

Midweek
room rates sag,
p. 4

Michael Pollock's
**GAMING INDUSTRY
OBSERVER**
Intelligence for the Gaming Industry®

A SPECTRUM GAMING GROUP PUBLICATION

Las Vegas trends ...

CLUBS THAT FLOUT RULES
COULD GET CLUBBED
BY REGULATORS

Nevada gaming regulators have begun cracking down on casino operators that fail to adequately supervise their clubs and lounges, following years of warnings about and investigations of illegal and unsavory activities in the Las Vegas nightspots.

The most recent regulatory action involved the Prive nightclub and the Living Room ultralounge at the Planet Hollywood resort. The Nevada Gaming Commission in July levied a \$500,000 fine against Planet Hollywood for a nine-count complaint filed by the Gaming Control Board, with an additional \$250,000 fine if the Board issues another complaint involving a Planet Hollywood nightspot before the end of July 2011.

Planet Hollywood admitted that it knew or should have known about the activities cited in the complaint. The counts cited the clubs' employees for

dumping drunken customers in the casino unattended, drug use that was ignored or tolerated, employees and customers beating up and sexually assaulting other patrons, and admitting minors and allowing them to drink.

One count cited a citation from Clark County allowing topless and lewd activity while others dealt with a significant increase in fire/rescue and police calls linked to the clubs, an increase in prostitution-related activity in and around the club and allowing the clubs to employ workers with significant criminal records.

see LAS VEGAS on page 3

Operational trends ...

SMOKEFREE GAMING SPREADS
THROUGH STATES, COUNTRIES;
POOR ECONOMY TEMPERS TREND

Editor's note: The following analysis is by **Karen Blumenfeld**, Executive Director of Global Advisors on Smokefree Policy, and the group's Associate Director, **Ruth Boorujy**. GASP, as the group is known, advocates smoke-free workplaces but is not opposed to gaming.

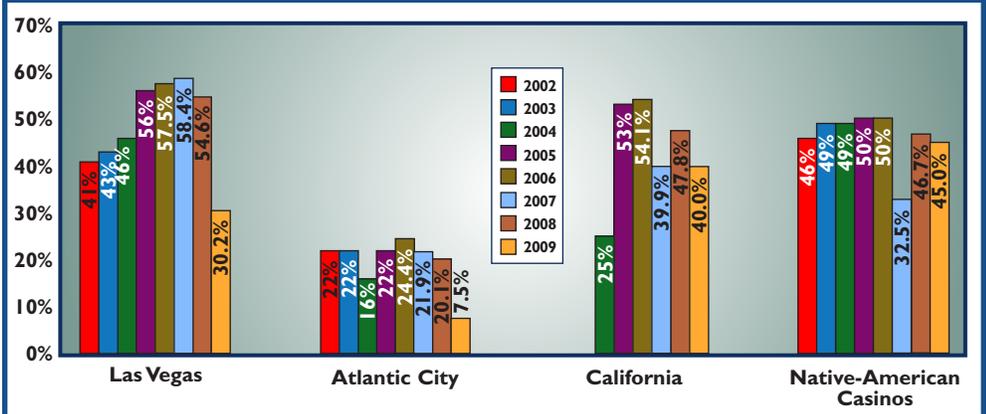
Almost a decade ago, Las Vegas took the first step in smokefree gaming. Sin City casinos voluntarily created smokefree poker rooms, brought on by consumer demand. This poker trend travelled quickly to Atlantic City and spread rapidly, meeting little resistance.

Fast forward to 2009. Smokefree gaming — and not just for poker — is an established trend, albeit tempered by the poor economy. In the United States, 18 states along with Puerto Rico and the District of Columbia require smokefree gaming venues, and Wisconsin starts on July 5, 2010.

Eleven states require smokefree gaming venues: California, Colorado, Delaware, Florida, Illinois, Maine, Maryland, Minnesota, Montana, Nebraska, New York and Washington State.

Seven more states, along with the District of Columbia, that only offer bingo require the venues to be smokefree: Arizona, Hawaii, Idaho, Ohio, see SMOKEFREE on page 7

Executive decisions: These gaming destinations have a bright future



2009 Executive Satisfaction Survey

PROSPECTS ARE DIMMER,
BUT EXECUTIVES STILL SEEK
WARMER CLIMATES

Two truisms about the mindset of gaming executives have emerged since we began studying their attitudes nearly a decade ago:

- Casino executives tend to view future scenarios through the prism of the present day. In other words, they are optimistic about the future when times are good, and vice versa.
- They are resigned to the fact that, Hey, you gotta live somewhere.

The first phenomenon is particularly interesting, and particularly puzzling. It is akin to looking out the

window on a rainy day and assuming that it will rain tomorrow, next week and throughout 2012.

That pessimism-breeds-pessimism view — probably cultivated by reduced or flat compensation, while seeing others receive pink slips — is apparent in the ninth annual Bristol Associates/Gaming Industry Observer Executive Satisfaction Survey. As the accompanying chart on p. 5 shows, the pessimism about future prospects has even seeped into views about California gaming and Native-American casinos, albeit not as bad as in mid-2007 when bad times first spilled forth.

While pessimism was rampant in the 2007 survey, it was not universal. Las Vegas still held out hope of a bright future. Many months of bad numbers later, however, have fostered what can be described as a culture of pessimism. Right now, the view is that the see SURVEY on page 5

The Deal ...

WHEN GAMBLING EXPANDS,
HOW MUCH IS TOO MUCH?
ILLINOISANS MAY HAVE AN ANSWER

As more states look to legalize or expand casino-style gaming in the chase for untapped gambling dollars or gambling dollars that are crossing state lines, people are increasingly — and reasonably — asking, “So, what happens when gambling is everywhere?”

The obvious answer is that market forces will determine how much gambling is too much.

Gambling, however, is unique among leisure activities because its spread is tied to societal mores, and in that regard sometimes the people — and not necessarily economic forces — say that enough is enough.

Such a scenario could be unfolding in Illinois. The state has a \$1.5 billion casino industry and is almost surrounded by other gambling-rich states including Indiana, Missouri, Iowa and Wisconsin. Yet in a *Chicago Tribune/WGN* statewide poll this month, Illinoisans said by a margin of 58 percent to 34 percent that they would vote to ban retail video lottery terminals — up to 45,000 which were authorized by legislation last summer at bars, restaurants and social clubs.

