

JOINT COMMITTEES PUBLIC HEARING

SENATE JUDICIARY COMMITTEE - ASSEMBLY COMMERCE COMMITTEE

March 11, 1969

The Hearing on SB #353 (Amends law relating to corporate gaming licenses.) was called to order by Senator Monroe, Chairman Senate Judiciary Committee, at 9:45 a. m.

SENATE COMMITTEE MEMBERS PRESENT: Chairman Monroe
Senator Bunker
Senator Dodge
Senator Swobe
Senator Hug
Senator Young
Senator Christensen

ASSEMBLY COMMITTEE MEMBERS PRESENT: Mr. James, Wood, Chairman
Mr. Randall Caputto
Mr. Don Mello
Mr. Roy Torvinen
Mr. Tim Hafen
Mr. Austin Bowler
Mr. Arthur Expinoza

LEGISLATIVE COUNSEL PRESENT: Mr. Frank Daykin

GUESTS: Don Stephensen, Vice President and Counsel of
Del Webb Corporation
Harvey James, President Sahara Nevada Corp.
Perry Thomas, President, Bank of Las Vegas
Frank Johnson, Chairman Gaming Control Board
Charles Munson, Sect'y. Nevada Gaming Assoc.
Senator Mahlon Brown.

Chairman Monroe welcomed all present and called upon the proponents to speak on the measure and present their views.

HARVEY JAMES: Mr. Chairman, my name is Harvey James. I am President of Sahara Nevada Corporation and Director of Consolidated Casinos. You probably know the Sahara Nevada Corporation is a subsidiary of the Del Webb Corporation.

I have been chosen by my patriots here as a relay more or less, to relay any questions some of the people representing the casino operators here and in the interest of saving your time we will get to the measure. First of all I would like to thank you gentlemen

for having us here this morning to have us testify before your committees.

For the past two and one-half years many efforts have been spent trying to put together a corporate bill that would allow public corporations to come into the State of Nevada and operate as legitimate businesses. My Company has been working diligently and there have been others interested in this. We have today presented to you in the form of this senate bill what we think the corporate licensing can accomplish. The industry has worked this bill out and we feel we can live with this and think all of the industry is in accordance with this bill. We have worked with the commission and their people and of course they can speak for themselves but we are with the understanding that this is acceptable to the commission as well as the industry.

I don't know if any of my people have anything to say on this further. I think we should hear any questions you might have on the bill. This is an old subject we have been working hard on for the past two years and I am sure all of you have spent many hours on it. The complexity of corporate licensing is tremendous and I am sure you are aware of that. We think we have everyone's intent presented to you in this bill.

CHAIRMAN MONROE: Thank you Mr. James. I would like to ask Mr. Johnson to express the views of the Gaming Commission on this.

FRANK JOHNSON: Senator, the Commission and the Board feel this bill answers any objections they might have had and it gives the Commission leeway to waive certain requirements if they feel it is best and it gives us the leeway to impose stricter requirements. I feel the Commission and the Board feel this is satisfactory. The Commission and the Board both have discussed this and it appears to be very satisfactory.

CHAIRMAN MONROE: Thank you. Are there any questions from the members of the committee?

JIM WOOD: Mr. Chairman, I am concerned with Section 15, page 5, where it requires a Corporation to maintain a ledger in its principal office. Shouldn't this state that the ledger be retained in the confines of the State of Nevada?

FRANK DAYKIN: The Corporation which must maintain the ledger in the principal office of its subsidiary which is licensed to conduct gaming in the State of Nevada. The subsidiary corporation in fact would have to be a Nevada Corporation. With a foreign corporation all of its owners are individually licensed. That goes back to Section 23 of the bill. Since the subsidiary corporation would not be able to meet the individual licensing the subsidiary would have to be a Nevada Corporation.

MR. WOOD: I personally would like to see it spelled out.

CHAIRMAN MONROE: Are there any more questions?

