this
19 project with them if we had any concerns about
20 either their financial or management ability.

21 MS. BOCHNOWSKI: Thank you.

22 MR. KLINEMAN: Your company doesn't
23 actually provide casino management?

1 MR. SILVERMAN: Again, which company,
2 sir, are you referring to?

3 MR. KLINEMAN: Well, you know, you pick
4 a company.

5 (Laughter.)

6 MR. SILVERMAN: HFS does not provide
7 management services. We provide marketing
8 services. NGC in June will close its first
9 acquisition of the Par-A-Dice riverboat, at which
10 point we will, in fact, manage that casino
11 project.

12 MR. KLINEMAN: Is there any prospect
13 that NGC will become the manager for Century
14 Casinos?

15 MR. SILVERMAN: That is not contemplated
16 by the agreements we have filed with the
17 commission.

18 MR. KLINEMAN: And what is your
19 relationship to -- and we talked about this
20 yesterday, you probably weren't here -- the Alpha
21 Gulf Coast project, Bayou Caddy's Jubilee Casino?

22 MR. SILVERMAN: National Gaming Corp is
23 the first mortgagee on that project, and National

1 Gaming Corp has a lien on, has a lien of roughly
2 \$7.7 million on the Bayou Caddy Company secured by
3 a first mortgage on a barge. HFS, through HFS
4 Gaming, provides marketing services for that
5 project and receives a fee of 3 percent of
6 revenues.

7 MR. KLINEMAN: We had 4. Is that not
8 correct?

9 MR. SILVERMAN: That's incorrect. It
10 started out at 4 and is now 3 percent. And
11 National Gaming Corp also loaned six hundred
12 thousand to purchase common shares of Alpha
13 Hospitality at \$14 a share.

14 MR. KLINEMAN: Okay. What does that do
15 to your relationship to the application which is
16 pending in Ohio County?

17 MR. SILVERMAN: It's irrelevant. We
18 have no interest in the Ohio County application;
19 that's correct.

20 MR. KLINEMAN: You say you own stock in
21 Alpha Hospitality?

22 MR. SILVERMAN: No. We own warrants to
23 buy stock. The warrants are exercisable to

1 fourteen. The stock is at three. It's unlikely
2 they will be exercised. Even if exercised, it
3 would represent an ownership of roughly 4 or 5
4 percent of Alpha. We are not on the board.

5 MR. KLINEMAN: You are on the board?

6 MR. SILVERMAN: We are not. We have no
7 management or directorial responsibilities with
8 Alpha.

9 MR. KLINEMAN: And how did you come to
10 acquire these warrants?

11 MR. SILVERMAN: It was part of the
12 consideration for making the loan, which we did in
13 1993.

14 MR. KLINEMAN: Is that loan current?

15 MR. SILVERMAN: To the best of my
16 knowledge, yes.

17 MR. KLINEMAN: And are you aware of
18 financial difficulties that Bayou Caddy's had in
19 the last several years?

20 MR. SILVERMAN: Yes, I am.

21 MR. KLINEMAN: Were you involved in any
22 of the rewrites of any of their debts in order to
23 preserve that operation?

1 MR. SILVERMAN: No, I was not.

2 MR. KLINEMAN: And your loan was in
3 October of '93?

4 MR. SILVERMAN: I believe it closed in
5 December. I think the loan was committed to in
6 October of '93.

7 MR. KLINEMAN: Uh-huh. And it was
8 originally \$8 million but it's 7.7 now; is that
9 correct?

10 MR. SILVERMAN: Yes.

11 MR. KLINEMAN: And you have a first
12 mortgage on the barge?

13 MR. SILVERMAN: That's correct. In
14 Mississippi the boats don't cruise. As you know,
15 they are barges. It would be the equivalent of
16 being a first mortgagee on a riverboat if it were
17 here in Indiana.

18 MR. KLINEMAN: I see. And how is that
19 operation doing presently?

20 MR. SILVERMAN: Well, we are being paid
21 currently. I know because I receive copies of
22 materials, that it is performing below the
23 expectation of the owners.

1 MR. KLINEMAN: But you continue to draw,
2 on behalf of HFS, this 3 percent of the gross
3 gaming receipts; correct?

4 MR. SILVERMAN: Yes; that's correct.

5 MR. KLINEMAN: And when did it get
6 modified from 4 percent to 3?

7 MR. SILVERMAN: The original agreement
8 was always scheduled to go to 3 percent, I
9 believe, this year, in 1995. It operated by
10 operation of -- it was reduced by operational
11 contract.

12 MR. KLINEMAN: So it was not as a result
13 of an accommodation --

14 MR. SILVERMAN: No; that's correct.

15 MR. KLINEMAN: -- for Alpha?

16 MR. SILVERMAN: That's correct.

17 MR. KLINEMAN: This intertwining
18 concerns me a little bit, and is there anything
19 that I need to know about what I'll call the
20 intertwining? You've said that the maximum amount
21 of stock that you could own in Alpha Hospitality
22 would be 4 to 5 percent as a result of the
23 exercising of the warrants, but you don't intend

1 to exercise them at the present time. Is there
2 any other intertwining between you and Alpha
3 Hospitality that I should know about?

4 MR. SILVERMAN: You should know that the
5 principals of Alpha Hospitality also manage and
6 own about 24 Days Inn hotels, who are franchisees
7 of our, "ours" being HFS. They are among
8 twenty-seven hundred and twenty franchisees, and
9 they represent less than 1 percent of our
10 franchisee base, but they are, in fact, customers
11 of HFS.

12 For the record, I want to state that we
13 have spent extensive amount of time and effort,
14 both in dialog with your staff as well as a lot of
15 legal fees here in the State of Indiana, making
16 sure that all of our what you would call
17 intertwinings met your statutory requirements.
18 The only party of interest that we are, the only
19 party of interest with us is, in fact, Century
20 Casinos and our investment in Pinnacle.

21 MR. KLINEMAN: Well, you know, I'm
22 asking these questions because we are the
23 commission. And I appreciate everything that

1 you've worked on with the staff, but we need to
2 make a public record here of what's going on. And
3 what you've told the staff is good and we want
4 full disclosure to our staff, but we also need to
5 make a public record. So if I ask something
6 that's already been gone over by your people and
7 your legal experts with the staff, it's because we
8 want to make a public record.

9 MR. SILVERMAN: I understand.

10 MR. KLINEMAN: Okay. Anybody else have
11 anything along these lines?

12 MR. THAR: Those lines, yes. Does the
13 situation in Mississippi in any way affect NGC's
14 ability to perform in Indiana?

15 MR. SILVERMAN: No, it does not.

16 MR. THAR: And what are the terms of the
17 marketing agreement in Indiana between Pinnacle
18 and is it HFS or HFS Gaming Corp?

19 MR. SILVERMAN: It's 3 percent of
20 revenue. The marketing fee payable to HFS Gaming
21 is 3 percent of revenues.

22 MR. THAR: For what period of time?

23 MR. SILVERMAN: I can't recall. I think

1 it's for ten years. It's either for five years
2 with five years renewal or ten years. I can't
3 recall.

4 MR. THAR: Have you entered into --

5 MR. SILVERMAN: Sorry. It's for the
6 life of the license. I beg your pardon.

7 MR. THAR: Well, okay. So the first one
8 is for five years and then it's annually
9 thereafter?

10 MR. SILVERMAN: Yes.

11 MR. THAR: And always at 3 percent?

12 MR. SILVERMAN: Yes.

13 MR. THAR: Has a similar arrangement
14 been entered into with regard to the respective
15 purchase of Par-A-Dice?

16 MR. SILVERMAN: Actually, the fee with
17 respect to Par-A-Dice by contract is 4 percent of
18 revenues, or it's the higher, let me make it
19 clear, it's the higher of 4 percent of revenues or
20 20 percent of stock, whichever is greater.

21 MR. THAR: For what period of time?

22 MR. SILVERMAN: Twenty-five years.

23 MR. THAR: Do you know whether or not

1 that's being questioned by the Illinois Gaming
2 Commission as something that they are looking
3 fondly upon?