The poll did not ask respondents why they opposed the expanded gambling. For sure, retail VLTs are often less palatable than casinos because of the in-your-face aspect, but it could be that Illinoisans simply believe that their state has its fill of slot machines or casino-like gambling locations.

This underscores a point that we have made in this space before: Public officials should consider the pulse of the people before authorizing gambling in the name of a quick budget fix. Illinois Governor **Pat Quinn** signed the VLT measure in July as part of a \$31 billion public works bill. Two states to the east, Ohio Governor **Ted Strickland** issued a directive to the state Lottery to commence racetrack VLTs — even though voters have repeatedly clobbered casinos at the ballot box.

In Illinois, however, counties and municipalities can opt out; the law also allows voters to request a referendum to decide the matter.

888 INVESTORS SEE 777 WITH DEAL FOR ONLINE SERVICES TO HARRAH'S

The stock price of 888 Holdings Plc rose 14 percent, to £97.50, on the London Stock Exchange the day after it disclosed that it signed a deal with U.S. casino company Harrah's Entertainment. 888

will provide Harrah's — which is lobbying Congress to overturn the online-gambling prohibition — with its Dragonfish business-to-business service for support and payment software.

888 investors no doubt were excited by the prospect of cracking the U.S. market, which could open in the foreseeable future (see last issue, p. 1). We believe, however, there is more than the direct profit opportunity at play in the 888 stock bump.

The quality of online gambling regulation is largely unknown due to the lack of transparency, and its havens in places such as Antigua, Gibraltar (where 888 calls home) and Malta help to relegate it to third-world status within the community of respected gaming regulators.

By partnering with Harrah's — which is the world's largest gaming company and which is tightly regulated by nine U.S. states, among other jurisdictions — 888 has received a major infusion of credibility. If 888 passes muster with regulatory authorities in the United States, it could become a provider of choice for other land-based gaming companies that will, inevitably, make the leap into the online sector.

WHEN BIG MONEY IS NOT ENOUGH: STATES CONTEND WITH INDUSTRY

They are legion these days: Casino critics, legislators, reporters and others who wonder why any state would want to legalize gaming in light of the poor results in many jurisdictions across the country.

One reporter's question this month to Massachusetts House Speaker **Robert DeLeo** was perfectly sophomoric in that regard. Noting the poor results and financial condition of some casinos in Connecticut, Rhode Island and Atlantic City, the reporter asked: “What does Massachusetts know to make a casino work for the state that the others who have tried and failed?”

The obvious answer is lost in the blizzard of daily media stories about reeling casino revenues: Casinos still generate a lot of money ... just not as much as they did a year ago. We can only guess at how many businesses or industries would love to be generating the gross revenue that casinos do, even in these economically depressed times.

In other words, if Massachusetts were to generate, say, only \$100 million in gaming revenue per month vs. \$125 million, it's still a big win for the state.

The less-obvious answer comes from DeLeo himself, in direct response to that reporter's question: “A major factor was they over-invested and made some poor business decisions. It appears like those

were the major downfalls, economically, of those particular casinos.”

DEPT. OF HASTE MAKES WASTE: OHIO RACINOS FACE HEADWINDS

Ohio is feeling the pain of rushing to implement racetrack VLTs on an ASAP basis.

First, Governor **Ted Strickland** bowed to pressure and increased the minimum gaming age to 21 from 18 (see last issue, p. 2).

Second, only two of seven racetracks had submitted the required \$13 million non-refundable first payment with their application, subjecting them to a late fee of \$100,000 per day. The tracks' investors or lenders were uncomfortable making a \$13 million commitment, fearing successful legal challenges to the VLT measure or fearing that Issue 3 — which would authorize four full-service casinos — would pass in November.

The Lottery Director, **Kathleen Burke**, has the discretion to modify or waive the late fees, and there are indications that both she and Strickland recognize the racetracks' predicament. Whether that actually leads to a deadline extension remains to be seen.

Then came the biggie: The Ohio Supreme Court ruled by 6-1 that approval of racetrack slots must be through voter referendum, not gubernatorial directive. As a result, the earliest it can get on the ballot is May 2010.

Ohio could have avoided these clearly foreseeable situations by giving more careful deliberation to the gaming measure and not taking what was essentially unilateral action.

ANALYST'S CORNER: WELLS FARGO'S FARRELL LIKES REGIONAL CASINOS

Dennis Farrell, a high-yield senior analyst at Wells Fargo Securities, believes that regional casino operators are better positioned than those in Las Vegas.

“Regional gaming demand remains the most resilient segment of the domestic gaming industry, as we believe gaming patrons see local casino entertainment as a value proposition, especially with free slot play promotional offers.” Farrell said in a note to clients.

“If unemployment continues to rise, we believe visitation could actually increase at many local casinos due to greater leisure time, which supports the thesis that gaming demand is more resilient than other consumer cyclical sectors in periods of economic weakness,” he said.

“Two main concerns we have looking forward are, firstly, spend per gaming person in 2010 and, secondly, level of promotional activity. Demand in August was flat to slightly better than the July figures.” ■

Regulators say there are another eight or nine ongoing investigations into other nightclubs and lounges, and they expect at least some of those to result in disciplinary action.

The recent crackdown and the promise of future discipline follows ongoing trends in the resort nightlife business, some of which have long troubled regulators. Fueling the problems is the incredible amount of money that customers are willing to spend at nightclubs and lounges. While the trend has cooled a bit — as the ongoing recession has slowed all revenue streams — the lure of club and lounge revenue is nonetheless a powerful incentive for resort operators looking to capture discretionary spending as customers spend less on long-standing entertainment options such as shows and headline performers.

The heart of the problem is twofold: The casinos' practice of leasing nightclubs and lounges to outside operators, and the failure of casino management to ensure that those club operators are compliant.

Contributing to the problems faced by regulators and operators is the pervasiveness of the drug culture that accompanies modern nightlife, particularly the use of cocaine — a longtime problem — as well as prescription painkillers and so-called club drugs such as ecstasy. Some club managers and the people associated with club culture embrace drug use or at least tolerate it.