SENATOR YOUNG: I would like to have somebody explain what the bill is designed to accomplish, secondly, the need of the bill and something on the dangers that are inherent from selling stock in corporations. We know the bill is designed to avoid dangers.

MR. JAMES: I would like to ask one of the major authors to take point by point.

DON STEPHENSEN: I will try. I think the concept of this bill is to give the State of Nevada greater control over gaming. In order to do that there were various holes in the existing statute which I won't go into at this time. One, is discriminatory against a Nevada Corporation. I think the reason for these holes were, and this is not criticism, no effort has ever been made to totally consider the concept of operating gaming thru corporate entities. It has always been done thru individuals and licensing of those people. In putting this bill together we considered three separate points. 1. You have the corporate licensee, secondly you have a corporation which is a holding company or intermediary company as it is called in this particular act, and third you have a public traded company. With respect to those three entities you have different reasons for control, difference methods of control and these are divided in the act.

The first area has to do with the corporate licensees. They are very strictly controlled under the act. You have a total stranglehold on that corporate licensee at this point. The next area we come into is the ownership of that particular entity. The current needs and ways of handling large financing call for a corporate form of ownership if you want to do business these days. We divided it up into these two separate companies or definitions of only intermediary companies. There are the companies that have one shareholder to let's say 500 shareholders. In this particular areas you have stock certificates you may withhold dividends, you may dismiss them, you may suspend them. You have a stranglehold on these companies the same as you have on a corporate licensee. You restrict public offering of securities, reject any transfer of stock at any time unless approved in advance by the Commission.

Then you have the area called the Public Traded Corporation. In this area it was realized there were very tight controls placed on them by the Security Exchange Commission, New York Stock Exchange, American Stock Exchange that a lot of the job was done for the Commission in this particular area. All these reports are called for and they may require them to be filed in this State. In addition, the Gaming Commission now has power to actually place more stringent controls on those companies in the same manner called for in the

intermediary company or corporate company. Unless the public traded corporation is exempted from those sections, it will comply with them.

I think it is good to have within the Commission this type of control and you never know exactly what kind of company is going to come before you and after it once gets there you don't know what it is going to turn into. I think this kind of power is good. I don't think this kind of power should be misused and I don't think they will. It protects the State of Nevada in controlling gaming in the State. I think this explains the concept and the need, and the way the dangers have been taken care of.

I hope this has answered your question.

SENATOR YOUNG: What about the need? Is there a need of bringing in capital. I have been told that gaming has never flourished more and gambling revenues are up, tourism is at an all time high. Is there need?

PERRY THOMAS: I think there is a very simple answer. In our observation as things have been going the past fifteen years, there has been an economic maturity within the industry. The Nevada scene is a perfect example of economics. Fifteen years ago we started with small casinos in a pioneering stage. These casinos had a few girls, etc. and were quite small. All of you know that if the pioneering stage is successful this will warrant credit and borrowing power. It goes from there to an expansion stage and the expansion took hold, we now have golf courses, show rooms, thousand room hotels, large convention areas. We use to deal with two and three million dollar corporations but we are now dealing with 50 and 60 million dollar corporations. It is impossible for individuals to conduct businesses in this atmosphere and at this level. The fact that you bring out, Senator Young, that tourism has never been better is the pure necessity for us to enter into this area. We have to keep face on our legislative level and our control level and that was our intent to do this here.

DON STEPHENSEN: I have one more point on this. I think when you have individual ownerships they tend to die at one time or another and corporations tend to be perpetual. When you have this situation existing where one person passes away even tho their business may have been at an all time high the company business usually has a tendency to go down instead of up. When you have a stabilized corporation which has earnings, not only in gambling, you not only stabilize the economy of the State by employment but you help to solve many of it's problems.

