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Gaming Consultants



A Catania Gaming Consultants Client Newsletter

June 2011

Industry Execs Lead New Push To Legalize Online Gaming

Top industry executives launched a new lobbying push in early May to persuade Congress to legalize online poker. Lobbyists argued that it is the only realistic response to the boom in online play that has defied crackdown efforts.

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“Millions of Americans bet billions of dollars a year at foreign websites, and they will continue to do so even if their government tells them it is illegal,” said Frank Fahrenkopf, chief executive of the American Gaming Association.

Executives, including Keith Smith, president of Boyd Gaming; Gordon Kanofsky, CEO of Ameristar Casinos; and Virginia McDowell, president of Isle of Capri Casinos, said at a news conference that regulation at the federal level would provide certainty to the industry and stronger safeguards.

Despite the “Black Friday” indictments of April 15, the volume of US online poker players is expected to continue to rise. Meanwhile, several brick-and-mortar casinos saw revenues drop again for the first quarter of 2011. Lobbyists will emphasize that for many casinos, expanding into the online market represents the growth opportunity they need.

Signs of Growth for Atlantic City at Last

New Jersey Governor Chris Christie's plans to revitalize an ailing Atlantic City are finally beginning to crystallize. This month, Hard Rock International announced that it is moving ahead with

its planned \$300 million venture at the southern end of the Boardwalk by seeking the permits

to build the resort's first boutique casino hotel, with fewer than 500 rooms.

Hard Rock is expected to file a petition in June for a permit allowing it to build along the coast of New Jersey, according to several sources involved in the project. The new Hard Rock boutique casino could create up to 1,000 construction jobs and 500 to 1,000 permanent hotel and casino jobs.

Earlier this year, Gov. Christie and several state legislators worked to pass a bill allowing boutique-style casinos—casinos with less than 500 rooms—in Atlantic City. The bill was part of Christie's plan for a state-run overhaul of the troubled city, which has been hemorrhaging revenues in recent years due to increased competition from Pennsylvania casinos and a poor economy.

The Hard Rock project is one of three major developments to advance in Atlantic City in recent months. The long-delayed \$2.4 billion dollar Revel casino project also appears to be nearing completion. Revel CEO Kevin DeSanctis announced that the casino plans to open its doors in just under a year.

In February, Gov. Christie announced that the Revel project would receive a \$260 million tax rebate over 20 years. Within weeks, Revel had secured the final \$1.15 billion from Wall Street banks to help complete the project. Revel, which will be a fully smoke-free casino, is expected to rival the chic Borgata.

Landry's Restaurants Inc. in Houston also got final approval this month from the New Jersey Casino Control Commission for its \$38 million purchase of the struggling Trump Marina Hotel Casino from Trump Entertainment Resorts, Inc. Landry will embark on a \$100 million, six-month makeover of the casino into a Golden Nugget.

Landry's Chairman Tillman Fertitta said that something new would be unveiled at the new Golden Nugget property each month for the next eight months, including a new spa, new restaurants and bars, and renovation of the ballroom so that it can be used for major attractions.

Fertitta said he believes the turnaround for Atlantic City will come in the latter part of 2012, and will fully take off in 2013. Whether or not his prediction is true, it is clear that the city has hit a turning point in terms of investment and development.

“For the first time in a few years, once can see hope on the Atlantic City horizon,” said Joseph Weinert of Spectrum Gaming Group. He added that 2011 “will be another difficult year, but the seeds now being planted in the form of Revel, the Golden Nugget, and the state tourism district should begin blossoming next year.”

Slow Progress in Florida for Resort-Style Casinos

Florida Governor Rick Scott vetoed a Florida budget which included \$400,000 for a comprehensive gaming study of resort-style casinos. The study, which would have examined “revenues

derived, the expenses incurred and the potential benefit for Florida from destination resorts and horse racing,” was supported by several legislators who had hoped the study would pave the way for a successful bill next year.

