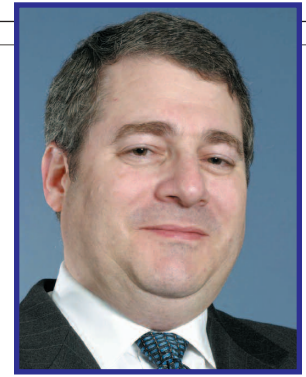


# The Lights Went Out

*Atlantic City casinos shut down during government budget crisis*



Larry Klatzkin

**F**or the first time ever, a state closed its doors and went home, and as a result, Atlantic City's casinos shut their doors, turned out the gaming floor lights and sent the gamblers home.

The Atlantic City closure is the first time a gambling market has ever been forced to close by a government for any reason other than inclement weather. Approximately 36,000 casino employees were put out of work and as many as 10,000 hotel employees were affected too, as most casinos had only one or two restaurants opened and limited hotel service (including no room service). At issue was the lack of a New Jersey state budget by the start of the new fiscal year (July 1), as Governor Corzine forced a complete shut down of the state government except for essential employees (i.e. police, fire and emergency workers).

Since Casino Control Commission inspectors are non-essential employees and the law requires them to be on the casino floor in order for a casino to operate, the gaming commissioner ordered the 12 casinos to close their gaming floors. The cost to the state was approximately \$1.3 million of gaming tax revenue in addition to any lost potential corporate and personal income tax revenue.

The cost to the casinos is not yet determined but we would guess in the \$10 million-\$20 million range. The reason for the guess is that the Saturday morning restart, with uncertainty as to the exact start-up time, led many gamblers to travel to nearby markets such as Connecticut and Delaware for the weekend, canceling plans for Atlantic City for Saturday and Sunday despite the fact that the casinos were open at that point.

What does this mean for Atlantic City and its casinos? In the short run, a one-time, non-recurring hit, hence little effect on the market or on the related companies' stocks—so much ado about nothing. However, on the longer term, it points out what has been a long-term problem for the market that everyone has ignored.

This threat of casino market closure happens on a regular basis, every time New Jersey has a political fight over the state

**'The cost to the casinos is not yet determined but we would guess in the \$10 million-\$20 million range. The reason for the guess is that the Saturday morning restart, with uncertainty as to the exact start-up time, led many gamblers to travel to nearby markets such as Connecticut and Delaware.'**

budget. The fact is that this seems inappropriate for the state's gaming industry since the industry pays all regulatory costs associated with it, even the salaries and benefits of the casino inspectors. Hence, the cost of the non-essential inspector does not come out of the New Jersey state budget even though the shut down of such budget closes the casinos.

Existing operators such as Harrah's, Trump and MGM Mirage/Boyd's Borgata are all in the middle of expansions, spending hundreds of millions of dollars and therefore have little choice but to continue as planned. However, a number of new gaming projects are being considered for the cost of billions of dollars by MGM-Mirage (possible City Center East), Morgan Stanley's plot of land next to the Showboat (they announced a \$1 billion-plus casino to be managed by a gaming company) and the rumored casino being

## Gaming Industry STOCK PRICE PERFORMANCE

For Week Ending July 10, 2006

TOP 5	
Progressive Gaming (PGIC)	3.1%
Magna Entertainment (MECA)	1.3%
Nevada Gold (UWN)	0.7%
Ameristar Casinos (ASCA)	0.6%
Aztar Corporation (AZR)	0.0%
BOTTOM 5	
MGM MIRAGE (MGM)	-6.5%
Harrah's (HET)	-6.4%
WMS Industries (WMS)	-5.3%
Isle of Capri (ISLE)	-5.0%
Wynn Resorts (WYNN)	-4.6%
MARKETS	
S&P	-1.0%
Dow Jones	-1.1%
Nasdaq	-3.4%

considered on 11 acres at the eastern end of the Boardwalk, past the Hilton.

The question remains, with this annual threat on the table, how can such companies consider spending billions in future investment? Thus, this problem threatens the future of Atlantic City, and New Jersey needs to solve this problem once and for all. The most logical solution would be to have the casino industry make direct payments to its regulatory agencies and thereby no longer be subject to the New Jersey state budget. We believe this is an important issue that needs to be solved if New Jersey wants to have a thriving industry. □

*Larry Klatzkin is managing director of Jefferies & Co., responsible for equity and high-yield coverage of more than 60 companies in the gaming industry. He can be reached at lklatzki@jefco.com.*