

# Catania Gaming Consultants



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## *A Sour Economy Takes Toll on U.S. Casino Gaming Revenues*

United States casino gaming revenue has decreased by 5.7% for the year 2009, according to a report prepared by the American Gaming Association. This percentage drop follows a 4.6% drop in gaming revenues in 2008.

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Along with a tough economy and increased competition for leisure dollars, the rise in popularity of Internet, including gaming, is also attributed to the decline in gaming revenues for U.S. land-based casinos. Billy Hulkower, a senior analyst with market research firm Mintel, told the Agence France-Presse "Casinos may be losing audience to the increasingly compelling entertainment offerings in the home; such as HDTV (high definition TV), high-end video game systems, and the Internet, including Internet gambling." (see entire article at <http://www.google.com/hostednews/afp/article/ALeqM5jppqMf5-mbcMt-BIAcaab9pE7ttEcA>)

An AGA spokesperson, Holly Thomsen, indicated that the trade group's research show that casino visits are increasing, but consumers are spending less. She told AFP "Our industry has been impacted by the recession like most other consumer-discretionary reliant industries," she said.

"We know that people are watching their entertainment spending more in the tight economy."

The AGA statistics show that destination casinos in Las Vegas and Atlantic City are among the areas most impacted by this downturn. Atlantic City's gaming revenue in 2009 was at its lowest level in a decade.

## ***Congressional PAYGO Rules May Help Advance Internet Regulation Legislation***

In late February, U.S. Senators Ron Wyden and Judd Gregg introduced the Bipartisan Tax Fairness and Simplification Act of 2010, a bill that provides tax cuts that which the legislators intend to offset by regulating and taxing Internet gambling.

The U.S. government faces a looming budget deficit, and one means of paying for items proposed by Congress is to offset costs with revenues predicted to flow into the U.S. coffers, if the government licenses, regulates, and taxes Internet gambling.

This strategy of attaching legislation was used previously by opponents of I-gaming in 2006 when the Unlawful Internet Gambling Enforcement Act (UIGEA) was included as a subsection of a much larger anti-terrorism bill.

Many experts predict that Internet gambling legislation as a standalone proposal has little chance of success in the U.S. Congress. The issue cannot stand on its own, and popular opinion is that it can only succeed in the current session of Congress as part of a larger initiative as a means to make up for any lost government revenue.

If Internet gambling proposals are not piggybacked to other legislative priorities, however, some gaming experts feel that federal legalization will come as a result of individual states authorizing intrastate Internet gambling, helping to spark interest in the issue among federal legislators. So far this year, legislators in four states – New Jersey, California, Iowa, and Florida – have introduced some form of intrastate Internet gambling.

## ***New Jersey Casino Control Commission Approves Acquisition of Tropicana by Carl Icahn***

In early March, the New Jersey Casino Control Commission approved the acquisition of the New Jersey Tropicana Casino & Resort by an entity owned by affiliates of Carl C. Icahn. The approval will allow the Tropicana to emerge from bankruptcy.

In a press statement, Carl Icahn said, “there will undoubtedly be tough sledding ahead for Atlantic City, especially in light of the increasing competition from neighboring states. However, I believe that Atlantic City, with its beautiful beaches, can again become a premier destination resort. For this to come to fruition, casino hotels must invest capital not only in their own resorts but also in ‘major events’ that will draw gamblers away from competing

The Tropicana was purchased for approximately \$200 million, about an 80% discount from original estimates of \$1 billion and above. The price tag shows a lagging gaming market in Atlantic City. It was less than ten years ago that the Tropicana spent approximately \$290 million on a dining and entertainment venue known as The Quarter.

Icahn has not publicly committed to investing money on upgrades, and rival Donald Trump, always one for a great sound bite was quoted in the Press of Atlantic City that “He (Icahn) doesn’t spend any money. If Carl spends 10 cents, it’s a major event.”

The Tropicana was originally put up for sale in late 2007, after the NJ Casino Control Commission denied a gaming license to Columbia Sussex Corp., the parent company of Tropicana, and put a trustee in place to pursue a sale of the property.

