

DAN KEATING  
TESTIMONY  
BEFORE THE GAMING OVERSIGHT COMMITTEE  
JULY 24, 2008

GOOD MORNING, MY NAME IS DAN KEATING. I AM CHAIRMAN OF KEATING BUILDING CORPORATION, WHICH IS THE CONSTRUCTION MANAGER FOR THE CASINO PROJECT UNDERWAY IN PITTSBURGH. I AM HERE THIS MORNING TO REPORT ON HOW DON BARDEN AND NEIL BLUHM, ON BEHALF OF WALTON STREET CAPITAL, FIRST GOT TOGETHER.

FIRST, A LITTLE BACKGROUND, KEATING IS A PENNSYLVANIA BASED CONSTRUCTION COMPANY THAT HAS COMPLETE OVER 1,000 PROJECTS IN THIS STATE, AND HAS WORKED IN 48 OF THE 67 COUNTIES. MY FIRM HAS BEEN INVOLVED IN MORE THAN 20 CASINO PROJECTS, AND IS CURRENTLY INVOLVED IN 4 OF THE PENNSYLVANIA CASINO PROGRAMS.

AS YOU MAY KNOW, THE PITTSBURGH CASINO WILL CONTAIN APPROXIMATELY 119,000 SQUARE FEET OF GAMING

SPACE WITH AN ADDITIONAL 30,000 SQUARE FEET OF SHELL SPACE AVAILABLE FOR EXPANSION. IT WILL HAVE FOUR BARS OR LOUNGES, FOUR DINING FACILITIES, AND PARKING FOR APPROXIMATELY 3,800 CARS. IT IS LOCATED ON THE NORTH SHORE ON THE OHIO RIVER NEAR HEINZ FIELD. THE TOTAL CONSTRUCTION COST OF THE PROJECT TODAY IS APPROXIMATELY \$300 MILLION.

ON DECEMBER 11, 2007, WE BROKE GROUND ON THE CASINO STRUCTURE. APPROXIMATELY \$107 MILLION HAS BEEN INVESTED IN THE PROJECT TO DATE. THE FOUNDATIONS ARE IN, OVER 12,000 TONS OF STEEL HAVE BEEN ERECTED OR PLACED, MORE THAN 3,000 PIECES OF PRECAST HAVE BEEN POURED, APPROXIMATELY 15% OF WHICH ARE ERECTED. THE ELEVATOR CORE IS 10 FLOORS IN THE AIR, AND ALL UNDERGROUND UTILITIES HAVE BEEN INSTALLED. LONG LEAD ITEMS, INCLUDING ELEVATORS, MECHANICAL EQUIPMENT, ELECTRICAL GENERATORS ARE EITHER IN THE HANDS OF THE SUBCONTRACTORS OR ARE IN CONSTRUCTION.

THIS PROJECT WAS FINANCED BY A GROUP OF BRIDGE LENDERS, WHO LOANED PITG GAMING APPROXIMATELY \$200 MILLION, SO THAT CONSTRUCTION COULD COMMENCE IN DECEMBER, WITH THE FULL EXPECTATION THAT THE PERMANENT FINANCING WOULD BE SECURED IN A TIMELY MANNER. HOWEVER, THE SEVERE CREDIT CRUNCH STRUCK SHORTLY AFTER BREAKING GROUND, AND CREDIT BECAME EXTREMELY DIFFICULT TO OBTAIN. UNABLE TO SECURE SUBSTITUTE FINANCING IN MAY OF THIS YEAR, THE BRIDGE LENDERS GAVE MR. BARDEN THE 30 DAY NOTICE THAT HE WAS IN DEFAULT. MR. BARDEN ALSO FAILED TO FUND THE APRIL, MAY, AND JUNE CONSTRUCTION REQUISITION TOTALING APPROXIMATELY \$50 MILLION.

BECAUSE OF THE CRITICAL SUBCONTRACTOR FUNDING NEEDS AND BECAUSE DON BARDEN'S ATTEMPT TO SECURE A DEAL WITH APOLLO HAD FAILED, I SUGGESTED TO DON THAT I APPROACH OTHER INVESTORS WITH WHOM I HAD A RELATIONSHIP TO SEE IF THERE WAS ANY INTEREST IN THE PITTSBURGH PROJECT. WITH HIS PERMISSION, I APPROACHED

THE OWNER OF A PRIVATE EQUITY FIRM LOCATED IN PHILADELPHIA THAT I KNOW, DEAN ADLER OF LUPERT ADLER, AND ASKED HIM IF HE WOULD BE INTERESTED IN THE PROJECT.