4 MR. SILVERMAN: Yes, I do know that,
5 because I do know that last week the Illinois
6 Gaming Commission has asked us to try to, they
7 have in their statute that all supplier contracts,
8 as HFS Gaming would have to be licensed as a
9 supplier in Illinois, all supplier contracts have
10 to be at fair market value, and they've asked us
11 for some help in establishing that this is, in
12 fact, a fair market value arrangement.

13 MR. THAR: Would you be able to share
14 that with us?

15 MR. SILVERMAN: Yes, we would.

16 MR. THAR: During the course of the
17 presentation, it was indicated, and I missed it on
18 the slides, but there was a slide with regard to
19 the budget and it showed marketing advertising of
20 a budget of 8- to \$9 million. Is that annually or
21 over five years?

22 MR. SILVERMAN: That's on an annual
23 basis. That would come out of, obviously, our

1 revenues.

2 MR. THAR: And then two lines down from
3 that it had HFS marketing and I missed the
4 numbers.

5 MR. SILVERMAN: I believe, James, if I'm
6 correct, it was two and a half to three million,
7 which is perhaps the 3 percent of estimated
8 revenues that I mentioned earlier.

9 MR. THAR: The two point five to three
10 million is an approximation of what the 3 percent
11 would be or is the 3 percent in addition to that
12 figure?

13 MR. SILVERMAN: No. That is, in fact,
14 the 3 percent.

15 MR. THAR: Okay. So you do have a
16 marketing advertisement budget in addition to the
17 marketing that is to be provided by HFS?

18 MR. SILVERMAN: Correct.

19 MR. THAR: That's all I have.

20 MR. VOWELS: I have a couple of
21 questions. This morning we had a development
22 agreement submitted to us between Pinnacle and
23 Switzerland County. Are you familiar with that?

1 MR. SILVERMAN: No, I'm not.

2 MR. VOWELS: You'll just have to take my
3 word on it. As I go through this, and we just got
4 it this morning so I haven't been able to go
5 through it in much detail, but one thing that does
6 appear in here is numbers are based upon, are flat
7 numbers rather than percentages.

8 Would you agree that it makes sense that
9 those numbers were reached based upon projected
10 gross revenues or projected incomes from this
11 boat?

12 MR. SILVERMAN: Since I'm not familiar
13 with the agreement, why don't I let Mr. Forbes
14 answer that question, if I may. Is that all right
15 with you, Mr. Commissioner?

16 MR. VOWELS: Let's just assume that and
17 go forward one more step. The numbers that you've
18 given us, and you've warned us not to believe
19 everything we hear and I appreciate that, but if
20 these conservative numbers that have been given to
21 us are actually low ball numbers rather than any
22 public incentives here based upon percentages,
23 isn't it possible that if Pinnacle earns a lot

1 more money than what appears in their proposal and
2 projections, that they are going to be in a very
3 good position, based upon these low ball numbers?

4 MR. SILVERMAN: I certainly hope so.
5 We, we represent public companies, and I certainly
6 hope this project is successful.

7 MR. VOWELS: And, so, numbers that would
8 be, the incentives given to the locals in trusts
9 paid for parks, that sort of thing, would be based
10 upon the low ball numbers rather than the
11 actual numbers?

12 MR. SILVERMAN: No, I didn't say that.
13 I think what I said was that our projections were
14 realistic; not low ball, to use you're phrase, and
15 not overly optimistic. And the payments to what
16 you refer to as the locals would be, in fact,
17 based on realistic estimates.

18 MR. VOWELS: So in a couple of years, if
19 the attendance numbers and revenue numbers are
20 much higher than what we see today, then the
21 locals could renegotiate this agreement?

22 MR. SILVERMAN: I would suspect, based
23 on my experience in gaming, that would, in fact,

1 occur.

2 MR. VOWELS: That's happened in other
3 places?

4 MR. SILVERMAN: It certainly has. It's
5 happening right now in the State of Illinois.
6 There is a proposal to increase the gaming tax
7 from 20 to 25 percent just as a . . .

8 MS. FULLER: My name is Rhonda Fuller,
9 attorney for Pinnacle. I wanted to identify that
10 in the development agreement there are certain
11 funds and grants that are up front fixed
12 contributions, the \$400,000 for relocating the 4H
13 facility, \$25,000 to establish restrooms in the
14 Vevay river front park, among others. However,
15 there are ongoing contributions that are based
16 upon a sliding percentage scale. So, in effect,
17 if Pinnacle does exceed its projections, which we
18 certainly hope that happens, the county will
19 benefit even more than we have estimated.

20 MR. VOWELS: Can you give me an example
21 of the sliding scale?

22 MR. FORBES: The discretionary
23 distributions, discretionary in that it's over and

1 above those levels in the statutes, are based on a
2 percentage of gross gaming revenues and fall into
3 two categories: One category of payments that
4 will come from a share of gross gaming revenue
5 that will go direct to the county government, to
6 the Switzerland County Council, and another share
7 that will go through what we've named the Pinnacle
8 Trust, which will be disbursed between the school
9 board, as a principal beneficiary, the towns of
10 Vevay, Patriot, and another beneficiary being the
11 Switzerland -- the Vevay-Switzerland County
12 Foundation.

13 The way that we structured those is that
14 we were clearly concerned that if revenues really
15 fall way below our projections, we needed to
16 ensure the operation wasn't significantly hurt by
17 the level of those payments to the county. On the
18 other hand, if the level of revenues significantly
19 exceeds our projections, we certainly want to
20 share those benefits with the county, so that they
21 are in a way in a partnership with us. If times
22 are bad, then we're sharing the burden; when times
23 are good, we're sharing the success.

1 And we've geared that by having
2 effectively three different rates, so that for the
3 first forty million of gross gaming revenues,
4 adjusted gross receipts, I apologize, that we
5 make, then the Switzerland County government
6 itself will receive, I believe it's 1.3 --

7 MR. VOWELS: On Page 5, Paragraph 4.2.

8 MR. FORBES: Thank you. 1.3 percent of
9 the annual adjusted gross receipts will be paid,
10 up to forty million, will be paid to the county.

11 MR. VOWELS: This is, this is, there's a
12 Pinnacle Land Trust; is that correct?

13 MR. FORBES: That's a separate issue.
14 That's a separate mechanism. There are two
15 mechanisms: One that makes payments directly to
16 the county, the entities, Switzerland County
17 Council, and a second mechanism which is called
18 the Pinnacle Trust which has the ability to make
19 disbursements or has a mechanism to make
20 disbursements to other organizations within the
21 community.

22 MR. VOWELS: Isn't this 1.3 percent
23 figure that you read me, aren't those annual lease

1 payments on that sliding scale that are paid to
2 that trust on Page 4?

3 MR. FORBES: If you'll just excuse me
4 for a moment, I want to separate the county from
5 the land trust. Would you like me to address the
6 land trust first or the county?

7 MR. VOWELS: I'm just trying to figure
8 out how much of this is based upon actual
9 percentages of your gross revenue or whatever
10 revenue.

11 MR. FORBES: We've indicated that our
12 contribution to the county to assist us in getting
13 the project off the ground, or to upgrade their
14 emergency facilities, to address some of the road
15 issues, that we were in agreement with the county
16 making available to them substantial amounts of
17 money prior to the commencement of operation.

18 Now, these amounts, to \$1.9 million for
19 emergency facilities, \$1.9 million associated with
20 the traffic and infrastructure improvements,
21 \$400,000 to the 4H Fairground Association, and
22 other minor elements, those are made before we
23 start operating. As soon as we start operating,

1 share of revenues, again based on adjusted gross
2 receipts, again based on the success of revenue or
3 the turnover of the facility, and the trust will
4 receive and will be structured as a land lease
5 payment, but the trust will -- because we will
6 donate part of the land, the development land, to
7 the trust, then we will pay a lease payment to the
8 trust, and it's a mechanism by which money can be
9 channeled to the school board, to the Switzerland,
10 the Vevay-Switzerland County Foundation, and the
11 towns of Patriot and Vevay, and those percentages
12 are 1.25 percent for the first \$40 million of
13 adjusted gross receipts in that agreement, 1.5
14 percent for those amounts between forty million
15 and eighty million in adjusted gross receipts, and
16 1.75 million in adjusted gross receipts over the
17 eighty million.