Earlier this year, Florida legislators proposed—but could not push through—a bill that would allow at least four major resort-style casinos throughout Florida. Several Las Vegas casinos have expressed interest in the state, including Sands Resort and Wynn Resorts.

Though Scott vetoed the study, his comments indicated that he was not categorically opposed to the idea of resort-style casinos for the state. In his 30-page veto letter, Scott said: “I encourage the Legislature to make a comprehensive review of additional gaming. I believe it is important to have a full consideration of the positive economic impact, the costs that may result from this policy, and the impact on current gaming in our state. However, such a study at this time is an expense Florida taxpayers should not incur.”

Though the veto may prove disheartening for some, other groups are clearly not deterred. One day after Gov. Scott’s veto, Asia’s third largest casino company, Genting Malaysia Berhad, announced that it is paying \$236 million for the 14 acres of waterfront land surrounding *The Miami Herald*.

Although the company says that right now they plan only to build a resort, they indicated their interest in pushing for a full-fledged casino when the time is right. “Miami’s the crown jewel for this market,” said a lobbyist for Sands. “Everybody knows that.”

For Casinos, Online Gaming Is No Longer Question of If, but How

At this year’s iGaming North America conference in Las Vegas in early May, the main question in the air was not whether to support and participate in online gaming, but how to do so successfully.

Panelists, including three Las Vegas industry executives, spoke about how online casinos would enhance business at brick-and-mortar properties instead of cannibalizing it.

Jan Jones, senior vice president of communications and government relations for Caesars Entertainment, said that expanding into the online market was essential if the industry hoped to stay relevant to a new generation of consumers.

“The average gaming customer is around 50 years old,” she said. “The upcoming generation of gambler—the X and Y generation—makes all of their decisions on the Internet. . . . I believe if we don’t have a significant presence, there is the likelihood that they will make other entertainment choices that are not gambling choices.”

Doug Dalton, who manages the poker room at the Bellagio, said that he has seen players migrate to casinos from online poker. He noted that the World Series of Poker and the World Poker Tour have grown in part as a result of increasing interest in online poker.

Moving past the question of if to how, panelists encouraged the industry to present a united front on online regulation issues and stressed the short window for pushing through legislation.

Panelist Laurie Itkin, VP of government and public affairs in North America for Betfair, said that the gaming industry had failed to come together on issues of regulation, complicating the legalization of online gaming.

“I don’t think we’ve earned the right to even have the discussion” about how Internet gambling should be regulated, Itkin said. She pointed out that there is not even agreement among casinos on whether state or federal regulation is preferable.

Although the American Gaming Association (AGA) is currently neutral on Internet gambling, panelist Mark Tenner, president of consultant Concept Development Group, said he expects the AGA to change course and support federal legislation and regulation in the near future.

He said there could be a small window of opportunity for federal lawmakers to take up the legislation before the summer recess. “But,” he cautioned, “if it doesn’t happen this year, it’s not likely to happen until after the 2012 election.”

Several panelists said the vocal support of online poker fans could encourage federal legislation, though there were several factors still stacked against it, most notably the question of regulation.

Although the events of “Black Friday,” when indictments were issued against 11 online poker executives, were more focused on bank fraud and money laundering than the actual online gaming issue, the events were proof that the industry is in need of regulation.

East Coast Gaming Congress Says Regulation Will Be a State Issue

The sentiments of the iGaming conference were echoed across the country at the East Coast Gaming Congress in Atlantic City, where lawmakers and casino executives agreed that online gaming is “the path to growth for [the casino] industry.”

However, while many at the iGaming conference thought that regulation would be a federal issue, a number of panelists in Atlantic City contended that regulation would most likely happen state by state.

“I believe strongly there will not be a national online gambling bill passed in the US,” said Richard Bronson, chairman of US Digital Gaming. “I’ve yet to find one governor, one legislator, one lottery director that tells me otherwise. They want this to be a state issue.”

