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MINUTES OF JOINT HEARING - ASSEMBLY COMMERCE and SENATE
JUDICIARY - 55TH NEVADA SESSION - MARCH 11, 1969

Present: Assemblymen Wood, Hafen, Espinoza, Capurro,
Bowler, Mello and Torvinen

Senators Monroe, Hug, Bunker, Christensen,
Dodge, Swobe and Young

Absent: None

Also Present: Howard James, President of Sahara Nevada Corp.;
Frank Johnson, Chairman Gaming Control Board;
Charles Munson, Director Gaming Industry Assoc.;
Don Stephensen, Del Webb Corporation;
Perry Thomas; Speaker McKissick

Senator Monroe convened the hearing at 9:30 a.m. and noted those present to be heard on S.B. 353, amending law relating to corporate gaming licenses.

Mr. Howard James spoke on behalf of the Sahara Nevada Corporation which is a subsidiary of the Del Webb Corporation. He said they had been trying to put a bill together to allow public corporations to come into Nevada as legitimate businesses for the last two and one half years. With S.B. 353, he believed all of the industry and the commission are in favor of the provisions.

Upon being asked for his views, Mr. Johnson, Gaming Control Board, said they feel the bill answers any questions which might arise. This bill gives them permission to waive requirements in some instances or to put on stricter requirements on others. Both the Board and the Commission have discussed this and are in agreement.

Mr. Wood noted Section 16 wherein it requires that the corporation, or the subsidiary company, must maintain a ledger in its principal offices and wondered if they should not spell out that the ledger is required to be maintained within the confines of the State of Nevada. Mr. Daykin said that is what is now required. The subsidiary company would in fact be a Nevada corporation. The only way by which a foreign corporation can be licensed in Nevada is if all owners are individually licensed in Nevada. That goes back to Section 11; the amendment comes in Section 23. Since the subsidiary company would not be able to meet the individual licensing requirements, the subsidiary would have to be a Nevada corporation.

Young inquired as to what the bill was designed to accomplish; the need for the bill and the dangers that are inherent in selling stock in companies involved in the gaming field and further how this is designed to avoid those dangers which we see as being present in this type of company activity.

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Mr. Stephensen said he would attempt to answer that. He believed the concept of this bill was to give the State of Nevada more control over gaming. In order to do that, it was necessary to clear up serious problems now existing in the statutes. In one area it is discriminatory with Nevada corporations. A couple of areas in the statute leave holes for serious problems by certain organizations operating without total controls. When working on this matter, they considered three facets; (1) corporate licensing; (2) companies called and defined as holding companies or intermediary companies; and (3) public traded corporations. In these respects, there are different reasons for having the controls defined clearly in the act. With the Corporation licenses, they are strictly controlled. There is a total strangle-hold on that licensee. But the ownership should not be restricted to individual licensing. He noted that there is now a great need for corporate type of ownership. Next there is the holding companies or intermediaries. They can go from 5 share holders to 500 share holders. They can provide for dividends. The same control is on them as there is on individuals. They can be suspended or dismissed. Transfers can be restricted.

Then there is the publicly traded corporation. Because of the tight controls on them by the SEC and the New York Stock Exchange and the American Stock Exchange, a lot of the job is done for us. If there is a problem a report can be requested from the SEC. This bill puts very stringent controls on the publicly traded corporation and unless they are exempt they will have to abide by this act. He said he did not feel the commission would misuse the power granted to them in this bill and that it is necessary to protect the gaming industry in Nevada. That in essence is how the dangers have been taken out of the gaming field.

Young said that answered part of the question; but he wondered if there was a need to bring in capital. He noted that some say it is better now than it has been before; the gaming revenue is up. Therefore, is there any crying need for Nevada to go and sell stock?

Perry Thomas answered this question by stating through observations the last 15 years has shown an economic maturity. 15 or 20 years ago, Nevada was in the pioneering stages. A few small casinos were in existence, etc. The pioneering stage was successful through the years and by the 1950's we were expanding fast. Today there are thousands of hotels, lounges, show rooms, etc. They are dealing with \$40 to \$60 million in casinos. The wealth is definitely here. Business has never been better. But now it is time to enter into the third cycle - corporations - it happens in oil industries, mining industries or whatever. But Nevada is ready now and we have to keep pace.