18 So, in effect, it's a discretionary
19 commitment that we have made to share the revenue,
20 the adjusted gross receipts, between these two
21 bodies. That commitment varies between two and a
22 half to three and a half percent of adjusted gross
23 receipts each year.

1 MR. VOWELS: And this is based upon if
2 there's no changes in the state statute in
3 reference to a gaming tax and as long as federal
4 government opposes no gaming tax?

5 MR. FORBES: What we discussed there and
6 agreed with the county is that it was appropriate,
7 again in the spirit of sharing the burden and
8 sharing the rewards and success, that we would
9 have an ability, then, to adjust those payments to
10 the beneficiary groups, not to completely offset
11 any changes in structure by any means, but to
12 share a small portion of that burden. Again, if
13 the tax structure, and I will be happy if there's
14 a change in a downward fashion, then the same
15 mechanism would apply in reverse to allow the
16 county and those beneficiaries from the trust to
17 get even greater benefit, i.e., sharing from what
18 we might call a windfall of a tax deduction. Now,
19 neither of us at this stage can contemplate there
20 being a tax increase or reduction, but it's a
21 mechanism that further underlines that partnership
22 with the county of sharing the burden, sharing the
23 responsibility, but then jointly sharing in the

1 success.

2 MR. VOWELS: The land trust does not
3 encompass all of the land that Pinnacle will be
4 using?

5 MR. FORBES: No. We were unable to put
6 all of the land into the trust, because the way
7 our agreements are constructed in control of the
8 site is that we actually only have -- let me take
9 it from another angle. A large portion of the
10 site we have options to lease, i.e., we have the
11 option to lease those from the landowner, and it
12 really isn't practical to put those into the trust
13 because they become obligations of the trust. So
14 what we wanted to do is to put that part into the
15 trust that we hold near and clear title for,
16 having exercised the option to purchase.

17 The amount of that part of the land that
18 we could get free title and not be operating under
19 a lease agreement from a third-party landowner,
20 that part of the land that we have in the free and
21 clear title would be donated to the trust, we
22 would pay these payments as a talent to the trust
23 as a means of establishing a mechanism by which

1 the school board and other bodies could benefit.

2 One of the issues that was raised and
3 why we took this route is it was unclear and
4 uncertain whether the Switzerland County Council,
5 if all the revenues went to county government,
6 would be able to make, for example, disbursements
7 straight out of that general income to the school
8 board. And, so, there was a concern within the
9 community, and one, certainly, that we shared,
10 that we wanted to see an area related to
11 education, related to young people, that clearly
12 would benefit from a direct injection of funds,
13 and that was part of the structure we established
14 with the agreement of the county as a mechanism by
15 which the schools could directly benefit from the
16 operation of the riverboat but using the trust as
17 a mechanism.

18 MR. VOWELS: Can you tell me what the
19 percentage of the land that you hold free title to
20 is?

21 MR. FORBES: Well, I think the essence
22 of it is we control the site. We control 52
23 acres. The method and mechanism of control is

1 slightly different in that we have an option to
2 purchase on 10 acres of land.

3 MR. VOWELS: Let's assume you get the
4 license. You have 100 percent of the land, a
5 portion of that you own free and clear. My
6 question is: Of that 100 percent, how much of
7 that is going to go into the land trust?

8 MR. FORBES: Of the 100 percent of the
9 land that we own free and clear?

10 MR. VOWELS: (Nods head.)

11 MR. FORBES: It is approximately 20
12 percent.

13 MR. VOWELS: And if you hadn't put it in
14 the trust, would you owe property taxes on it?

15 MR. FORBES: That's a good question and
16 one, quite frankly, that I hadn't worked on. The
17 basis of this was a means by which we could
18 structure something that enabled the county, in
19 different portion of the county community, to
20 benefit.

21 MR. VOWELS: I understand that. I was
22 just trying to figure out, is it six in one, half
23 a dozen in the other? Is the county losing some

1 property tax income by you not being any more the
2 owner of the property going into the trust?

3 MR. FORBES: Well, with you having
4 raised the question, I'm sure the answer is yes.
5 I have no idea what that is.

6 MR. VOWELS: Were you actively involved
7 in discussion that led to this agreement?

8 MR. FORBES: Yes, very active.

9 MR. VOWELS: Okay. Was that ever
10 addressed?

11 MR. FORBES: It was never addressed.

12 MR. HOCKER: Ron Hocker here. I'm local
13 counsel and live in Vevay, Indiana.

14 MR. KLINEMAN: Would you step by the
15 microphone so we can make a record?

16 MR. HOCKER: Mr. Chairman, I think I can
17 answer that question. The trust would still pay
18 property taxes on the property that is put in the
19 trust while they own it. I don't know, I don't
20 know that there is anyway that they are going to
21 get out of paying the property taxes on that
22 amount of property. They would have to apply for
23 tax restatus, and that's not anticipated.

1 MR. VOWELS: So you're saying that
2 income from the trust will have to pay for the
3 property taxes?

4 MR. HOCKER: No. Under the terms of the
5 lease, the owner of the operation, that is
6 Pinnacle, will pay all the costs, including the
7 property taxes.

8 MR. VOWELS: Okay. Above and beyond
9 what they are putting into the trust?

10 MR. HOCKER: Well, they are not putting
11 money into the trust. They are putting land into
12 the trust and then the land will be leased back
13 from the trust. So they will make a lease payment
14 based on adjusted gross receipts. That lease
15 payment will be, except for the normal cost of
16 operating the trust, that is, the expenses of an
17 accountant, more or less, will be paid to the
18 beneficiaries. The operating of the land will
19 still be Pinnacle's, including the taxes.

20 MR. VOWELS: Okay. The lease payments
21 won't be considered income into the trust?

22 MR. HOCKER: They will be 100 percent
23 distributed to the beneficiaries of the trust.

1 MR. KLINEMAN: Why don't we just do this
2 direct? Why do we go through this trust?

3 MR. HOCKER: Well, as James indicated, if
4 the money goes directly to the county, the county
5 has limited ability under the current law to make
6 grants to the organizations that would benefit by
7 that trust. Those organizations, in one case it's
8 a 501Z charitable foundation, in another case it's
9 the school corporation, in two other cases they
10 are town governments. So the county has very
11 limited ability to fund those organizations
12 directly under the current rules for the county to
13 follow.

14 MR. KLINEMAN: In order for these people
15 to get any tax deductions. Is that what we are
16 talking about?

17 MR. HOCKER: No. There is no tax benefit
18 running to Pinnacle by virtue of the trust or by
19 virtue of the lease.

20 MR. KLINEMAN: Well, they get a
21 deduction as an expense and that is a tax
22 deduction expense.

23 MR. HOCKER: Well, they will get an

1 income tax deduction for the taxes that they pay,
2 but everyone will get that. I mean, there is no
3 additional tax benefit that runs to Pinnacle
4 because of the creation of the trust or the
5 leasing agreement.

6 MR. KLINEMAN: To me, without going
7 through this system of donating land and leasing
8 it back, I think they can get a tax deduction from
9 whatever contributions they want to make to
10 charitable groups in and around Switzerland County
11 without going through this. But this is the way
12 you've chosen to do it?

13 MR. HOCKER: We've chosen to do it this
14 way because we wanted to have an ongoing mechanism
15 to do it with.

16 MR. KLINEMAN: Well, you could have had
17 an arrangement to donate so much money based upon
18 gross --

19 MR. HOCKER: If you notice under Section
20 5 of the agreement, the money that runs to the
21 county --

22 MR. KLINEMAN: I haven't had a chance to
23 read it.

1 MR. HOCKER: I understand and I apologize
2 for that. But the agreement is broken into four
3 major parts. Those agreements that will be made
4 in and around the site, those gifts to the county
5 that will be made upon licensing, and then the two
6 funding mechanisms, one for non-county government,
7 in the sense that it goes to the school and the
8 town, and the other for county government.

9 MR. VOWELS: You're local counsel for
10 Pinnacle?

11 MR. HOCKER: I am.

12 MS. BOCHNOWSKI: Now, these up front
13 donations or contributions, are those in addition
14 to the seventy million dollar investment in the
15 project or are those included in that \$70 million?