IN LATE JUNE, DON BARDEN, DEAN ADLER AND I MET AT THE HYATT IN CHICAGO. COINCIDENTIALLY, WALTON STREET CAPITAL IS ALSO LOCATED IN CHICAGO. IN OUR MEETING MR. ADLER SUGGESTED WALTON STREET AS A POSSIBLE INVESTOR. I KNEW THAT NEIL BLUHM AND/OR THE WALTON STREET CAPITAL GROUP HAD LOOKED AT THE POSSIBLE APOLLO TRANSACTION, AND PASSED ON IT, SO I THOUGHT IT UNLIKELY- BUT WE CALLED NEIL AND HE JOINED THE MEETING. NEIL IS ALSO A PARTNER WITH ME IN THE DEVELOPMENT OF THE SUGARHOUSE CASINO IN PHILADELPHIA. IT BECAME CLEAR THAT WALTON STREET WAS THE PERFECT VEHICLE TO INVEST IN THIS PROCESS BECAUSE NEIL AND OTHERS HAVE BEEN PREVIOUSLY LICENSED BY THE GAMING BOARD, HAD ACCESS TO EQUITY, HAD A STRONG REPUTATION IN THE CAPITAL MARKETS, AND HAD EXPERTISE IN GAMING.

SINCE THAT INITIAL MEETING, IT HAS CONTINUED TO BE A VERY BUMPY ROAD. I EXPLAINED TO THE SUBCONTRACTORS THAT A LETTER OF INTENT HAD BEEN SIGNED WITH WALTON STREET CAPITAL, AND THEY AND MR. BARDEN WERE HOPEFUL THAT A DEAL COULD BE MADE, AND PERMANENT FINANCING COULD BE SECURED QUICKLY TO COMPLETE THE PROJECT.

ALTHOUGH I AM NO FINANCIAL PERSON, IT IS EVIDENT TO ME THAT THE CREDIT AND FINANCIAL MARKETS ARE NOT IN GREAT SHAPE. I KNOW THAT THE WALTON STREET GROUP AND THE BARDEN GROUP WORKED VERY HARD TO MAKE A DEAL, AND A GREAT DEAL OF EFFORT HAS BEEN EXPENDED TO MEMORIALIZE THE DEAL AND SECURE THE NECESSARY PERMANENT FINANCING. MR. BLUHM IS FAR MORE QUALIFIED TO SPEAK TO THESE ISSUES THAN I AM.

I JUST WANT TO MAKE IT CLEAR THAT THIS PROJECT IS STILL IN A VERY PRECARIOUS AND CRITICAL STAGE. UNDER AGREEMENTS WITH SUBCONTRACTORS WE NEED THIS PROJECT

TO START BEFORE JULY 30<sup>TH</sup>. WE CURRENTLY CONTEMPLATE A RESTART OF CONSTRUCTION MONDAY MORNING, JULY 28<sup>TH</sup>. IF THE JOB DOES NOT START ON OR BEFORE JULY 30<sup>TH</sup> WE AND/OR OUR SUBCONTRACTORS AND VENDORS COULD BEGIN TO TERMINATE THEIR CONTRACTS. SINCE THIS PROJECT IS UNDER A GUARANTEED MAXIMUM PRICE ESTABLISHED MANY MONTHS AGO, THAT EVENT WOULD SIGNIFICANTLY ESCALATE THE COST OF THE PROJECT AND COULD IN ALL LIKELIHOOD MAKE IT FINANCIALLY UNFEASIBLE.

ALSO, THE BRIDGE LENDERS HAVE MADE IT MORE THAN CLEAR THAT THEY WILL TAKE VERY AGGRESSIVE ACTION IF THIS FINANCING IS NOT ACCOMPLISHED. THE RESULT, I AM TOLD, WILL BE BANKRUPTCY PROCEEDINGS. AGAIN, I AM NOT AN EXPERT IN THAT, BUT I DO KNOW MY PRICING, MY CONTRACTORS, MY UNION WORKERS WILL BE LOST.

IF THE PROJECT COMES OUT OF BANKRUPTCY AND IF IT WERE TO RESTART, THE COST WOULD INCREASE SIGNIFICANTLY. I BELIEVE YEARS COULD BE LOST IN