SENATOR YOUNG: One thing that bothers me a little, and it is based on what I read in the papers as that is about all I know on gaming and on stock. I read where Leisure International went on the market the first day at 5 and then it went to 29 or 30. It shows a certain magic in gaming. I read in U. S. News where there is a speculative fever on the American Exchange and they had to issue regulations to keep firms and brokers from trading to protect the

economy. If you have speculative fever now there is no telling what might happen if you let in Nevada Corporations interested in gaming. Most of us are in favor of protecting the economy. I am a little cynical about the controls of the American Stock Exchange and the big board.

DON STEVENSON: I am not a stock market expert but I have had some general experience with the market. I can remember when the electronic industry was a glamour industry and there was a speculative fever then. Real Estate companies had a certain glamour. There are a number of industries where you have had a speculative fever at one time or another. New industries have always attracted this kind of feeling from the people. I don't think it is only because it is casino oriented.

With respect to these controls, I can tell you I live daily with those controls and believe me, they do exist. You mentioned in your discussion that the American Stock Exchange placed control on sale of their stock to control that buying fever. Those controls are very real and they are getting tougher all the time. This exists in all industry and not only gaming. You do control gaming in this State by controlling the corporate licensee.

SENATOR YOUNG: What would prevent the head of the Mafia or some other undesirable from buying the controlling stock?

DON STEVENSON: They could buy any stock, as you could do. This is true in all corporations. Under your existing law that has existed for a long, long time, one of your real problems has been hidden interests. This problem is going to be with you, but it will be with you less under a law that has the controls that this has.

CHAIRMAN MONROE: I would like to point out one thing. Whether we are going to have corporate gaming or not is not the question. The question is what we are going to do with it to have tighter controls. We authorized corporate gaming in 1967.

SENATOR LAMB: Senator Young is concerned about the controls as we all are. I might add that the Gaming Commission has already submitted in their budget funds for a SEC man to help them control this corporate licensing.

SENATOR DODGE: I would like to ask a couple of questions with regards to the application of Section 11. As I read the bill on the public traded corporations the Gaming Commission has the authority to waive all requirements. My specific question is that in Section 11 as to the intermediary companies you have a restrictive endorsement. The purchaser of that stock takes the stock with notice that the Corporation is under a regulation of the State of Nevada but in the public traded corporation there is a problem about putting an endorsement on it. The New York Stock Exchange won't permit the

trading of the stock with a protective endorsement. Section 11, starting on line 13, "If the commission finds that any person owning, controlling or holding-----" if a person buys that stock and he has no knowledge of the controls made by the State of Nevada on that corporation could the commission actually move against that holder of the stock?

DON STEPHENSEN: I think the answer to that questions is in sub-section 4 of section 11 with respect to those companies are set apart. 1. To receive any dividend or interest upon any such securities or any dividend, payment or distribution of any kind from any holding company or intermediary company is unlawful. He can't exercise any voting power whatsoever with respect to that company. He cannot receive any remuneration in any form. To get at that owner is to control any rights of power he may have in the stock, that is on the certificate.

SENATOR DODGE: I am talking about non-restricted transfer of stock.

DON STEPHENSEN: In that particular area you come into a different problem. There you have other controls and restrictions. The State of Nevada probably could not force that person out of the corporation. Here is the way they would control that. You then go to the suitability of the person. You must find them suitable to the gaming enterprise. The discretion is quite broad. It probably would not apply to one share of stock in one corporation but goes to the element of control and when you go to the element of control you decide if they are trying to evade the laws of the State of Nevada. You have a strangle hold on that corporation and all of the people in that corporation. You cut off their source of supply, their source of earning money. You are concerned only with gaming and you control the corporation by controlling gaming.

Under the existing law you have no power to control the individual. There have been hidden interests which has been one of the main problems to gaming. You will not have a greater power over those people than you ever had before as you have control over the corporation.

SENATOR DODGE: I would like to ask Frank Johnson a question. Is the Commission concerned on this?