16 MR. HOCKER: Those are part of the \$70
17 million.

18 MS. BOCHNOWSKI: Okay.

19 MR. THAR: Could I go back to that
20 seventy million, Mr. Forbes? A point was earlier
21 brought out about \$70 million, which is the lowest
22 amount of investment in Indiana we've seen from
23 any applicant. Most commentators, including the

1 people on this commission and myself, would take
2 the view that the southeast Indiana market and the
3 number of people accessible to it may be the best
4 in the country right now, on the verge of opening
5 up. Why would we want to license the least amount
6 of investment in Indiana to participate in that
7 market?

8 MR. FORBES: I think perhaps I can start
9 to respond to that. Firstly, I think we need to
10 start looking at apples to apples. We've heard of
11 projects, for example, that are stated as being
12 \$99 million but include elements that might be
13 built at some point in the future, and we're
14 comparing that with something that's a seventy
15 million dollar project where everything is going
16 to be put through in the immediate development of
17 the casino and the whole project. We don't have
18 an outlet mall that we might expand and therefore
19 increase our value to \$99 million. We've left all
20 of those variables out. We're not saying that
21 we're going to include in this a golf course that
22 we might build. We are saying this is what you
23 get, this is \$70 million worth, this is how we

1 start.

2 Now, that's how we start. As we go from
3 there, as we see the revenues, we see the
4 performance, that may change, it may increase.
5 But I don't want to promise you things now to
6 increase the value of my project and then not
7 build them or not deliver them. So that's where
8 we started from and we need to get the apples to
9 apples more balanced.

10 MR. THAR: Well, if we're looking at
11 apples to apples, apparently I didn't hear the
12 same things you did, because I didn't hear that
13 there were that many contingencies that would drop
14 a project to \$70 million, yesterday, anyway. As a
15 matter of fact, on one of them, a retail outlet,
16 they were talking 7.7 out of like 98.9. So they
17 are willing to, up front, anyway, at least to
18 invest ninety million.

19 The point of the matter is that while we
20 rely on your goodwill that if the project
21 warrants, it will expand in the future, the real
22 point of the commission to hold somebody to a
23 license over the first five years is what

1 commitments are they making to induce the
2 committee to go with them as licensee as opposed
3 to someone else. So, again, why do we want to go
4 with a seventy million dollar project when all of
5 the others we are going to hear from are higher
6 for a market which is described by almost
7 everybody as being quite exciting.

8 MR. FORBES: I think the different
9 corporations could apply different approaches. I
10 think firstly we look at a lot of concerns that
11 have been raised by the community, by the
12 commission, "How long are you going to be here?",
13 and that is one of the concerns, clearly a
14 question that the community raises. We want to
15 make sure what we are proposing is viable and
16 sustainable. We don't want to overburden the
17 project with me-too type of element that may
18 themselves not bring any other benefit other than
19 the fact that money was spent to build them.

20 Secondly, we want to focus our income on
21 generating income. Now, as you've probably seen,
22 we've dedicated significant amounts into marketing
23 and advertising. Now, sure, that's part of

1 revenue that we could have spent on interest
2 expense. But by overburdening the capital level
3 of this project, by then taking further funds out
4 of the revenues to pay off debt, we would rather
5 keep the debt and the financial basis of the
6 project initially on a realistic and conservative
7 basis and then spend those moneys not on paying
8 interest but on producing advertising and
9 marketing and things that will bring more and more
10 people into the county. And we think that that's
11 a more conservative approach in that gives the
12 benefit of being able to demonstrate confidently
13 that we're here for the long haul. On the
14 converse side it gives the opportunity to say we
15 have the resources and the abilities to generate
16 the maximum revenues, and you need to look at that
17 ability, I feel, rather than having somebody
18 coming in, overburdening their project, and then
19 in fact not even having the money to advertise and
20 market it.

21 MR. KLINEMAN: I think we'll take a
22 break right now and give everybody a chance to
23 stretch and we'll come back in 15 minutes, that

1 will be five to 12:00, and we'll try to conclude
2 this at that point.

3 (A recess was had.)

4 MR. KINGSLEY: Mr. Chairman, my name is
5 Bob Kingsley. I'm president of National Gaming
6 Corp. I would like to take a minute to add my
7 perspective --

8 MR. THAR: I think one of the things
9 that the chairman wanted to tell you is that we're
10 missing a member of the committee.

11 MR. KLINEMAN: Dr. Ross had to make a
12 phone call and he's not returned yet. If you want
13 to wait, we can wait until he returns or we can
14 proceed. Whatever you feel would be satisfactory.

15 MR. KINGSLEY: We'll wait.

16 MR. KLINEMAN: We'll all wait, then.

17 (Brief pause.)

18 MR. KLINEMAN: We're full strength now,
19 so you may proceed.

20 MR. KINGSLEY: Thank you. I'd like to
21 add my perspective to the question of the amount
22 of money that any business spends on developing a
23 casino project here in Indiana. I've been in the

1 development business for nineteen and a half
2 years. I have spent the majority of time
3 developing private country clubs, dining clubs,
4 resorts, and the last five years developing
5 casinos, previously with Ceasar's World. During
6 this whole time I've frankly never seen, not once,
7 a financial projection that in the actual practice
8 came through as projected. They were either in
9 practice lower or higher.

10 One thing that I've noted is that if
11 you're a good business person, you plan for
12 adverse events. And in my perspective, with
13 eleven licenses in Indiana, one of the things that
14 you have to consider is how much you spend on the
15 project as it relates to the debt burden and your
16 ability to operate in the event you have heavy
17 competition either from in the state or, as is
18 likely in the future, outside the state.

19 The question, I think, that one should
20 consider, is how much revenue is generated by the
21 project, not necessarily how much is invested on
22 the front end. That's a one-time investment.
23 And, granted, the more you invest, the more

1 immediate benefit it produces, but that's a
2 one-time deal. We believe that our project for
3 the amount of money we're investing will produce
4 revenue just as well as any other project in the
5 area, and I think that's the key to consider in
6 this instance.

7 MR. THAR: Let's talk briefly about the
8 market, then. One of the problems in looking at
9 Switzerland County is if we put a casino boat to
10 the east of you and/or two and put a boat or two
11 in what may be called the Louisville market,
12 where's the population basis that you'll draw
13 from? You're practically isolated from both those
14 areas. 20 some miles from Cincinnati, more than
15 that from Louisville. So where could we expect
16 and where do you expect the people to come from to
17 keep your operation going after the first couple
18 of years?

19 MR. KINGSLEY: Well, clearly the two
20 principal markets are Cincinnati and Louisville.
21 The effectiveness of our marketing program is
22 what's going to draw people from those markets.
23 In the light of heavy competition, you have to

1 spend marketing dollars to broadcast widely your
2 facility, and that's what we would do. But the
3 actual competitive advantage that we have is the
4 ability to market through HFS Gaming Corp. Now,
5 this is a whole additional or incremental market
6 that can't be accessed, at least in the form that
7 we're able to do it, by any other company.

8 MR. THAR: In other words, it's the HFS
9 marketing that's going to make the difference?

10 MR. KINGSLEY: Yes, I believe so. In
11 the situation that you describe, those markets,
12 Louisville and Cincinnati, are still the primary
13 markets. That's not going to change. And I think
14 the thing that will give us the edge under heavy
15 competition, either in state or out of state, will
16 be the ability to draw incremental customers
17 through HFS.

18 MR. THAR: I guess the problem that I
19 have is regardless of how much marketing money one
20 wants to throw at it, if you look a bit at Tunica
21 County (phonetic), it kind of shows that people
22 aren't going to drive further to get to a casino
23 when they have to drive by one in order to get

1 there. That's part of our concern in looking at
2 Switzerland County when we look from central
3 Indiana to the southeast corner. Is it too
4 isolated and is the population base, absent
5 Cincinnati and Louisville, just too thin to keep a
6 boat running there with competition.

7 MR. KINGSLEY: Well, I think absent
8 Cincinnati and Louisville it's a pretty thin
9 market. That is, if those two cities didn't
10 exist. Now, they are always going to exist and
11 the effort has to be made to draw customers from
12 those markets.

13 MR. THAR: I understand that, and that
14 brings me back to my other point: Isn't it easier
15 to draw a customer to a project that's had a
16 hundred and fifteen or a hundred and thirty
17 million thrown in up front rather than seventy
18 million? Isn't the gaming experience going to be
19 a little less at a seventy million dollar
20 investment than it is at a hundred and seventy
21 million dollar investment?