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Stephensen said the economy has a tendency to down or up and Nevada has a stabalized economy.

Young said from what he has read in the papers when Leisure International went on the market they started at 5 and ended at 30. This is speculative fever on the American Stock Exchange. With the gaming field entering the market there is no telling what the speculative fever will do. It could even bring in more federal concern in the state. He wondered about the controls of the commission, the control board and the SEC in these respects.

Stephensen said it is true that when a stock expands, anything can happen. He could remember when electrical corporations were a glamorous industry; when real estate companies had a glamour and aura about them. There are a number of industries who have had a speculative fever at some time. It is not necessarily casino-oriented. And with regard to the controls, he noted he worked with the controls day after day and they definitely exist. In answer the question of controls by the American Stock Exchange to handle these fevers, he assured Senator Young that the controls are real and getting tougher all of the time. With respect to the controls in Nevada, you control gaming by controlling the licensee.

Young asked what would prevent someone, say the mafia, from buying into the publicly traded corporation under street names. Stephensen said he imagined they could do it - just as they could do it with telephone or electrical utilities stock. It is possible; but it is true of any company on the stock exchange. Under the existing law, one of the big problems in the gaming industry has been the hidden interests. With these controls it would be less of a problem. Hidden ownership has existed in Nevada for many years.

Chairman Monroe noted that whether there was corporate gaming or not was not the question - Nevada has corporate licensing already since 1967. The purpose here was to have it better controlled.

Lamb noted that the gaming commission had provided in their new budget for the hiring of an expert SEC man to aid them in their controls. Dodge noted the provisions in Section 11 whereby the commission is given the authority to waive all or part of the requirements. He further noted that with regard to the intermediary corporation, it required a statement of the restrictions imposed by this act; but he understood that this could not be done with publicly traded corporations. If in fact that person buys the stock on an unrestricted basis and he has no knowledge of the regulations or control, can the Commission legally move against the owner of the stock?

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Stephensen said they could go back to subsection 4 of Section 11 which provides the method by taking away his dividends, his voting powers, etc. To get at the owner is to withhold any interest he has in the stock; and if the restriction is shown on the certificate, he buys it that way whether he has read it or not.

Dodge said he was referring to the unrestricted corporation - the publicly traded corporation which did not provide for the restriction on the stock certificate. Stephensen said there would be different controls which would come into play on them. Dodge asked if the State of Nevada could force the stockholder out of a publicly traded corporation and Stephensen said he did not think so. What they would have to do is to go back to the suitability of the person involved. The owner is just one part of it; it acts through its employees and they have to be found suitable. With the element of controls it will be taken care of, there is a strangle-hold on the people.

Dodge said that would probably be true with the industry invested in the State of Nevada, but it would not control the mafia in a publicly traded corporation. Supposing the mafia owned 7% of the public corporation; he is not involved in the State of Nevada. Could the commission force him out of the corporation? Stephensen said he did not think so. Dodge stated if that can't be done, could they go to the licensee and say "either get him out or you will lose your license?"

Stephensen said the way to handle this was to cut off their source of earning. As with the General Motors Corporation, you can be sure the government is going to take a real close look at who is in the company.

Dodge said with the individual licensing they can move against the people, they don't have to sneak in the back door. He said his concern was with the publicly traded corporation; the controls over the investor not the corporation itself; they are under legitimate controls through the statutes.

Stephensen said well what control do they have under the present law; the only way they are controlled is through corporate licensees and many times their interests are hidden. So there still is no direct way to go against them. You don't know who they are - you only suspect. He said he felt this bill would provide them with greater power over these individuals than they have now. Johnson said he was also concerned in this regard but that he felt Mr. Stephensen was right.

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Mr. Daykin said they would also have their legal recourses. They still have the right to go to the company and tell them to isolate the person or they will lose their license.

James asked why in todays businesses would the mafia want to buy into one of the publicly traded corporations anyway. With less than 10% they would have nothing and if they have 10% they have to divest it to the Securities Exchange Commission. So he has 10% of the corporation - the dividends and interests can be stopped at any time. Why would they want to buy into this type of operation?