FRANK JOHNSON: Certainly, the commission is concerned on this. Mr. Daykin can give you the legal answer but our recourse is to say this person is unsuitable and we can say to the corporation that if you don't take him out we will take your gambling license away. You have control over the person by your control over the corporation.

HARVEY JAMES: Why, with the regulated control over this business that we have in the State of Nevada, would a member of the Mafia want to buy into one of these places. You have to acknowledge that you own 10% of the stock immediately to the SEC and you would know it immediately here as you are using the wheels of the SEC under this bill. The SEC has great investigative power and you can use these powers for nothing. You can stop remuneration in any form to be paid to that man so why would he want to invest in something that he can't get his money out of?

FRANK DAYKIN: I would like to point out that under Section 15 it says the "Commission may exempt a publicly traded corporation from compliance with some or all of the provisions." It may revoke that exemption at any time. Suppose that we had a situation as we have hypothesized, all they need do under the structure of this bill is to revoke the exemption of the publicly traded corporation from the provisions of subsection 3 under Section 11. That says "If the commission finds that any person owning, controlling or holding with power to vote all or any part of any class of security--etc., they may notify such unsuitable person, the holding or intermediary company or both of their right to withhold dividends, etc." There is a clear cut legal way to take care of them.

ROY TORVINEN: This is digressing but I did not get the complete answer to Senator Young's question. Evidently there were some short comings in the legislation of 1967. There were too many controls. That is obvious as in Section 2 of the Act the Commission was given authority to waive certain restrictions and possibly on the other side there seems to be areas where there were not enough controls. I would like someone to outline these to me briefly what the short-comings were in the 1967 act that are to be taken care of by this and what actual additional regulatory authority was granted to the Commission. What specific tightening up of the corporate gaming provision was made.

FRANK DAYKIN: The areas in which the controls were deemed to be too strict were in the area of the restrictive endorsement and exposure as they reached the publicly traded corporation. 1967 law was intended to contain certain exemptions for public traded corporation but whoever was the author of that particular exemption section drew it in such a way that it did not cover any exempting corporations, consequently, all corporations which were direct gaming licensees or subsidiaries that were licensed were subject to the full restrictions of the act. This was an oversight on the part of the 1967 legislature but this now provides mechanism for exemptions with respect to publicly traded corporations so that they can meet the rules of the various stock exchanges and still invest in Nevada Gaming. On the other side the 1967 law, as it was amended by this same amendment there are various provisions that dealt with forms of business organizations other than corporations as holders of interest in Nevada Corporate

licensees. The removal of the original language left a big hole which the commission undertook to plug by regulation and I think they did a good job with their regulations, but this statute does refer in terms to other forms of business organizations and specifically authorizes the commission to regulate them and sets out guidelines.

ROY TORVINEN: The waivers in the "loosening up" go beyond the area of restrictions to attract the business of the public trading corporations.

FRANK DAYKIN: Yes, they do. The reason for this is the feeling that it is not possible to spell out by statute for as sensitive an area as gaming and as a complex an area as corporation for all of the detailed groups. The purpose of this act basically is to provide legislative ground and then to permit the commission to relax such of those as they find unnecessary in a particular case and to add more severe restrictions wherever necessary. It sets out lines which normally they will follow but from which they may, under this act, deviate as they feel necessary.

SENATOR DODGE (To Frank Johnson): If we should enact this piece of legislation can anybody foresee what the immediate impact and the impact for the next two years will be as far as the applications for ownership and operation of Nevada gaming. Are you going to be "tooled up" to handle this situation?

FRANK JOHNSON: We have no actual way of knowing. The number of inquiries about corporate licensing indicate that we are probably going to be swamped but I think we can handle it. The survey of the trend is toward corporate applications.

SENATOR YOUNG: I am still not completely satisfied as to what the power would be with respect to an individual, let's call him "Sam", and a holding company. If he holds stock at the present time, is there any way of making him divest himself or forcing the corporation? If he bought without the restrictive endorsement you might be violating his rights if you tried to tell him that he had to dispose of that stock or if we said to the corporation you have to get rid of him.