With that in mind, New Jersey legislators reaffirmed their commitment to pushing through legislation to allow Internet gambling in the state. A few months ago, Gov. Chris Christie vetoed a bill that would have permitted it, voicing concern about its legality. The state constitution currently

only allows gambling in Atlantic City, and Christie felt there were not sufficient provisions in the bill to stop online gaming from expanding beyond Atlantic City.

Assemblyman John Burzichelli said that the New Jersey Legislature would likely put a question on the ballot next year asking voters if they want to amend the Constitution. “Whether or not New Jersey voters amend the Constitution is up in the air,” Burzichelli said. “We came close, and we’re going to do it again.”

Although the emphasis was on pushing through state regulation, some major casino companies emphasized that only federal regulation was an ideal solution. Speaking on the issue, Caesars Executive Jan Jones said that a state solution would halt worldwide expansion.

“If we look at this as a state opportunity, we will have lost the single largest opportunity for this industry,” she said. “If you don’t have that international capability—Europe, Asia—you can’t go in there because you can’t go outside your own state. You lost the worldwide opportunity.”

Nevada Prepares for Online Gaming

The Nevada state Assembly passed a bill in late May calling for the state to develop a licensing process for online poker businesses by January 2012. The measure was passed unanimously in the Assembly and will go to the Senate, where supporters also expect it to pass.

The bill calls on Nevada regulators to design rules that would take effect only after the federal government legalizes online gaming. Originally the bill also called for the legalization of online poker in Nevada, but a policy committee cut that section four days before the federal government issued indictments against the heads of three major online poker companies on April 15, 2011.

While the bill does not legalize online gaming, it will allow guests to gamble in their rooms at hotel-casinos, contingent on casinos providing heavy-duty security to prevent teens from playing. Several gaming companies have assured legislators that there are “substantial safeguards” that could be installed in any computer running the games.

Lee Amaitis, president and CEO of Cantor Gaming, said there could be an estimated \$18.5 million collected in taxes in a year from in-room gambling.

The passage of the new bill suggests that Nevada will wait for federal legislation before fully entering the online gaming world, but will set themselves up to move quickly when the time comes. Assemblyman William Horne, one of the sponsors of the bill, said he wants Nevada to be ready “the day the [federal] law passes.”

Germany Breaks Up State Gaming Monopoly

After a long debate, ministers from Germany’s states have agreed to break up the state’s monopoly on gambling services. As of 2012, the market will be opened to private companies offering

betting on sports events.

Currently, the state is responsible for all gaming and betting within Germany. Only the country's 16 states or companies run by them can offer gambling services. The current law also bans most online betting and forbids the advertising of gambling services.

Germany has defended the monopoly by saying that state control helped prevent people from becoming problem gamblers. By controlling gaming operations, the state was better able to prevent addiction from getting out of hand. However, as in the US, German consumers found loopholes by gambling with foreign companies online. An estimated four million Germans struggle with gambling addiction, and reports indicate that the number continues to grow.

The decision to dissolve the state monopoly comes after a 2010 ruling by the European Court of Justice (ECJ), in which several private companies complained about the state's control of the market. The ECJ upheld their argument, calling the state monopoly "unjustifiable."

Beginning in 2012, seven nationwide companies will be given licenses to provide gambling services on a five-year probationary basis. Advertisements for sports betting companies will also be allowed, although not on television. Live betting during sports events will still be banned.

Macau Reports Record Gaming Revenue for April

The Macau Gaming Inspection and Coordination Bureau reported record gross gaming revenue for April. According to the Bureau, revenues jumped 44.6% year over year to a record 20.51 billion patacas or \$2.57 billion. Gross revenues also increased 48% in February and March.

Several Las Vegas-based casinos, including Wynn Resorts and Las Vegas Sands, should see their stocks rise as a result of the revenue jump. Both companies have generated a large percentage of their gross profits in the last quarter from their Macau properties.