Another contributing problem is the public's increased appetite for public nudity and sexual behavior, fueled in part by sexually charged nightclub promotions.

Nevada regulators have written letters to licensees warning them of their liability if clubs allow illegal activity. They have also called operators in for meetings to warn them even more strongly that they were responsible for policing their clubs even if operated by outside companies. But the letters and the meetings did not — as far as regulators are concerned — prompt operators to clean up their acts, and the regulators are fed up.

Thus, the crackdown has begun. Whether the first disciplinary actions will prompt swift changes is still unknown, but seems likely. The Rio, for example, called Metro police in for a check of its Sapphire topless pool club and the resort closed the venue after police made numerous prostitution and drug-related arrests. It seems unlikely that the Planet Hollywood

complaint will preempt further discipline, as regulators suggest additional cases are already far along the path toward disciplinary settlements and fines.

Nevada gaming regulators have the power to insist that clubs and lounges and their employees and patrons act appropriately, even though almost all of the clubs and lounges in question don't themselves offer gaming, by virtue of state gaming regulation 5.011, which reads:

"The board and the commission deem any activity on the part of any licensee, his agents or employees, that is inimical to the public health, safety, morals, good order and general welfare of the people of the State of Nevada, or that would reflect or tend to reflect discredit upon the State of Nevada or the gaming industry, to be an unsuitable method of operation and shall be grounds for disciplinary action."

Regulation 5.011 is a powerful weapon and the biggest stick regulators have when it comes to club and lounge operations. Of course, Gaming Control Board agents aren't the only folks enforcing state and local laws in the clubs. The Las Vegas Metropolitan Police Department and Clark County also have jurisdiction and are getting involved.

Clark County followed the Gaming Commission's action against Planet Hollywood by yanking Prive's and the Living Room's liquor licenses, moves that forced resort executives to scramble to satisfy county officials that stricter resort oversight and the removal of a couple of club managers justify the issuance of new liquor licenses.

The Clark County Sheriff wrote a letter in 2006 to the Gaming Control Board on behalf of his Metro police, advising regulators that he was concerned about illegal activity in the casino-connected nightspots, and the GCB followed with a letter to casino licensees reminding them that they needed to make sure illegal activity wasn't taking place at their clubs, whether the casino operators were running them or not.

"Of particular concern to the board are incidences of excessive inebriation, drug distribution and abuse, violence, the involvement of minors, and the handling of those individuals who become incapacitated while at the club," the 2006 letter stated.

And just this past April, Board member **Randall Sayre** sent another, more strongly worded letter to license-holders, noting that "a few licensees were found to be indifferent to the conduct or welfare of patrons," and advising them that they needed to do

a much better job policing their clubs, lounges and topless pools.

Sayre leveled the operators with a laundry list of problems that have surfaced over the past few years, including excessive drunkenness, drug dealing and abuse, violence, public sex acts and "acts deemed lewd, indecent or obscene," presence of minors, the mishandling of drunken or drugged patrons ("dumping" them into the casino or out of the club without taking action to protect them), date rape, extortion and the misquoting of service charges, failure to make sure club security cooperates with casino security and law enforcement, and prostitution.

Sayer advised operators to make sure clubs and lounges were complying with all regulations and laws, recommending licensees visit their nightspots "as typical customers."

"No matter what the ownership and operational circumstances are, business and criminal conduct as described above reflect poorly on Nevada gaming licensees and the State in general," Sayre's letter noted.

"In conclusion, indifference to illegal acts or unsuitable business practices within your properties' nightclubs or similar establishments will not be tolerated and may be considered an unsuitable method of operation. Please be proactive and take the appropriate steps to ensure the well being of your patrons, avoid damaging the reputation of the State and its gaming industry, and steer clear of potential disciplinary measures."

The smart money says that regulators mean business. ■

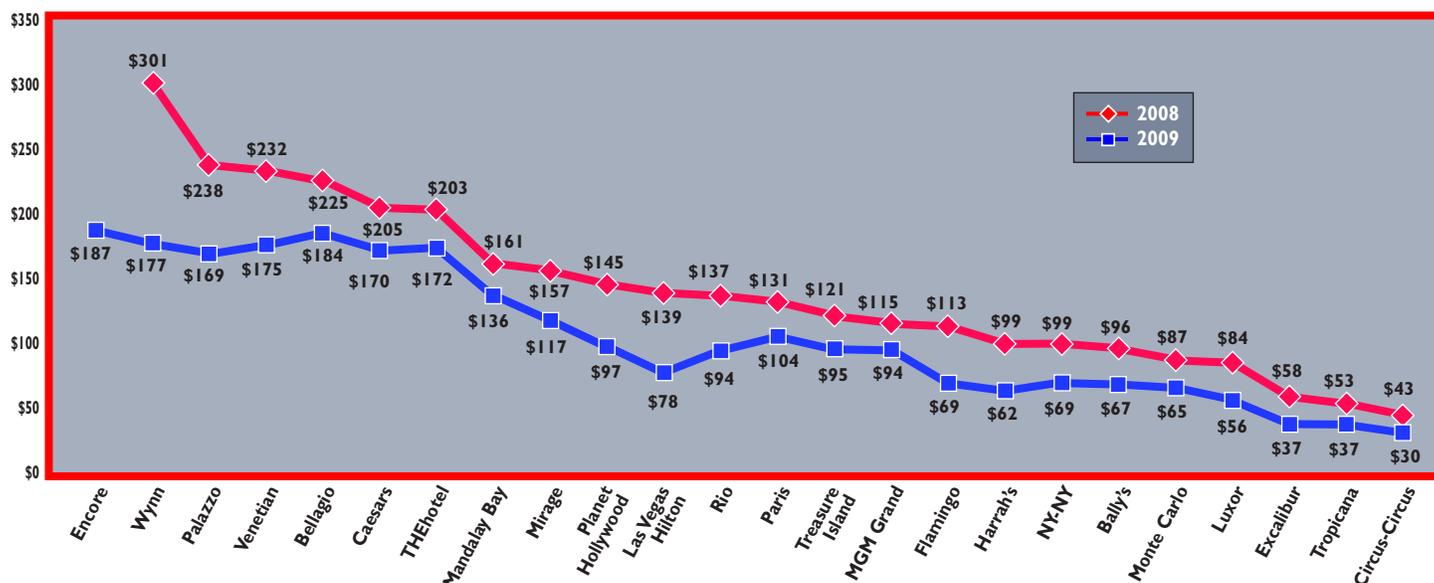
Nevada regulators have written letters to licensees warning them of their liability if clubs allow illegal activity.