22 MR. KINGSLEY: Conventional wisdom would
23 say that the customer would be drawn to the more

1 glitzy project. I don't know if it's always true
2 in practice. If you look at projects in Atlantic
3 City, for example, there are twelve casinos there.
4 With the exception of the Taj Mahal, they are all
5 about the same size, that is, 60,000 square feet
6 of casino space. They all have about the same
7 number of hotel rooms, and most of the
8 entertainment attractions are located within the
9 casinos. Yet people have favorites and, for
10 example, Ceasar's, with 60,000 square feet of
11 casino and six hundred and sixty hotel rooms, got
12 an inordinate share of business because they took
13 care of customers better.

14 MR. THAR: But you don't have to drive
15 30 some miles from one casino to another there.

16 MR. KINGSLEY: I think once a person is
17 in a car, once they've hit the road, they can be
18 influenced by the attractiveness of the casino,
19 how they are treated while they are there. 20
20 miles is not an insurmountable obstacle. But,
21 yes, on the surface of it, I would agree with you.

22 MR. THAR: Your boat is also smaller, is
23 it not, than, for instance, the boat suggested in

1 Ohio County yesterday?

2 MR. FORBES: The boat that we specified
3 is 285 feet long by 72 feet wide. We feel that
4 that, in comparison with the market performance in
5 the established jurisdiction of Illinois and
6 Louisiana, for example, is appropriately scaled
7 for the levels of revenue that we're proposing.
8 What we've discussed as we've seen things evolve
9 over the last months is it's our plan to utilize
10 the temporary riverboat, and certainly the
11 riverboats available to us on a temporary basis
12 would meet the specifications of the vessel that
13 you see specified in your application.

14 However, what we've discussed and would
15 be proposing is that we would use that temporary
16 riverboat vessel for a period that would also
17 enable us to further view the performance of the
18 market and that we would delay placing the first
19 order for the permanent riverboat until we've seen
20 what the initial performance of the casino is
21 going to be like. We would then place an order
22 for a vessel that was at least the size of that
23 specified and would have the potential to be

1 bigger to reflect what we learned from the reality
2 of the market rather than projections.

3 MR. THAR: While you're up, Mr. Forbes,
4 let me throw this at both you and Mr. Kingsley.

5 Assume for the moment the commission
6 licenses your application for Switzerland County,
7 and assume also that there will be another
8 riverboat in southeast Indiana, in either Dearborn
9 or Ohio, and also one or two in the Louisville
10 market. Where would you place those boats in
11 order to position that the boat in Switzerland
12 County would be able to maximize its potential for
13 the citizens of Switzerland County.

14 MR. FORBES: Where would I place them?

15 MR. THAR: Yes. What's best for your
16 scheme in terms of placing the boat in Ohio or
17 Dearborn County or both or which one?

18 MR. FORBES: Okay. I would not be
19 overly concerned about seeing three boats in the
20 Cincinnati market directly. For example, if there
21 was a boat in Dearborn County, Highland County,
22 and Switzerland County, I wouldn't be overly
23 concerned that that would have a significant

1 dilution to the revenue potential of the
2 Switzerland County riverboat. Certainly if there
3 was a boat down in the counties of Harrison and
4 Crawford and that area, then I would principally
5 see them as drawing from the western and
6 southwestern part of Louisville, and, in fact, we
7 would still have at least equal access to large
8 portions of the Louisville market in Switzerland
9 County. It's the drive time factor, good
10 interstate roads and then a 15 minute drive not
11 through major residential areas, and I think the
12 access issue is that which determines the market
13 potential, and I believe we have that access.

14 MR. THAR: So you think -- excuse me.

15 MR. FORBES: I'm sorry. That, to me,
16 would be a not inappropriate distribution of five
17 licenses on the Ohio River.

18 MR. THAR: So you would feel comfortable
19 with either two more in the southeast counties,
20 one in each county, or two in the Louisville
21 market, and your numbers should not be effected?
22 Is that what you are saying?

23 MR. FORBES: That would be my belief.

1 Our numbers would see an impact, but not to the
2 point where we would not be competitive. I
3 clearly would be misleading you if I said that
4 five boats in this market is not going to have an
5 impact on ourselves compared to three boats. Of
6 course there's an impact. But from a competitive
7 standpoint, I would not, and I believe that's a
8 view shared by my partners, from a competitive
9 standpoint we would feel well positioned to
10 continue to compete effectively with the resources
11 at our disposal with the distribution of five
12 licenses that reflected that pattern.

13 MR. THAR: The most there could be is
14 one in Louisville and three in southeast Indiana,
15 or two in southeast Indiana and two in the
16 Louisville market, but the other one is already
17 spoken for, and none of those arrangements concern
18 you in terms of your projections? Is that
19 correct? Is that what I'm hearing?

20 MR. FORBES: None of those I would
21 consider -- there are variations on what I would
22 consider as being fatal to the prospects of a very
23 successful riverboat in Switzerland County. If

1 we're looking at those counties that currently
2 qualify for licenses, and it's difficult to look
3 beyond that, if there were three licenses awarded
4 to what you term the Cincinnati market with
5 Dearborn County, Ohio County, and Switzerland
6 County, if there was a further license issued down
7 in Harrison County or Crawford County, and then
8 finally, of course, the Vanderburgh County in
9 Evansville, we would certainly feel threatened by
10 that distribution of licenses.

11 MS. BOCHNOWSKI: To follow up on the
12 market, now, I would assume that it sounded like
13 you would do a lot of bus tours to bring people
14 in. This, to me, would be, would allow you to
15 bring more people directly to where you wanted
16 them to go. In your experience and in
17 investigation of the market, what percentage of
18 people go to these casinos, these riverboat
19 casinos, on bus tours? Do you have a percentage
20 or an idea? Because to me that would make some of
21 these sites a little more viable if people could
22 be brought in on buses.

23 MR. FORBES: Well, I guess the most

1 accurate answer I can give to that is it depends,
2 which probably doesn't help much. Buses can carry
3 different kinds of people. If you look, for
4 example, at the bussing experience in Atlantic
5 City, that would be a very different kind of
6 strategy to the one that we would be pursuing in
7 Switzerland County. What we are looking at,
8 through the HFS connection, is principally being
9 able to tap into people's leisure time, vacation
10 time, destination choice; and a very large number
11 of people with significant amounts of disposal
12 income travel by tour bus.

13 Seniors especially don't want the
14 aggravation of driving on roads. They want to
15 have different destination opportunities. They
16 like packages where they are traveling with people
17 of similar backgrounds and similar personalities
18 or characteristics.

19 That is an enormous market that HFS has
20 access to. Not access because it's seen that it's
21 there, but access because they are dealing with
22 these people every hour of every day of every
23 week, and they are dealing with them, they are

1 packaging vacations for them, two, three, five day
2 trips, whatever they may be. They are delivering
3 them now to the different destinations around the
4 United States.

5 What HFS Gaming can deliver for us is to
6 bring a substantial number of those into
7 Switzerland County and to be a co-party of our
8 strategy for getting the incremental business, the
9 out-of-state business. Over and above that, for
10 want of a better phrase, naturally ours because of
11 where we are.

12 MS. BOCHNOWSKI: So you don't see that
13 being a significant percentage of your customers?
14 I mean, it wouldn't be 50 percent; it might be an
15 incremental amount?

16 MR. FORBES: It would not be 50 percent,
17 certainly. As I think I indicated in the
18 presentation, there is certain natural
19 characteristics to a market such as this, and we
20 cannot avoid the fact that probably in the region
21 of 90 percent of the visitation is going to come
22 from within a two hour drive time, and that's the
23 core market.

1 Now, without advertising and marketing
2 and promotion into that core market, we believe
3 that we can realize as close to the full potential
4 of that 90 minute radius -- excuse me, 120 minute
5 drive time, as anybody. We believe that. But we
6 believe that over and above that, through HFS
7 Gaming, we can go beyond that.