Daykin said he wanted to specifically point out Section 15 which reads "The commission may exempt a publicly traded corporation from compliance with some or all of the provisions of section 11 to 14, inclusive....." And Section 14 states as follows: "If any corporate licensee.....does not comply with the laws of the State of Nevada.....the commission may, in its discretion, do any one, all or a combination of the following: 1. Revoke, limit, condition or suspend the gaming license of the corporate licensee; or....." This will take care of the problem on publicly traded corporations. They can notify the licensed corporation and have them immediately hold all dividends and voting rights; that is the vehicle to get to the undesirables. That would be if the problem were large enough to invoke such a measure; otherwise it is not great enough to worry about.

Torvinen noted that there were evidently much to be desired in the 1967 gaming act. It was two-sided. For one thing Section 2 granting the right of waiver shows they evidently had too many controls and on the other side they did not have enough controls. What are the things which come under the 1967 act which are overcome by this bill which are too restrictive; and what additional regulatory authority is granted to the commission or specific tightening up of corporate gaming regulations are contined in S.B. 253.

Daykin said the areas deemed to be excessively strict are not the restrictive exclosures. It purported to contain exemptions of publicly traded corporations but whoever was the author of the exemption section (and his office has disclaimed any responsibility on this) , drew it so it did not cover any existing corporations. So all corporations that are directly licensed as gaming licensees or holding companies or subsidiaries; there are no exemptions for the publicly traded corporation. It was an oversight but that was the result. The reason for the waiver provision is the feeling that it is not possible to spell out by statute in so sensitive an area as gaming. The purpose of the act is to provide legislative control rules. They should be permitted to release some areas in certain cases and put in more severe restrictions in other areas. There are at least the guide lines which normally they will follow, but from which they may deviate when necessary.

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Senator Dodge asked if anyone could foresee the immediate impact in the next two years if this legislation were passed as far as applications for ownership in Nevada casinos was concerned and wondered if we were ready for this situation. Johnson said from the number of applications already coming in it looked like they would be swamped. But he felt that they were able to handle it and if not, they could always stop it. But there is certainly a trend towards corporate ownership.

Young inquired as to the power the board and commission would have with respect to say Sam Gianconni and the holding companies. If he held the stock under a street name could they force him to divest himself of his ownership? Or would there be a possibility of interfering with the company if you said "you have to get ride of him"? Johnson said the first thing they had to do was to protect the rest of Nevada. They may have to go in the back door to do it, but they have done it in the past.

Young said he did not mean going in the back door. Wasn't there anything in the present law which gave them this power? No way to control it at the present time if Sam owned 10% of that company? Johnson said he did not think so. Other than he would have been carefully checked first. Young suggested that maybe Sam was not a bad guy to begin with; maybe he just turned bad after he acquired his interests. Was there any way of controlling that? Johnson said he felt that they did but he was afraid it might possibly be violating someone's rights.

Daykin pointed out that all corporations are subject to the laws of the State of Nevada and it is expressly stated in the law that they may be required to comply. They have submitted to Sections 11 through 14 and therefore are required to disclose the facts. The share holder may have no idea of the requirements but we shall assume that he does. Therefore the board and commission have the rights and can do so without thinking they are infringing on any person's rights.

Young asked if this would apply to General Motors Corporation and could they force them to make Sam sell out of the company? Without a restrictive endorsement on the certificate? Daykin said they could. Monroe noted that they could restrict the corporation from paying any interest on his certificates; take away his voting power - depriving him of these things you are making the stock useless to him.

Young asked if this applied to subsidiary corporations as well and on down. James said "yes". Young said it must be an amazing bill if it does all of that.

Thomas stated that the industry wants this to be put into effect. There will possibly be some litigation between the individuals

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and the industry but they want the legislation to rely on. If the state says we must isolate someone and they don't do it; they lose their license. Young asked if they could do this without the regular hearings. Daykin noted that the gaming law has procedural provisions - there is always the court as with any other type of license revocation, but beyond that the corporation or the individual investor in gaming in Nevada take it as part of their contract.

Dodge asked if they would have the right to arbitrate; McKissick said under the old law you could not enjoin. Dodge said if the commission has the black book law which has been upheld in court and they have the right to exclude people then any person, such as Sam, would have to cast a real taint on the other people in the industry. If they have this right with regard to what someone thinks, it is an absolute right to make that decision and Johnson said it had been upheld by the Supreme Court.