Register now
Gaming Industry Observer
co-produces the



October 19 - 20, 2009
Seminole Hard Rock Hollywood
www.floridagamingsummit.com

J.P.Morgan Survey: Las Vegas Strip average midweek room rates, 3rd quarter



SOURCE: J.P.MORGAN "LV STRIP ROOM RATE SURVEY"; SEPTEMBER 8, 2009 JOSEPH GREFF, ANALYST

Las Vegas trends ...

MIDWEEK ROOM REVENUES REMAIN BIG CHALLENGE FOR STRIP OPERATORS

Las Vegas Strip operators find that their most difficult challenge in recovering from the recession is how to boost midweek room revenues. Consumer retrenchment combined with a sharp drop in convention attendance have weakened a cornerstone of their profit formula.

Beginning in January 2008, average Las Vegas room rates began declining (on year-over-year basis) every month, a trend that accelerated along the way. The declines hit double digits in June (down 16 percent to \$113) and five of the six remaining months of the year also recorded double-digit declines, including a 21 percent drop in September 2008, to \$113.

Hotel occupancy followed a similar path, with every month experiencing year-over-year declines — widening to a decline of 10.7 percent in December 2008, when occupancy was just 76.7 percent.

The drop-off in convention attendance began in August 2008, but once the trend started, it continued every month through July 2009 (most recent month available). Total 2008 convention attendance was 5.9 million, down 5 percent. This year, Las Vegas experienced monthly declines in convention attendance of between 21 percent and 35 percent for the first five months, slowing to declines of 18.9 percent in June and 5.5 percent in July.

The convention slowdown has had a severe impact on midweek occupancy and room rates.

Citywide midweek occupancy has averaged 79.7 percent for the first seven months of the year, down 8.2 percent year-to-date from the same period last year. (Weekend occupancy was 90.7 percent, down only 1.4 percent.) Third-quarter midweek room rates among the largest Strip resorts declined 24 percent to \$112, according to the J.P.Morgan weekly survey (see accompanying chart). By comparison, weekend rates declined only 7 percent, to \$207.

The convention slowdown hurts other revenue streams as well, particularly food and beverage, as conventioners are much more likely to run up big checks in high-end restaurants than the budget-minded tour-and-travel guests that operators have been forced to rely upon to fill rooms as best they can.

Harrah's President and CEO **Gary Loveman** predicted that companies and institutions will not begin ramping up their Las Vegas conference and convention plans until 2011 or 2012.

"The consequence of that loss of that demand is we're filling rooms that would otherwise be dedicated to those customers with a more value-oriented promotional market," Loveman told the *Las Vegas Review-Journal*. "That is, to a large degree, why you can go online day and night and see these unbelievably attractive offers coming in from all of us to try to fill these rooms. That's the hole that has to get plugged. Then I think you will see the rest of the business firm up."

Exacerbating the impact of the convention slow-

down has been a steady increase in room capacity, with new resorts and expansions boosting the citywide room inventory to 141,520, up 8,500 rooms from December 2007. Deutsche Bank estimates that the room count on and near the Strip will jump by about 15 percent — or by 10,000 rooms — to 77,000 rooms during the next year. That includes CityCenter, Cosmopolitan and the Hard Rock Hotel, but does not include almost 4,000 rooms at

the stalled and bankrupt Fontainebleau. The capacity increase also excludes thousands of relatively new condo-hotel towers (Trump International, Palms Place, MGM Signature, Platinum and others) and timeshare units that have added additional non-hotel capacity.

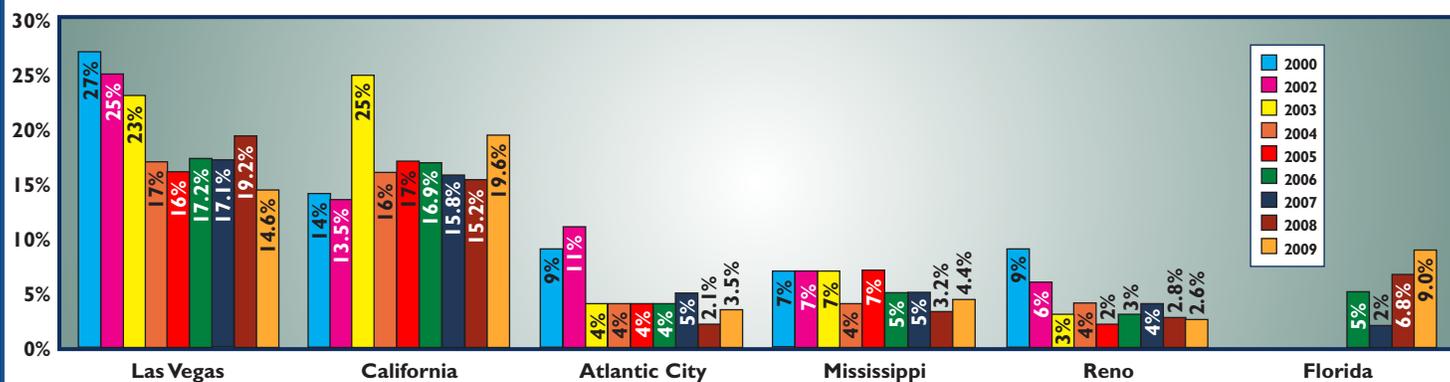
With the convention slowdown showing no immediate signs of reversing, and with a looming capacity increase that will further pressure occupancy and room rates, operators are employing both tested and new techniques to keep rates and other revenues from falling further.

"Businesses responded to the difficult economic conditions by reducing travel budgets." MGM Mirage reported in its second-quarter filing with the Securities and Exchange Commission. "This factor, along with perceptions surrounding certain types of business travel, negatively impacted convention attendance in Las Vegas. Dramatic drops in convention attendance in late 2008 and early 2009 led to significantly lower room rates as we reacted quickly

see *MIDWEEK* on page 7

Third-quarter midweek room rates declined 24 percent to \$112.