8 Now, without HFS Gaming, the breakdown
9 of that market would be 90 percent within a two
10 hour drive time and a 10 percent from beyond.
11 Now, we don't, we don't believe that those, that
12 10 percent, we believe that 10 percent in its
13 totality can be increased significantly because of
14 the HFS reach. So we are then dealing with a
15 market potential of 110 percent rather than a
16 hundred percent. 90 percent would still come from
17 our core market and 20 percent more making 110
18 percent because we've increased the market, if
19 that makes any sense, from beyond. And that's
20 what the tour buses and HFS Gaming's position in
21 this will deliver to us.

22 MS. BOCHNOWSKI: You're saying that that
23 brings you beyond the hundred percent market that

1 you would normally have?

2 MR. FORBES: Exactly.

3 MS. BOCHNOWSKI: Can these roads handle
4 those buses?

5 MR. FORBES: Those roads are handling
6 those buses today, I mean, at a low volume, yes.
7 There are buses using those roads. There is an
8 established tourist visitation level in
9 Switzerland County, many of whom come in in buses.
10 Plenty of people came up today from Switzerland
11 County in a bus, so there are certainly -- I'm not
12 pretending this is an interstate, but one of the
13 key things to remember about Switzerland County is
14 there are at least five ways into it. There are
15 two exits off interstate 71, there are the roads
16 coming up through Madison, through Carrollton, on
17 the Kentucky side. We are not relying on a two
18 lane road. We have five or six very viable ways
19 of bringing traffic in to that county.

20 Now, certainly along the distribution
21 patterns that we demonstrated, it's not as if
22 there's suddenly six thousand people trying to get
23 to town on one two lane highway. It's more likely

1 that for any given cruise there are six thousand
2 people -- sorry, one thousand people coming to a
3 cruise probably in a total of five hundred
4 vehicles using five different roads. Now, in
5 terms of the density and increase in traffic for
6 Switzerland County and the access roads to
7 Switzerland County, that's not dramatic, because
8 we can spread the load. Because we've got those
9 different routes and accesses in, we can spread
10 that load out.

11 MS. BOCHNOWSKI: Do you have information
12 about that road, that new road in Kentucky that is
13 going to connect the bridge to the interstate? Do
14 you have any further information on that? We got
15 some the last time we were in Switzerland County
16 but --

17 MR. FORBES: Yes. The reason I would
18 withhold a commitment for that road to be built is
19 the Kentucky Department of Transportation is
20 studying it. It is saying that it's part of their
21 five-year plan. They would like to do it. But we
22 certainly don't rely on that. What we were
23 suggesting to you is that we believe that access

1 to that county is now still very good. The 60
2 minute drive time is very, very attractive.

3 At some point in the future, and, who
4 knows, maybe that's going to be concurrent with
5 the future competition coming into neighboring
6 states, it may well be that the State of Kentucky
7 puts in a vastly improved road from the I-71
8 thoroughfare down onto the Markland Bridge. Now,
9 yes, we'll benefit from that. I'm not saying
10 that's our life line by any means, but at some
11 point down the road we know that's being
12 considered and, yes, it would enhance the access.
13 But it would enhance it to a level that is
14 superior to the good access that we have now.

15 MR. THAR: During the course of your
16 presentation, you had indicated that one of the
17 plus factors for Switzerland County as opposed to
18 Ohio County was Ohio County would have a negative
19 impact to some degree on the lifestyle of the city
20 of Rising Sun. Don't you think your project is
21 going to have the same impact on Florence?

22 MR. FORBES: I certainly believe that
23 Florence will receive impact. One of the major

1 differences between the two factors there, and,
2 please, I'm in no way trying to belittle the town
3 of Florence, but it has a small population, relies
4 on most of its infrastructure through Vevay and
5 the surrounding communities. We only see 5
6 percent the traffic coming down through Florence.
7 And I won't pretend to you that that will have no
8 impact; of course it will have some impact. But
9 it's a very different situation than creating, as
10 I maybe irreverently referred to earlier, as a
11 downtown Disneyland in a thriving small community
12 which has got a very well established social
13 infrastructure, that's got it's own very
14 distinctive, unique character. It is in itself
15 the center of activity for that community and
16 community activity. So that's what we believe
17 very strongly we have to stay away from.

18 If we tried to put that boat, as was
19 suggested by other people, in River Front Park in
20 Vevay, we would have choked the roads, we would
21 have ruined amenities there that currently the
22 community enjoys, we would have had untold impact
23 upon the businesses that were then struggling with

1 traffic and everything else in that area. We felt
2 very strongly that it was appropriate to move out
3 from that, and, yes, we were fortunate because
4 Switzerland County, by the Indiana code, is the
5 only county you can have the site outside of the
6 city, and that's one of the factors that persuaded
7 us. No where else can you have the site outside
8 of the city, because, correct me now, but
9 Switzerland County doesn't have a city. It only
10 has a town. And, so, that was the reason for
11 that.

12 So it gave us that ability to put the
13 casino where we believe it should go rather than
14 being forced to put it into a town, where, quite
15 frankly, the size and character of that town will
16 be unable to sustain or, for want of a better
17 word, survive that development. These are big
18 developments. Whether it be 52 acres, 78 acres,
19 200 acres, they are still major, major
20 developments.

21 MR. THAR: Would you agree that it's
22 going to have an impact on Switzerland County?

23 MR. FORBES: I believe it will.

1 MR. THAR: Wouldn't you be the largest
2 employer in Switzerland County?

3 MR. FORBES: We would be the largest
4 employer in Switzerland County. There's a
5 possibility, having followed some of the
6 developments with some of Switzerland County's
7 already established employees, that we might
8 become one of the only employers in Switzerland
9 County, as we've seen various corporate
10 activities.

11 MR. THAR: I've heard rumors, and I'm
12 going to put it in the rumor category, that should
13 you be licensed you will purchase the Ogle Haus.
14 Does the Ogle Haus fit into your plan?

15 MR. FORBES: Very much so. And
16 certainly that has been part of our plans for the
17 last eighteen months. The Ogle Haus is --

18 MR. THAR: I would like to ask one other
19 question before you go on. When you count your
20 rooms of two hundred ninety-six, does that include
21 the Ogle Haus?

22 MR. FORBES: No.

23 MR. THAR: Do you believe that that area

1 major employers in the county and nobody wants to
2 see that very fine facility disappear, even as
3 other developments come in the county. It's a
4 facility the county is very proud of and have been
5 very reliant on. So we agree that should a
6 riverboat license come to Switzerland County and,
7 in my mind, the unlikely event that other
8 purchasers are not interested in buying that
9 hotel, then we have said we will step in and
10 purchase that hotel so that it's not converted
11 into a different use, maybe a retirement home or
12 something like that.

13 MR. THAR: One final question kind of
14 briefly. When you say "we would purchase it," who
15 is "we"? Is it Pinnacle or Century or is it
16 National Gaming?

17 MR. FORBES: The way that we actually
18 have that worded, and I'll have to try to remember
19 it verbatim, but Pinnacle will either offer or
20 cause to be offered an amount of \$2 million for
21 the purchase of that facility. So what we're
22 saying there is if the Vevay-Switzerland County
23 Foundation is not able to sell the hotel, they

1 will come to us and say, well, we can't sell it.
2 We'll talk to ourselves, we'll talk to other
3 people in the hospitality industry; if other
4 people in the hospitality industry still don't
5 wish to step in, we will step in as Pinnacle.

6 MR. THAR: Thank you.

7 MR. KLINEMAN: All right. I think Mr.
8 Kingsley for a minute.

9 MR. FORBES: Thank you.

10 MR. KLINEMAN: I'll start off with an
11 easy one. The bio that we have on you has a small
12 problem in it that you can probably rectify
13 easily. It shows you being in service for a
14 number of years during the same time you went to
15 Butler University. Is that correct?

16 MR. KINGSLEY: That is correct. I was
17 stationed at Ft. Harrison and I went to Butler
18 mostly in the evenings.

19 MR. KLINEMAN: Okay. Well, good for
20 you. Your college career shows you liked to taste
21 all sections of the country, though. You went to
22 Queens College, Butler, and to Southern Methodist.
23 I congratulate you.

1 MR. KINGSLEY: Well, I frankly never
2 planned to go to graduate school when I graduated
3 college and then I found out later that I'd
4 better, and, so, I went to the school closest to
5 where I was living or working.