Munson pointed out that it was appropriate in view of the testimony concerning his background to uphold the commission's findings that he was an unfavorable individual. That is not an absolute decision - there were facts to substantiate it.

Hafen said they were worrying about getting to Sam one way or the other. But it should be a fact that we don't care what he owns as long as he is not in the Nevada corporations.

Wood said that the gaming commission is considered to have very broad powers. As with their Regulation 15. He asked what affect this new law would have on that regulation. Johnson said he did not think it would change. Some may say it makes them more enforceable, but they think they are enforceable now. Daykin said it would not detract but it does authorize them to make further regulations or to make them stricter. Brown said in his opinion this was a better bill than the original introduced.

Daykin then pointed out Section 17, subsection 2 wherein it deals with officers and employees of the publicly traded corporation. It requires that should the commission find them unsuitable under the same provisions as those for shareholders, the commission can notify the publicly traded corporation to get that officer or employee out of the gaming field in Nevada.

Young said "what if the guy has a big image?" This section would get him out of the subsidiary field, but does that go far enough? Stephensen said you can exclude him from any activity in the state. But the black book law does not cover those activities in other states. The dye has been cast. The suitability of the people running the corporation is to be looked at. Everyone in that gaming establishment would then warrant close scrutinization.

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Brown asked if there was any way to get at him in the parent corporation and Stephensen said he did not think they could. It actually would not buy anything for Nevada anyway. The fact that the dyes are cast and the suitability of the whole operation is in jeopardy. It would be impossible to require that they be fired from all companies. Thomas said they do have the right to late any person they want though. Stephensen said actually under Section 17, they can require the officers to be isolated from the Nevada corporation and if they still felt that was insufficient, the company could subject them to Section 11 - because these waivers can be granted and revoked. They can then force out any undesirable stockholder.

Brown noted Section 6, subsection 3 which states any person found to hold with power to vote. He wondered about the person who had no stock. Also he wondered if on page 5, subsection 12 they should insert the word "commission" as well as the "board". Daykin said this would not be necessary because it covers sufficiently. Brown then asked about subsection 7 on page 9 providing certain exemptions. He wondered if they should not add "At the discretion of the commission and the board...." to retain complete control. Daykin said subsection 8 would cover that. The commission may determine the suitability or may require the licensing of any person who furnishes...

Young asked how many shareholders the large corporations would have and what the policy of the board would be in respect to checking the shareholders as to their suitability. Johnson said as with the corporations they now have, they make an annual check of the stock books. Young asked if this would require additional help in his office and Johnson said they would not know until after they got into this. Right now he did not think it would be necessary.

Young then presented the possibility of Sam transferring his stock to his wife. Is there anything that could prevent this transfer? Daykin said the gaming commission can always make regulations or put more stringent measures into it. He did not feel it was necessary to spell out the provisions on suitability of the family in the statute. That is the reason for giving the power to the commission - so they can go beyond the statute.

Stephensen noted that they have to report any change in officers or directors immediately under the present law. The general concept of this bill is to assist. If they considered the controls they would have and the good companies they would be bringing in and then consider the great over-all good from this act, they will be better served than by worrying about the small points.

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Dodge brought up the possibility of persons buying the publicly traded corporation just for its name. He wondered if the board would ride hard on that practice. Johnson said on the speculation stock - it would be hard to control, these stocks will go like crazy on the market.

Brown said he was talking about the small company that is traded over the counter. They have very little asset but is a licensed entity in the State of Nevada. The stock exchange requires that when you are going to merge you have to state that; but with the over the counter stuff you don't have to do it. They could say they are buying Corporation XYZ in the State of Nevada and that is all. He wondered if there were any controls to keep them from dealing with the public in this case to control the run on the stock.

Johnson said according to the statutes all corporate licensing requires most public offerings to be made with the consent of the commission. Therefore this could not be done.

Thomas said a lot has been given into this bill and there are checks and balances involved. There have been several hearings involved and he personally did not think any company should be allowed to go public in the gaming industry without at least 3 years of honorable operation and maybe even five years. He hoped the commission would keep this in mind and follow the guide lines. If they hire an expert SEC man and keep him here on the local level; that is the answer that is the place he is needed.

Monroe noted that he had requested reviews of the proposed legislation by the stock exchanges and would review the opinions when received.

Meeting adjourned at 11:00.