Executive decisions: Preferred locations, overall survey



S U R V E Y
c o n t i n u e d f r o m p a g e 1

house always loses — and that is from coast to coast, at least by contrast.

Las Vegas and Atlantic City are at all-time lows in our survey, which shows a great wave of despair about low-tax destinations. Carving up those numbers a bit further by income level shows that the pessimism, particularly with respect to Atlantic City, has moved beyond despair. Of 65 executives who earn at least \$200,000 annually, only one believes Atlantic City has a bright future, and that executive offered a simple “agree.” None of these high-level executives would voice a “strongly agree.”

Using the same measure for Las Vegas showed 15 out of 65 highly paid executives believe it has a bright future, with only four of them voicing a “strongly agree.”

Yet these highly paid executives are much more sanguine about tribal gaming, with 27 of 65 — or 41 percent — expressing optimism. However, only four would go so far as to “strongly agree.”

The cautionary point here is that gaming operators face an unanticipated but potentially very grave risk. If their executives are pessimistic about the future because of an uncertain present, that could permeate their entire organization, creating an atmosphere of despair. Carried to its extreme, it could mean that operators that face present challenges may face future challenges as a result, generating a self-fulfilling negative prophecy.

The good news, though, is that many executives still prefer to live in some of the same markets in which they are pooh-poohing the future prospects. For example, using that high-income segment as a barometer, we see that 15 out of 65 — the same percentage that gives it low marks for future growth — still wants to live there. Indeed, when we compare those two groups, we see that three individuals are actually straddling this divide: They want to live in a market that has dim prospects. Four of the 15 who want to live in Las Vegas give it high marks, while the rest are simply neutral.

This returns us to our second truism: You have to

live somewhere, so it might as well be warm.

California is now the leader among locales of choice, with Florida on the rise.

Jim Bright, president of Bristol Associates, the Los Angeles-based executive search firm, has 34 years of experience as a recruiter, including almost 20 years in the gaming industry. He observes that candidates are certainly more pessimistic about the job market reflecting the overall view of the survey. More are unemployed, and those unemployed are often out of work longer than in the past and feel frustrated by the lack of available work.

Furthermore, those who are employed and in stable positions are much less likely to want to consider leaving their current employer.

Casino executives have become increasingly flexible in the career opportunities they are willing to entertain as a result of the uncertainty in the marketplace. Candidates have expanded their range geographically and are less likely to turn down a career opportunity due to a property’s location. While many do prefer warmer weather, unemployed executives are much more willing to go to areas that they simply would not have considered two years ago.

As a result of this increased flexibility, casino properties in more remote areas are receiving an increased number of quality applicants for their job openings. This pattern has led to the hiring of more experienced personnel than these properties have been able to attract in the past. Unfortunately, this pattern is more than likely perpetuating the pessimism we are seeing with casino executives in each jurisdiction.

Still, we do see light at the end of the tunnel. In recent months, Bright has seen an uptick in the number of casinos willing to bring in additional talent. It is still too soon to call it a trend but the employment picture does seem brighter. However, Las Vegas and especially Atlantic City lag behind other jurisdictions.

Another reason for optimism is the probability of legalized gaming in Ohio and Massachusetts and

the addition of table games in Pennsylvania. Any of these will certainly buoy the industry, creating more opportunity for all gaming executives.

METHODOLOGY

The survey was conducted via the Internet. The total number of responses collected was 547, representing a sampling of industry executives from across North America. This is the largest response rate in the nine years we have been conducting this survey, and the respondents are diverse in terms of geography, executive responsibilities, years of experience and other meaningful criteria. The number of responses increased by 26 over the previous year.

The survey was posted on www.bristolassoc.com, the website of Bristol Associates, as well as on our website, www.gamingobserver.com. The responses were collected over several weeks in the spring and summer. We publicized the survey in a press release and through e-mail, largely to inform and encourage executives to participate. The survey collected data designed to ensure, among other things, that the individuals who participated were indeed employed in the casino industry and that no one responded to the survey more than once. At the same time, however, we did not ask questions that could identify respondents by gender, age or other criteria that could be useful in a pure analysis — but would be perceived as potentially discriminatory in hiring.

(Subscribers who need more information can contact *Gaming Industry Observer* at 609-926-5100 or Bristol Associates at 310-670-0525.) ■

Feedback ...

Gaming Industry Observer always welcomes your questions, comments, concerns and suggestions.

Email feedback@gamingobserver.com.

Letter from Macau ...

LAS VEGAS SANDS LOOKS TO REGAIN GROWTH MOMENTUM AS MARKET OUTLOOK IMPROVES

Editor's note: The following analysis is by Norman MacKillop, Country Manager — Macau for Spectrum Gaming Group, publisher of this newsletter.

As Macau begins a new era under recently appointed Chief Executive **Fernando Chui Sai On** (see last issue, p. 6), the city's former 'engine room of growth' — Venetian Macau Limited — is also preparing, and hoping, for a new era of its own.

The half-finished shells of buildings that comprise Parcels 5 & 6 of the Cotai strip present a sad view for some residents of **Lawrence Ho's** Hard Rock Hotel and the plush City of Dreams next door. **Sheldon Adelson**, Chairman and CEO of Venetian parent Las Vegas Sands, needs about \$2 billion to complete the project. In addition to the credit crunch, other problems bedevil attempts to get back on track.

The company may be looking to sell some equity through an IPO, as \$600 million of capital has purportedly been pledged as convertible bonds. There are, however, some hoops to go through on the journey to raising the capital.

Although construction on the site is well advanced, we hear that the government has not yet granted land-use rights. Indeed, informed sources have told us that there is technically no building there, as permission was never officially granted to commence work. Typical of the norms at that time, building proceeded on a 'wink and nod' basis that all would be well and the necessary permissions would follow. Our sources tell us that the only permission that has been officially granted is to build the perimeter fence.

The **Au Man Long** scandal — in which the former Secretary for Lands and Works was sentenced to almost 30 years in jail for corruption — has significantly impaired the ability for these promises to be honored unless strictly conforming to the law. No one is willing to grant informal permissions until and unless 25 percent of the cost of completing the project is lodged with the government as a bond; otherwise, the site will stay as it is. Perhaps that is why rumors of potential saviors abound but nothing concrete has emerged thus far.