6 MR. KLINEMAN: This project is not going
7 to be phased in in any way? I mean, we're going
8 to get a two hundred fifty-some room hotel right
9 away and we're going to get a two hundred
10 ninety-six room hotel and we're going to get all
11 of the other things that you were talking about?
12 We're not faced with "we'll build it when we need
13 it"; right?

14 MR. KINGSLEY: That's correct.

15 MR. KLINEMAN: All right. So if you
16 would be licensed, et cetera, you would
17 immediately start construction of these things
18 within the normal period of time to get the plans
19 and so forth; right?

20 MR. KINGSLEY: That's right.

21 MR. KLINEMAN: Okay. What is your
22 understanding of the lawsuit that your two other
23 partners had and what, did you have some concerns

1 when you became aware of this?

2 MR. KINGSLEY: Yes, I had some concern,
3 and I personally encouraged our partners to seek a
4 settlement. But in all frankness, I mean, you've
5 got husbands and wives, you've got people in
6 business together. Frequently they have
7 disagreements, and sometimes the threat of a
8 lawsuit encourages a settlement, and apparently
9 that's what happened here. Now that it's settled,
10 I'm not concerned. I've spent some time with both
11 of our partners during the last three days
12 preparing for this presentation, and I don't
13 notice any enmity between them. I think it will
14 work fine on an ongoing basis.

15 MR. KLINEMAN: What's your understanding
16 of what CDC has brought to the table in this
17 project?

18 MR. KINGSLEY: My understanding is that
19 initially they were the first of our group here
20 and evaluated sites both in Rising Sun and in
21 Vevay and determined that the site in Vevay was
22 the better site for our purposes. As I understand
23 it, they will, they also negotiated the option

1 agreements for, and the lease agreement, for the
2 land that we plan to use.

3 MR. KLINEMAN: And they are being
4 compensated for having negotiated those options?

5 MR. KINGSLEY: Yes, sir.

6 MR. KLINEMAN: And do you know whether
7 CDC is licensed as a real estate broker in the
8 State of Indiana?

9 MR. KINGSLEY: No, sir, I do not know.

10 MR. KLINEMAN: Okay. And you don't know
11 whether either of the two principals of that
12 company are licensed in Indiana?

13 MR. KINGSLEY: No, sir, I don't know.

14 MR. KLINEMAN: And did you or your
15 company supply any of the consideration for the
16 settlement of the lawsuit?

17 MR. KINGSLEY: Not to my knowledge.
18 Well, no, we didn't.

19 MR. KLINEMAN: I was going to say, you
20 can give me yes or no on that one.

21 MR. KINGSLEY: No, we did not.

22 MR. KLINEMAN: Okay. So the
23 consideration, if any, came from Century?

1 MR. KINGSLEY: Yes, sir.

2 MR. KLINEMAN: I think that's about all
3 I have. Does anybody have any questions of him?

4 MR. FORBES: Mr. Chairman, could I just
5 have a supplementary response to the question of
6 the role of CDC?

7 MR. KLINEMAN: Step right up. I'm
8 through with you, Mr. Kingsley. Thank you.

9 MR. KINGSLEY: Thank you.

10 MR. FORBES: CDC performed a number of
11 roles, as has been outlined both by the
12 representatives of CDC and by Mr. Kingsley. The
13 work that was done on the site options was not
14 done directly by CDC. It was done through a
15 third-party registered Indiana real estate broker.
16 What we were doing at that stage was we were
17 seeking out land. The Indiana broker worked to
18 secure the land that we had identified with CDC.

19 MR. KLINEMAN: Okay. We don't really
20 need to belabor this point. If there has been no
21 violations of our real estate law, that's fine.
22 I'm glad to hear that. I just wanted to indicate
23 that it's my understanding of the law that you

1 must be licensed in order to receive compensation
2 in connection with the sale or lease of real
3 estate.

4 MR. FORBES: And there was no
5 compensation related to the option.

6 MR. KLINEMAN: Do you know the name of
7 the local real estate broker?

8 MR. FORBES: Homestead Realty is the
9 name of the corporation, and the broker was
10 Theresa Link.

11 MR. KLINEMAN: I met that lady, I think.

12 MR. VOWELS: I remember that.

13 MR. KLINEMAN: I think I want to talk to
14 the former Corps of Engineers man for a minute.

15 MR. HAWKINS: Yes, sir. My name is
16 Daroll Hawkins.

17 MR. KLINEMAN: I'm sorry. I had
18 forgotten your name, but a lot of people came in
19 at the same time today.

20 MR. HAWKINS: That's fine, Mr. Chairman.

21 MR. KLINEMAN: Mr. Hawkins, a lot of
22 your presentation were these maps showing flood
23 planes and stuff like that. But as to the Rising

1 Sun and also, I think, as to your location, I
2 never saw any outlines of the dimensions of the
3 property. I mean, are you telling us that you
4 think that the vast majority of the Rising Sun
5 site is, in fact, or has, in fact, got serious
6 flood problems?

7 MR. HAWKINS: Well, I'm not really
8 certain of where the actual property is for the
9 Rising Sun site. I don't know the property
10 boundaries. I went and looked at the site as
11 described by the locals when we got there and I
12 said, "Where is this property?", and I looked at
13 it and the surrounding area. The lower area, or
14 the lower edge area, definitely has flood concerns
15 that need to be addressed.

16 MR. KLINEMAN: But you don't know where
17 their construction is going to be at all, do you?

18 MR. HAWKINS: Well, it doesn't really
19 matter about their hotel or where it's being
20 constructed. In fact, it can be flood proofed.
21 You can put enough money into a project to make it
22 a go regardless. What I was identifying was that
23 these are problems that will have to be addressed.

1 It's not that they are not insurmountable.

2 MR. KLINEMAN: But you don't really even
3 know where the property is, as you've said.

4 MR. HAWKINS: I don't know the outline
5 of the boundary, but I know they go in that lower
6 edge area and that the property is down where the
7 Surley Creek runs back up through there. I'm not
8 certain they are not building their hotel and --

9 MR. KLINEMAN: I just, I didn't want to
10 be left with the impression that you thought there
11 were really bad problems at the Rising Sun site.

12 MR. HAWKINS: No. I just wanted to
13 identify that there were problems, you know. In
14 terms of if you are going to do a development, you
15 say how many problems do I have here and how many
16 problems do I have there, and the Pinnacle site
17 has less of the problems.

18 MR. KLINEMAN: Because this commission
19 has been down to both sites and I think we have
20 some idea of what the site looks like.

21 MR. HAWKINS: Okay. I think my biggest
22 concern, being from the Corps of Engineers, is the
23 fact of the fluctuating pool.

1 MR. KLINEMAN: Well, that's a function
2 of the Markland Dam, isn't it?

3 MR. HAWKINS: That's correct.

4 MR. KLINEMAN: That's a given.
5 Everybody knows that; even I. Okay. Anybody else
6 have any questions?

7 MR. MILCAREK: I have one, and I don't
8 know who I want to ask it to, but not to him.

9 DR. ROSS: I have one question. How
10 many of those dams from Lawrenceburg all the way
11 down were in place in 1937 when they had the big
12 flood?

13 MR. HAWKINS: Well, several of those
14 have been built new, but one of the important
15 things to understand about navigation dams is that
16 they are not intended to control flood water in
17 any manner. They are intended to pool water
18 during low flow periods to guarantee that you have
19 an adequate depth to get upstream to the next dam.
20 And, in fact, in the '37 flood, I did the flood
21 routings for part of the Ohio River, and when you
22 go across a dam like those navigation dams, the
23 '37 flood was of such volume that they don't even

1 know that they are there, as far as the flood is
2 concerned.

3 MR. KLINEMAN: By the way, when you live
4 long enough, you get to the place where I remember
5 the '37 flood.

6 MR. HAWKINS: Yeah, my dad has told me a
7 lot about it too.

8 (Laughter.)

9 MR. KLINEMAN: I, in fact, lived in
10 Cincinnati at the time, and I can remember that
11 whole city was practically shut down, which I
12 don't think would happen along those lines of Dr.
13 Ross's statement. There have been a lot of
14 projects put on the Ohio since 1937.