## ***Florida May Have Best Chance of Success in Race of States Looking to License & Regulate Internet Gaming***

In 2005, North Dakota ceased efforts to legalize interstate interactive Poker because of opposition from the U.S. Justice Department. For the first time since 2005, Florida is the one jurisdiction that has a serious possibility of legalizing interactive poker, albeit on an intrastate basis. California is also considering legalizing intrastate interactive poker, but this possibility has been greatly diminished by state Native-American threats to terminate about \$300 million in annual revenues to the state pursuant to tribal -state gaming compacts. Iowa and New Jersey legalization attempts are also long shots. Illinois may legalize and privatize an intrastate lottery and is awaiting a response from the Justice Department.

The Florida bill (HB1441) has bipartisan support and has detailed provisions that would ensure the suitability and solvency of the chosen hub operator, who would be selected through a “competitive bidding process”. The applicant must also pay upfront a “nonrefundable license fee of \$500,000.” It is estimated that state revenues would increase by about \$200m p.a. Certain provisions are unusual, such as the requirement that the chosen operator be licensed to operate a U.S. state lottery or gaming activity and be licensed and have Internet gaming experience in one or more “regulated jurisdictions outside the United States where such Internet gaming is legal”. There are also detailed player verification and player protection requirements, such as self-exclusion procedures and extensive “Network system requirements.” Only state-licensed card room operators at Florida’s pari-mutuel facilities would be eligible to operate intranet poker games. While there is some concern over potential U.S. Justice Department opposition, UIGEA would appear to alleviate these concerns, especially the provision that states that routing of interactive data shall not determine the location of the wager. The MAJOR problem of HB1441 is the necessity of completing the legislative process by the end of April 2010.

## ***Nevada Gaming Regulators Look At Advertising Deals with .Net Arms of Online Gaming Operators***

The Nevada Gaming Control Board is talking about putting restrictions on advertising deals that casino companies have with .net divisions of online operators, such as Fulltilt.net and Pokerstars.net. Gaming Control Board member Randall Sayre told the Las Vegas Review-Journal that he is drafting a letter to casino executives licensed in Nevada that establishes guidelines for entering into deals with Internet gaming businesses.

"We don't have a policy and clearly the board needs to boil down exactly what that policy needs to be," Sayre said. "Some gaming licensees play carefully by the rules and others do not. I do not believe the board can remain silent on this any longer." (Las Vegas Review Journal, 3/12/2010; <http://www.lvrj.com/business/board-may-work-to-curb-deals-87444857.html>)

Any move may further hurt casino industry revenues at a time when the industry can least afford it. Harrah's Entertainment, owner of the World Series of Poker, may have most to lose among casino operators. Although the online gambling industry is more than 12 years in existence, traditional casino gaming regulators have not provided much guidance to licensees when it comes to dealing with their online gaming counterparts. Over the years, advertising deals with .net online poker companies have become ubiquitous within the poker tournament circuit. The pending regulations and potential directives by gaming regulators will undoubtedly raise commercial speech issues.

## ***MGM to Leave Atlantic City Market, Agrees to Sell Stake in Borgata Hotel Casino***

In a recent settlement with New Jersey gaming regulators, MGM Mirage will sell its 50% stake in the Borgata Casino Hotel & Spa. MGM's decision to dissolve its ownership of the NJ casino was in lieu of cutting its business ties with Pansy Ho, whose father Stanley Ho has been alleged to have ties with Asian organized crime.

The NJ Division of Gaming Enforcement (DGE) argued that Pansy Ho was unsuitable for licensure in NJ because of her father's alleged associations with Chinese triads. MGM has a joint venture with Pansy Ho in Macau.

MGM currently shares ownership of the Borgata with Boyd Gaming, which retains the right of first refusal to buy out MGM's interest in the casino. Under the terms of the agreement between MGM and the NJ DGE, MGM's interest in the Borgata will be placed into trust and put up for sale.

MGM decided to cut its ties to Atlantic City, rather than dissolve the opportunities for shareholder in the rapidly growing Macau market. MGM maintains that Pansy Ho operates independently of her father and defends her as a "great partner in Macau". MGM also recently ended plans for a multiple billion-dollar development in the area surrounding the Borgata.