LVS hopes to raise \$3.5 billion to \$4 billion by selling some non-core assets in Macau. This likely means the Four Seasons Private Apartments and the Venetian Grand Canal Shoppes. Cotai Strip zoning is strict and prohibits residential property other than hotels. Verbal promises may have been given by certain government officials some years ago

concerning their ability to sell residential property on the Strip — but times have changed.

Further complicating the issue is that under Macau law, the Four Seasons Private Apartments and Four Seasons Hotel Macao are considered as one entity and indivisible for the purposes of legal title. Of course, individuals and companies are free to enter into contracts concerning land use and title, but in Macau such contracts are difficult to enforce, because strict property laws concerning registration of title means that, in a dispute, the court will focus only on the title deeds of the property.

An entity may be able to purchase the right to use an apartment by buying a share in the company which owns the hotel or apartments. But without clear title, such a shareholder would be subject to the danger of changes in the shareholding structure of the company and consequential changes in the rules such as an increase in payment for the right of use, etc. Not such an attractive deal for anyone wishing to "own" a piece of the Cotai Strip.

Monetizing the Venetian shopping mall could present similar problems in that the mall is an integral part of the casino building; whether it can be hived off for sale like the company did with its Grand Canal Shoppes in Las Vegas remains to be seen.

Yet another headache, which seems to have been overlooked by the press and analysts, is that building in Parcel 3 next to the Four Seasons should have been completed in July of this year with a hotel and casino complex. Nothing has moved on the site except grass, and consequently LVS could be in breach of the concession agreement.

All of these problems could have been fixed a few years ago with some recrafting of the concession agreement, some creative legal interpretations, and a little help from senior government officials. In this new climate of strict adherence to the law, it will be interesting to see how the government will address these issues.

Venetian Macau Limited last month filed an application to list shares on the Hong Kong Stock Exchange. The caveat to investors reported by LVS in a filing with the U.S. Securities and Exchange Commission was that "No decisions have been made regarding the timing or terms of any such offering or whether the subsidiary will ultimately proceed with such a transaction." This is a sensible caveat, as there are lots of hurdles to cross between filing for an IPO and the sale of the shares on the market.

One of these hurdles is Macau government approval for the change in corporate structure brought about by a share issue. Until the election is over, the government will make no decisions that might attract criticism, in particular LVS issues, which includes making controversial changes to the concession agreements. The only

way to remedy this is to amend the agreement, and this requires government approval.

Sensible people in Macau realize that it is in everyone's interest that Parcels 5 & 6 are completed and that building of the Cotai Strip moves ahead. The IPO presents high hopes of an injection of capital to achieve this. Now that a reprieve has been granted on the loan covenants, time may not be of the essence.

The outlook for the casino business in Macau, meanwhile, is improving. There is a good likelihood that Beijing will approve easing single-entry visa restrictions from one visit every two months to one visit per month beginning this month.

On an even brighter note, gambling revenue surged to its highest-ever monthly figure in August, rising 17.2 percent from a year earlier, and marking the second straight month that revenue has risen against last year's figures. Gambling revenue for September could rise as much as 40 percent over last year's monthly figure.

There is also a brighter outlook for the chaotic junket business, as after a damaging junket war fuelled by spiraling commission rates, the six concession holders have agreed in principle to cap the rate at 1.25 percent. The government has also finally promised to tighten its control over the market by promulgating regulations that give the Secretary for Finance power to declare a commission ceiling and to impose penalties on casinos that break the rules. The rate has been set at 1.25 percent. It remains to be seen if the regulations can be properly enforced, as there are many ways to camouflage junket operations, including under the guise of travel agencies.

With hints of loosening visa restrictions and massive celebrations for the 60th anniversary of the communist rise to power in China, October could be a bumper month for Macau. ■

Register Now

Gaming Industry Observer subscribers receive a 10 percent discount off the registration fee. Email info@eegamingssummit.com for the discounted rate.



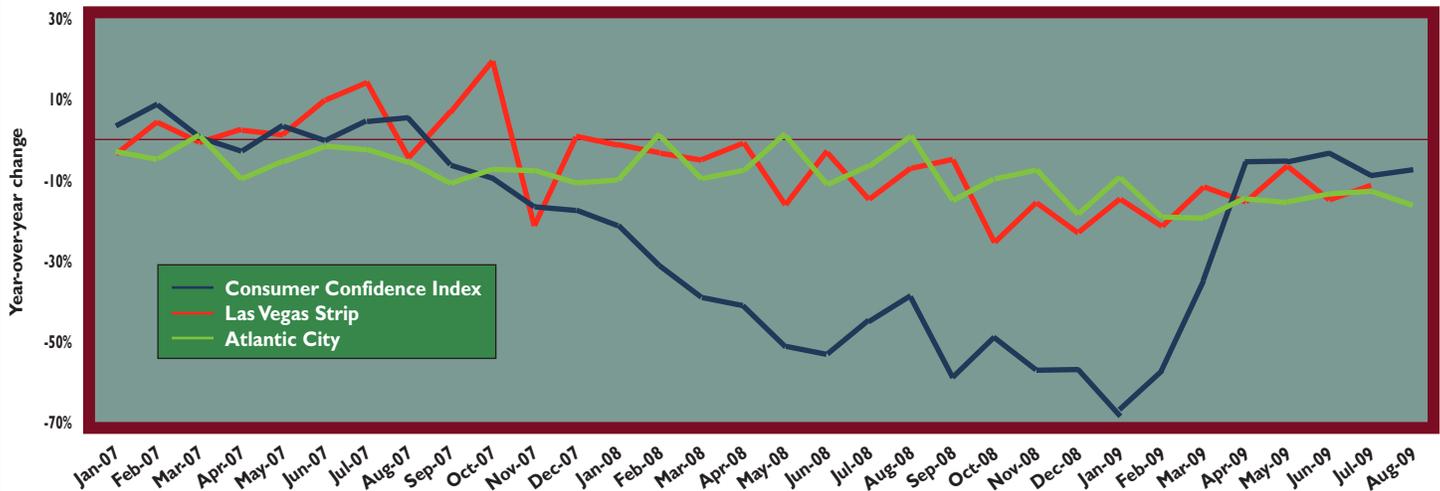
The most important events for Eastern Europe and the Balkans in gaming and entertainment