15 MR. HAWKINS: Yes, sir, there have.

16 MR. KLINEMAN: Anything further?

17 MR. MILCAREK: I have one question of
18 the operation at Cripple Creek, Colorado. You're
19 competing with twenty-three other casinos. Could
20 you rank, could you give me your ranking in size,
21 first, of the casinos, and then in profitability
22 of those casinos?

23 MR. FORBES: We are probably ranked

1 number five now in revenue. Certainly when we
2 took that property over twelve months ago it was
3 ranked considerably lower than that, and we've
4 gone in, put in new management systems, upgraded
5 the project, and put in our operating procedures
6 and practices, for want of a better description.
7 We've seen the revenues increasing strongly, and
8 prior to us taking over that casino it was a
9 significant loss maker, losing in the region of
10 between half and three-quarters of a million
11 dollars a year. We now have it operating, just
12 after twelve months, with positive revenues,
13 positive cash flows, profitability, and as I
14 indicated from the publication of the "Colorado
15 Gambler", recognition within that competitive
16 market of what we've been able to achieve.

17 MR. MILCAREK: How would you rank it in
18 size for the other twenty-three casinos? Are you
19 the biggest or the smallest or somewhere in
20 between?

21 MR. FORBES: No. We would categorize
22 ourselves as a mid-size casino. There are larger
23 casinos, probably between two and three times the

1 size of this particular property, there are
2 probably fifteen or eighteen casinos of a similar
3 size to us, and then a number of smaller ones. So
4 we are by no means the largest in that sense. A
5 number of those larger casinos certainly are much
6 larger and more elaborate facilities that didn't
7 even figure at all in this particular survey.

8 MS. BOCHNOWSKI: I just have one more
9 question and it probably would be for you. You
10 had said something about a temporary boat. Now,
11 the information I have is that you're going to be
12 building this boat that's 285 feet by 70 feet;
13 correct.

14 MR. FORBES: Yes.

15 MS. BOCHNOWSKI: So would you have a
16 boat to start with while that's being built?

17 MR. FORBES: We have a number of options
18 open to us. Firstly, it's always been part of our
19 plan to have a temporary boat and that has not
20 changed. Secondly, we indicated that it was our
21 desire to be able to build a boat which would be
22 the permanent vessel, and that hasn't changed. We
23 certainly continue to be in discussion with a

1 number of owners of suitably-sized riverboats to
2 use as a temporary vessel. There are a number of
3 those vessels available that can rapidly be
4 implemented for this purpose.

5 MS. BOCHNOWSKI: That would be of the
6 type that, would be of the riverboat type?

7 MR. FORBES: Very much. I think you
8 might have even noticed yesterday a photograph of
9 one of the temporary riverboats which was, in
10 fact, our boat from Louisiana, which has very
11 similar specifications to the one we proposed
12 here, a vessel of 25,000 square feet. There are
13 probably four available currently that are
14 suitable and, from our discussions, we would have
15 no difficulty in securing them.

16 We intend to operate with that vessel
17 and what we would like to propose is that we would
18 want to continue operating with that vessel to the
19 point that we could judge very clearly how the
20 market is responding in the early two to three
21 months of operation before we lock down our plans
22 for the size of vessel so that we can build a
23 larger boat to meet the demand that we see. We

1 wouldn't be building a smaller boat, but we would
2 certainly like to have that opportunity, that
3 window, to be able to come in with a larger
4 riverboat as a permanent facility.

5 MS. BOCHNOWSKI: So that this, this was
6 for your application purposes, but it could be
7 enlarged? It would not ever go smaller than this?

8 MR. FORBES: That's correct. That's our
9 intention.

10 MR. VOWELS: What's the status of the
11 Missouri application?

12 MR. FORBES: Pending. The situation
13 there is we filed an application with the Missouri
14 Gaming Commission on the 30th of November, 1994.
15 It was a comprehensive application insofar as it
16 clearly outlined the site and what we intended to
17 do and the site development we proposed, certainly
18 comprehensive with regards to the information
19 provided with regards to Century Casinos and what
20 we proposed to do. At that point, and its still
21 the case today, we have not secured funding for
22 that development. Our application is still alive
23 with the commission in Missouri and they could

1 invite us at any time to come and give formal
2 presentation to be considered for licensing as
3 part of their, I think they call it the four pack
4 process, where they look at four applicants at the
5 same time or however.

6 So, quite frankly, at this point that
7 project is not adequately funded and we,
8 therefore, have not been pressing the commission
9 at this stage to give us an early hearing. Quite
10 a different situation with what we have here.

11 MR. VOWELS: Do you have a specific
12 proposal that you've outlined for the Missouri
13 situation?

14 MR. FORBES: Yes, we have.

15 MR. VOWELS: What's the, how much money
16 are you talking about over there?

17 MR. FORBES: It's very much a smaller
18 development. It's for the town of Portage Des
19 Sioux, which is about 25 miles north of St. Louis,
20 but it is a less, much less densely populated
21 area, and one that we believe will support a
22 development of probably in the region of 20- to
23 \$25 million total.

1 MR. VOWELS: And how big would that boat
2 be there?

3 MR. FORBES: We would be looking at
4 putting a significantly smaller vessel there,
5 approximately 50 percent of the size that we are
6 proposing here.

7 MR. VOWELS: So that's just, the
8 Missouri application process is different than
9 what we have here; is that correct?

10 MR. FORBES: Correct, very different.

11 MR. VOWELS: As far as the time frame,
12 there's nothing as specific there as what we deal
13 with here; is that correct?

14 MR. FORBES: We don't have a time table
15 at all there. The time table is set by the
16 commission, but I think what I'm inferring at this
17 stage is that we are not even prepared for
18 hearings at this moment in time because of
19 financing of that project. Quite frankly, almost
20 all our attention for some considerable time has
21 been on the Indiana process, one that we have very
22 much greater confidence in and much greater
23 confidence in the viability of the project that

1 would impact from it.

2 MR. VOWELS: Let me ask you this
3 question: Let's assume that you have the license
4 in Indiana and the license in Missouri and the
5 Missouri situation isn't as profitable as you
6 would have hoped, possibly having some losses. If
7 the Switzerland County license is profitable,
8 would you withdraw money from the Indiana project
9 to support the Missouri project given that
10 scenario?

11 MR. FORBES: Of course the answer is no,
12 but I can also give you a little more confidence
13 than that in that we are not an investor in cash
14 into the Pinnacle project, and the cause of cash
15 that we will have on the Pinnacle project will be
16 limited. The cash in the Pinnacle project
17 effectively will be controlled by National Gaming
18 Corporation. That's something that's been very
19 much part of the deal from the beginning and we're
20 aware of. So even if we wanted to pull cash out
21 of Pinnacle, I'm sure National Gaming Corporation
22 wouldn't let us.

23 MR. VOWELS: Well, the profit, I mean,

1 certainly Century Casino is going to make a profit
2 being involved in this; is that correct?

3 MR. FORBES: Correct.

4 MR. VOWELS: All right. That answers my
5 question. That's fine. I have nothing further.

6 MR. KLINEMAN: Does anybody have
7 anything further?

8 (No response from commission.)

9 MR. KLINEMAN: Well, I think we've come
10 to the end. I want to thank the people from
11 Switzerland County who showed us tremendous
12 hospitality when we were down there for the public
13 hearings and for the site reviews and we thank you
14 all, and we thank the Pinnacle people and
15 appreciate all the information that we have
16 received.

17 Okay. I am again to announce that we
18 are going to have a telephonic conference
19 concerning the rules on June 7th, 1995, at 10:00
20 a.m. in room N-180, which is the headquarters of
21 the gaming commission. The public is invited to
22 attend if they wish. If you attend, we'll find
23 out that you really need a life, but you're

1 welcome to come. And that's the official
2 announcement, so, thank you, again.
3

4
5 (WHEREUPON, the proceedings were
6 concluded.)
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1 STATE OF INDIANA)
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I, Sherry L. Malia, Stenographic Reporter within and for the County of Marion, State of Indiana, do hereby certify that on the 16th day of May, 1995, I reported the foregoing Public Meeting; and that the transcript is a full, true, and correct transcript made from my stenograph notes.

Sherry L. Malia
Sherry L. Malia, Notary Public
Residing in Marion County
Indiana

My Commission Expires:

November 14, 1998