FRANK JOHNSON: The first thing we have to think about is the welfare of the State of Nevada.

FRANK DAYKIN: It seems to me you have control for this reason. We will use your example of Sam and General Motors. General Motors is the holding Company with respect to a private corporate licensee. If it was to register with the Board as a corporation then General Motors has committed itself to jurisdiction of the State laws. It is expressly set up in the law that they may be subject to all of the requirements or may be excused from certain parts, at the discretion of the Board. The share holder who buys does not necessarily buy with this knowledge of the corporate business, but he should have

sense enough to know that when he does buy he is under the control of the restrictions set upon that corporation. If he is found unsuitable you do have the power and the right to use this power without infringing on any vested rights.

SENATOR YOUNG: Then your answer would be that General Motors could be told to get rid of Sam or either tell Sam to sell out of General Motors. Is that right?

FRANK DAYKIN: Yes.

JIM WOOD: You would isolate that man to where his stock would be utterly useless to him.

DON STEPHENSEN: You could go to that Corporation and say "You either divest yourself of Sam or we are going to suspend your license, we are not going to allow you to take out any of the profits and of the dividends for any of the owners". You have that power.

PERRY THOMAS: People in the industry want this bill. They want the provisions where the State can tell them they have an unsatisfactory stockholder. Undoubtedly there will be litigation between the individual and the corporation, but it gives the protection within the corporations to stand up and isolate. The problem is with the corporation and not with the State of Nevada. After the State says to get rid of him or to isolate him and the Corporation doesn't do it then the next step would be for the state to suspend the corporation's license.

SENATOR YOUNG: Do they arbitrarily revoke the license, would there be a joint revocation? Are there hearings?

FRANK DAYKIN: On the license revocation. There are certain procedural safeguards, just as in any other license revocation, but beyond those it says the corporation or the individual investing in gaming does so in the light of the Nevada gaming laws.

DON STEPHENSEN: You already have a Black Book. All of a sudden a persons reputation becomes tainted, all of a sudden the entire operation has been tainted, the suitability has been tainted. Your Black Book law has been upheld by your Supreme Court and the State has already gone this far to protect and exclude people, which is actually in violation of civil rights, and yet this state has done so. I would say that if that person is undesirable and would cast a taint upon the others in the industry, I cannot see where that would be arbitrary at all.

SENATOR DODGE (To Frank Johnson): If you make a decision that someone is undesirable, is that decision absolute?

FRANK JOHNSON: It has been upheld by the U. S. Supreme Court.

CHARLES MUNSON: Gentlemen, I don't know if it is the answer you are looking for but in the case of (John Marco?) it was necessary in the Court to present testimony concerning his notorious and unsavoury background to uphold the Commission's findings that he is an unsuitable individual, so in answer to your question, I do not think this is an arbitrary decision, rather an absolute decision, when an individual is unsavoury there has to be facts to substantiate that finding.

PERRY THOMAS: I think we are getting off the track..We are worrying about the State of Nevada getting to "Sam". All we are saying is that we don't care owns General Motors as long as General Motors doesn't own a Nevada gambling corporation. We are not concerned with Sam but we are concerned with the Nevada Corporation and it is the Corporation's job to worry about Sam.

JIM WOOD: I have a very elementary question. Obviously it is considered that the Gaming Commission has very broad powers which are contained in regulation 15. What effect does the Publicly Traded Stock have in relationship to the broad powers contained in regulation 15? With regard to licensing, corporate licensing. How would you go about enforcing your regulations?

FRANK DAYKIN: The enacting of SB 353 would not in any way detract from any regulations to begin with but it specifically authorizes to make further regulations in this particular area and intends to strengthen their powers.