October 5-7, 2009
Inter Expo Center
Sofia, Bulgaria



www.balkangamingexpo.com
www.eegamingssummit.com

Changes in Atlantic City, Las Vegas Strip GGR vs. changes in Consumer Confidence Index



SOURCE: DATA FROM THE CONFERENCE BOARD, NEVADA GAMING CONTROL BOARD, NEW JERSEY CASINO CONTROL COMMISSION

Fortunately for operators in the two largest U.S. gaming markets, consumers' sentiment has not matched their action during the recession. The chart above shows the year-over-year change in the Consumer Confidence Index in comparison to the year-over-year changes in gross gaming revenue on the Las Vegas Strip and in Atlantic City. Confidence plummeted during the recession while gambling revenues declined much less precipitously. In fact, Spectrum Gaming Group (publisher of this newsletter) has compared multiple economic indicators against gross gaming revenue in multiple regions and found strong linkage.

S M O K E F R E E
c o n t i n u e d f r o m p a g e 1

Oregon, Utah and Vermont.

(Tribal casinos in many states are exempt from state laws and have instituted their own smoking policies.)

Outside of the United States, 11 countries mandate smokefree gaming: England, France, Ireland, Italy, Northern Ireland, Netherlands, New Zealand, Scotland, Uruguay and Wales. Most Canadian and several Australian provinces also require smokefree gaming.

The ultra-chic Principality of Monaco jumped on the bandwagon in November 2008. Hong Kong's mahjong parlors went smokefree on July 1, and Bulgaria plans to implement smokefree gaming on June 1, 2010.

Some states with strong smokefree air laws are drafting creative compact agreements for tribal gaming venues. Washington state offers financial incentives to tribes with smokefree policies.

Still, some jurisdictions are reticent to move forward with smokefree gaming, creating a patchwork of exemptions in their smokefree air laws. Denmark, Finland, Slovenia, Sweden, a few German states, and some Australian and Canadian provinces permit smoking on their gaming floors, in varying degrees.

Stateside, Atlantic City, Pennsylvania and Rhode Island allow a percentage of their gaming floors to be smoking-permitted. Nevada restricts smoking by the number of slot machines in a venue. Iowa and New Jersey require simulcast facilities be smokefree, yet permit smoking on casino gaming floors. Arkansas and Tennessee allow smoking if the establishment is age-restricted to 21 and older.

The casino industry has also been successful in delaying or rolling back a few smokefree laws. South Dakota temporarily delayed the implementation of its smokefree law. Atlantic City rescinded its smokefree ordinance, returning to 25 percent smoking-permitted. Some Pennsylvania casinos have expanded to 50 percent smoking.

Still, strides continue in favor of smokefree gaming. Richland, SC, recently held firm in support of its smokefree legislation, denying an exemption for

M I D W E E K
c o n t i n u e d f r o m p a g e 4

to re-occupy rooms with leisure travelers."

Almost all operators reacted to the slowdown by aggressively cutting costs, collectively laying off thousands of workers, cutting hours for thousands of others, reducing the hours of operation or closing poorly performing F&B and retail outlets, and reducing some services. But in a service-intensive business like casino resorts, there are limits on cutting costs.

Wynn Resorts Chairman **Steve Wynn** said during his second-quarter conference call that his company has cut about \$100 million in annual costs for its two Las Vegas hotels, but Wynn said he cannot go much further.

"There is a surreal question here," Wynn said. "Is it intelligent to ruthlessly grind every last dime out of this place when it involves dislocating groups of your employees? Oh, yes, the quarter looks better and you have one of these fancy phone calls. But is that good business? I think not."

On the revenue side, operators are trying to keep

a bingo parlor. Tobacco-growing Louisiana passed smokefree-casinos legislation in the Assembly, losing in the Senate by a small margin. Indiana, Michigan, Missouri and Texas are considering smokefree air laws that include gaming venues.

New Jersey's attempt to close its casino smoking loophole may be heard in the lame-duck session after this year's November elections. The state's Favorites off-track wagering facilities are smokefree by law, see *SMOKEFREE* on page 8

rooms filled without attracting guests who don't gamble or spend much elsewhere in the casino. Las Vegas Sands said that it is comping more rooms to slot players and other gamblers instead of cutting room rates because it wants to maintain rates as high as possible.

Major operators are employing a new tactic of using credits for F&B, spas, table play and slot play to lure visitors. Instead of slashing rates — which Wynn said attracted customers who cannot afford to, or choose not to, spend on his resorts' other amenities — operators hope that keeping rates higher while offering incentives will attract higher-worth customers.

Las Vegas has traditionally boosted visitation with properties that create incremental demand. MGM Mirage CEO **Jim Murren** said that he expects his company's CityCenter to boost citywide visitation significantly, more than enough to offset the impact of the capacity increase.

"I have no doubt that CityCenter is going to do well itself," he told CNBC. "But if it's simply taking market share from the rest of the town ... it's not a success."

with the Woodbridge venue considered one of the most successful OTW venues in the country. Revel Entertainment, a new Atlantic City casino being built, is considering being smokefree.

For one month ending November 15, 2008, Atlantic City's City Council mandated smokefree casinos, except for separately ventilated smoking lounges with no gaming, or food and beverage service. How did Atlantic City casino operators adjust to the smokefree month?

The on-premises transition was relatively smooth, due to management planning and employee implementation. Patrons were directed where to smoke, and explained how a player holds a seat at a table or slot machine. Some casinos built attractive smoking lounges, with flat-screen televisions and comfortable chairs, while others offered uninspired indoor or outdoor smoking areas.

The casinos had six months to create a strategic external marketing plan prior to October 15, to attract new clientele that prefer smokefree environments. Considering that the overwhelming majority of gamblers do not smoke, we noted that that casino operators did not develop any media campaign in the tri-state area to create a positive buzz for the smoke-free transition.

Interestingly, casino operators asked City Council to rescind the smokefree law, prior to its implementation. Even so, dealers shared with us anecdotally that their tokens or tips were higher during the smokefree month.

Despite the reluctance of most gaming operators to embrace the smokefree gaming trend, a blast of fresh air was felt by the casino industry in January 2009: The National Council of Legislators from Gaming States overwhelmingly voted in favor of a resolution to support smokefree gaming initiatives.

The National Institute for Occupational Safety and Health also recommended a ban on smoking in casinos, based on its May 2009 study. The NIOSH research detected lung carcinogens from secondhand smoke in nonsmoking, non-poker Las Vegas casino dealers, after their work shifts.

Some casino operators try to adapt by installing expensive, newfangled equipment such as air curtains or slot machines that have built-in air filtration. Unfortunately, none of these mechanisms rids the air of secondhand smoke hazards.

Some casinos introduce smoking-cessation treatments into their wellness programs, to reduce skyrocketing health care costs among employees. Unfortunately, smoking-permitted workplaces are proven to hinder and undermine successful completion of the quit program.

A shift to big-picture analysis of smokefree

legislation may be on the horizon. In the past, the industry focused mainly on any impact on casino revenues and government tax receipts. However, a recent article in *The Regional Economist* alluded to applying an overall analysis that also includes public health benefits.

Legal options for workers and patrons exposed to secondhand smoke are expanding, and attorneys are taking note. This year, the Americans with Disabilities Act was amended to include temporary and perceived disabilities. A person who suffers an asthma attack from secondhand smoke exposure on a gaming floor may be classified as disabled under the Act. Gaming venues are workplaces and places of public accommodation, needing to be accessible to disabled people.

While the debate continues, Delaware's smokefree Dover Downs Hotel was named a 2008 Best of Gaming winner in a reader and critic poll by *Casino Player* magazine, and 2008 Best of the East Award by readers of *Meetings East* magazine. These recognitions show that smokefree gaming can be desirable and, as Dover Downs' financial results have shown, profitable.

Additionally, many organizations will host conferences only in cities with smokefree indoor air laws. Opposing smokefree air laws may result in lost convention business and undermine visitor and convention bureau outreach.

Two key myth-busters were uncovered in the 2008 Atlantic City Visitors Profile Study conducted by Spectrum Gaming Group (publisher of this newsletter): nonsmokers spend more money in Atlantic City than smokers, and only 23 percent of gamblers smoke.

Whether they embrace smokefree air or begrudgingly comply with it, casinos can make lemonade out of their perceived lemons. ■



Subscribe to

Gaming Industry Observer

Annual rate: \$495

Two-year: \$795

Gaming Industry Observer

GIO² premium service

Annual rate: \$1,635

For more information, call 609.926.5100 or visit
www.gamingobserver.com/newsletter/gio2



MICHAEL J. POLLOCK
EXECUTIVE EDITOR AND PUBLISHER

JOSEPH S. WEINERT
EDITOR

MICHAEL D. DIAMOND
ASSOCIATE EDITOR

GAIL PAGANO
SUBSCRIBER RELATIONS MANAGER

BARRY S. WIZOV
LAYOUT AND GRAPHIC DESIGN

Michael Pollock's Gaming Industry Observer

is a division of Spectrum Gaming Group, LLC.

1201 New Road, Suite 308

Linwood, NJ 08221 USA

All editorial and circulation inquiries, as well as requests for information service should be directed to 609-926-5100. The annual subscription rate is \$495 per year. Archives are available online at www.gamingobserver.com



Independent Research and Professional Services

- Conferences
- Publishing and research
- Feasibility and economic studies
- Regulatory and professional services

FREDRIC E. GUSHIN
MICHAEL J. POLLOCK
MANAGING DIRECTORS

HARVEY B. PERKINS
JOSEPH S. WEINERT
SENIOR VICE PRESIDENTS

MICHAEL J. WEST
CHIEF FINANCIAL OFFICER

www.spectrumgaming.com

**Do Not Forward, Fax or Otherwise
Reproduce this Newsletter:**

This product is protected by federal and international copyright laws that prohibit the unauthorized replication of this product. The Copyright Act imposes liability of up to \$100,000 per issue for such violations. If you would like to reproduce any part of this newsletter, just give us a call at 609-926-5100 and we can authorize reproductions under limited circumstances.



CASINO DATA ONLINE 775-742-5040

www.casinodataonline.com

Casino Data Online is an independent secure online financial and gaming performance reporting and benchmarking solution designed for the Casino Gaming Industry. Every month Casino Data Online electronically captures slot machine and financial performance information from subscriber casino properties internal slot and accounting systems. The data is standardized, reconciled and quality assured before the benchmarked results and gaming market data are released online to subscriber properties. This allows your casino property to securely compare its product and gaming revenue performance against the greater industry or internally within your own casino group. Casino Data Online has been overwhelmingly embraced by the Australian Gaming Industry since 2001 and now proudly maintains a customer base of over 400 gaming properties. This powerful online solution is now available to the North American casino gaming industry with the support of the Spectrum Gaming Group.

PECHANGA.net
your internet news resource

310-838-9529

PECHANGA.net is perhaps the nation's premier source of Indian gaming information.



SIGMA
STOCKTON INSTITUTE FOR GAMING MANAGEMENT

609-625-6043

SIGMA, formed by The Richard Stockton College of New Jersey and Spectrum Gaming Group, meets the management training needs of the gaming industry by offering a certificate-based program of specialized courses. SIGMA will help the industry identify, cultivate and equip leaders with the knowledge and skills needed to meet today's challenges and enhance their careers and capabilities. Contact the Office of Professional Development and Continuing Education www.stocktonpdce.net/ps.cfm



1020 Atlantic Avenue
Atlantic City, NJ 08401
Phone (609) 345-5222
Fax (609) 345-7486

SOSH Architects
www.sosharch.com

145 West 57th Street, 13th Fl.
New York, NY 10019
Phone (212) 246-2770
Fax (212) 246-2771

SOSH Architects is a full service, multi-faceted design firm specializing in projects that include casinos, hotels, restaurants, multi-family residential and retail/entertainment venues.



South Jersey Industries

1 South Jersey Plaza, Folsom, NJ 08037

609-568-9028
x6911

South Jersey Industries the premier solution for competitive natural gas and electricity supply, thermal production facilities, district heating and cooling systems, on-site generation and CHP facilities designed specifically for the gaming industry.

View current NYMEX and PJM quotes ... Receive our monthly newsletter ... Visit us at

www.southjerseyenergy.com