SENATOR BROWN: After reviewing this bill it is much better than the original bill. There are a few questions I would like explained. Sub Section 2, page 7, If any such officer or employee of a publicly traded corporation required to be found suitable individually by the gaming commission can notify the public traded corporation to get this man out of gaming activities or their license would be suspended. It might be a person who is a special officer of the corporation and has an image as far as the nation is concerned. What is to prevent that image to rubbing off on Nevada as far as gaming is concerned?

DON STEPHENSON: The law is if you find that person undesirable you may exclude him from any activities connected with gaming only as to his interest in the State of Nevada.

CHARLES MUNSON: This could be enforced by Section 11. and Section 12.

SENATOR BROWN: On page 9 under subsection 7, "The provisions of subsections 2, 3 and 4 do not apply to any person" - and it lists those that can be exempt by the commission or the board. I was wondering if this shouldn't spell out that this is at the discretion of the Board.

FRANK DAYKIN: This is taken care of in Sub Section 8. This is one of those instances where you give it to them in one place and take it away in the other.

SENATOR DODGE: One more question. This was an actual situation where a license was granted to a Corporation and the stock beyond the offered price. Do you people have it strongly in mind as far as your review of the applicant in this case of trying to prevent the speculative aspect of the stock. In other words, are you going to take a strong look at the financial aspect of the publicly traded corporation? We can all envision a publicly traded corporation and someone buys into that corporation to get that name and is publicly registered on the New York Stock Exchange to come in on a strictly promotional type deal to get the license in order to run the stock. Are you going to ride herd on that?

FRANK JOHNSON: That is a concern of ours and we do intend to take every consideration. Speculation of stock's going up, I am not sure you can do anything or stop that. Franchise stock rose all the way from 400 to 1200 percent in a two year period.

SENATOR BROWN: I am not as concerned with the publicly traded corporations but the little corporations that are graded over the counter that has very little assets but its partners are licensed entities in the State of Nevada. The word gets out and there is a rush to buy the stock. The smaller corporation might be purchased by another corporation and merge. Would you have any controls that the State of Nevada could put on the present licensees to keep them from dealing with the entities like this to keep them from making a public announcement that might keep the industrialists from buying this over the counter stock.

DON STEPHENSEN: On the New York Stock Exchange and the American Stock Exchange companies could be delisted. Section 463.500 on the corporate licensee, it is required that no public offering be made unless it is first approved by the Commission. By regulation they can be very careful with the types of financial controls with respect to that. No offering of any stock may be made without the prior consent of the Commission is in another section. Nothing like that can be undertaken. If one corporation was to take over another that was licensed in Nevada the new corporation must be found suitable by the Commission.

SENATOR DODGE: You mean if they did not get the prior approval they would run the risk of losing their license.

DON STEPHENSEN: To me, gentlemen, this is the most worrisome thing to me, the corporate licensing we have just discussed. It concerns me more than any other thing we have discussed this morning. As has been indicated, if you put the glamour of gambling behind stock promotion, who knows what the answer is going to be. A lot of thought

has been put into this bill and there are judge and balances provided for precisely that. This does concern me more than anything and we discussed it at the commission level, we discussed it at the control board at an informal hearing and as far as I am concerned I don't think any company should be allowed to go public within this State, being involved in it, unless they can show a minimum of three years of earnings that can be judged at the market, to eliminate this speculative attitude. I would say no to a new company wanting to come in and I am sure the Commission would rule that also. There has been an enormous amount of discussion at this level.

I think they are on the right track in keeping track as they requested they be allowed to hire a man technically capable in SEC matters and investment levels. I think this is very important, not at the American or New York Exchange level but at the local issue level where you really need that man.

CHAIRMAN MONROE: Our time is up but before leaving I would like to say we requested a review of this proposed legislation by the New York Stock Exchange and we hoped it would be here today, but we will probably receive it tomorrow.

We can discuss this matter further after we receive this letter.

Thank you all for coming.

The meeting adjourned at 11:00 a. m.