

SENATE JUDICIARY COMMITTEE

HEARING - SB 89

The meeting was called to order by Chairman Monroe at 10:05 a. m., February 10, 1969.

Committee members present: Senator Monroe, Chairman
 Senator Dodge
 Senator Swobe
 Senator Young
 Senator Christensen
 Senator Hug
 Senator Bunker

Guests: Don Stephensen, vice president
 and general counsel of Del Webb
 Corporation.
 Herb Jones, attorney representing
 Parvin Dohrmann, Inc.
 Richard Gray, representing Hughes
 Tool Co. and Howard Hughes,
 personally.
 Don Winne, Counsel for State
 Gaming.
 Mead Dixon, Attorney

Chairman Monroe: This hearing is called to hear interested witnesses on SB 89 amending laws relating to corporate gaming licensees. Several are present from the Las Vegas area. Who would like to be heard?

Mr. Stephensen: I am Donald Stephensen, vice president and general counsel of the Del Webb Corporation. I would like to give you a little background of the work done on the proposed amendments relating to SB 89. A couple of years ago there were proposed changes in connection with the corporate gaming licenses presented to the legislature, however these were turned down. Last session there were qualified changes dealing with corporations with \$50,000,000 in net worth and not less than 10,000 stockholders permitted thinking this was beneficial to the State of Nevada, it's citizens and also the gaming industry. Immediately after the session closed a group started working on the amendments presented to you this session. I was very honored and happy to work on these. There are several people involved, including Dick Graves, Herb Jones and many others.

The concept of this is very important. We did not touch the provisions for the corporate gaming licensees as it now stands however broadened the scope of those permitted to be licensed. Previously the entity could not be owned by other corporations but had to be owned by individuals. A corporation should be able

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to be able to be licensed and enter into this important business. There are two important entities to be considered.

Sections 10, 11 and 12 deal with these entities. All corporations that do not rise to these cannot participate. There is a strong control over the corporations. We tried to create an opportunity for a corporation to become an owner of a corporate license. Don Winne is a champion at the controls for the gaming laws. We are talking about the entity of the 500 or more shareholders and below the \$1,000,000 assets. There are many very good corporations in this state that might want to invest in the gaming industry. The amendments and changes should be made so controls would effect this entity. I suggest these be put in. I will draft a suggestion and submit at a later date.

Sections 11 and 12 "If the Nevada corporation applying for a license is a subsidiary, each holding company or intermediary company must" I believe both sections 11 and 12 should read "shall" register with the board and there should be an "and".

463.570-8 of the present act is one which presently requires to "avoid any public offering of any of its securities unless such public offering has been approved by the commission." We are not delaing with the corporations but with a close corporate group. The controls should be within the gaming board and should not bother the corporation. This gives control for the corporation with 500 shares and under the \$1,000,000.

The next area is the "publicly traded corporation", section 8. As we can see, Section 15 does not comply with Section 11 or 12 and they must comply with sections 15 thru 18. These would control the over 500 stockholders and below the \$1,000,000 corporations listed with the New York S,ock Exchange or over the counter stocks. These must be regulated by laws as they are under public scrutiny at all times.

The registration requirements should be that they report the changes of directors and officers that are involved with the gaming industry only, submit balance sheets, profit and loss statements, etc. Most of the corporation officers will spend three quarters of their time out of the state and we are not interested in them, only those of the part of the corporation that is connected with the gaming portion. A Company can get suitable officers and undesirable as far as the gaming Board is concerned that we are interested in. Controls are encouraged as it can mean stability and economy to both the gaming industry and to the state. We feel that the controls are sufficient with

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these changes.

In Section 463.160 we have attempted to bring the Nevada law up to the present business practices. At the present time the owner of the gaming devices (slot machines, etc.) is permitted to be licensed and now prevents the leasing of a machine. Previously the amount of the lease had been for a fixed sum and no consideration for inflation or other rising costs had been given. By changing this it would give the lessee the right to adjust to the changes in business expenses as taxes, assessments, improvements of facilities and these certainly would have a bearing. This section tries to bring it into focus with today's rising costs. This would permit the licensee to lease on a percentage basis instead of a fixed basis and would solve the problem. Under the old law this was prevented.

On page 6, section 3, line 12 it should read "more than 10%" rather than "10% or more". Page 3, line 1 should also be changed the same way. The Federal law states that any person must register if he owns more than 10% of the stock. These should conform. There was no legal objection by Mr. Winne.

Chairman Monroe: Does any one else have something to say at this time?

Mr. Jones: I am Herb Jones of the Parvin Dohrmann Company.

We started out with a task force that was formed after the last session of the legislature, about a year and a half ago. Mr. Dick Graves and Mead Dixon were a couple of members of this task force. There were at least six or seven drafts made by these men as a joint effort and many hours of their time was spent on this. There were attorneys of the industry who also gave their time to the effort as we wanted a workable act that would allow the stock corporations to come into the industry and we still wanted the Board to have the control. As long as we can go to the stock markets, such as Wall Street, with the stock and have nothing that will conflict with the law we can all be helped. We are very conscious of the need to control our industry and the state has that control. I would like to discuss all of this further with more attorneys.

Chairman Monroe: Is there someone else that would like to be heard?

Mr. Gray: I am Richard Gray representing the Hughes Tool Company and Howard Hughes personally.

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Mr. Gray: I appreciate the joint effort that has been put into this, however I would like to point out to Mr. Stephensen and Senator Lamb one specific point that seems to me to be questionable.

I represent one stockholder who has under his employment an independent certified public accountant, not from the State of Nevada. Under Section 12, subsection 10 "balance sheets for not more than the 3 preceeding fiscal years, or, if the holding company or intermediary company has not been in existence more than 3 years, balance sheets from the time of its establishment. All balance sheets shall be certified by independent public accountants certified or registered in the State of Nevada." This would seem to mean that only a Nevada Certified Public Accountant can submit the balance sheets. It would be very costly to have a three year audit made by another accounting firm or independent accountant. Many firms have their own certified public accountants however, they may not be one licensed in Nevada. There might be other corporations other than the Hughes Tool Company interested in coming into Nevada. I feel that the "certified by independent public accountants of Nevada" be eliminated. There could be a situation whereby a company would seek to come into Nevada and use an independent accountant which would be a Certified Public Accountant, whether licenses in Nevada or not. The bill now requires that it should be a Nevada registered accountant.

Sub Section 13 of section 12 - "An annual profit and loss statement and annual balance sheet, and a copy of its annual federal income tax return, within 30 days after such return is filed with the Federal Government." This does not provide that the annual profit and loss statement and the annual balance sheet must be certified. There is no provision in this section for certification as there is in sections 10 and 11. Also the section regarding the filing a copy of the Federal Income tax does not seem right. This is very sensitive and very privileged information and certainly should be considered as privileged information with the Gaming Control Board. Most companies resist exposing their federal income tax returns. You have the control with the annual profit and loss statement and the balance sheet and I think that should be sufficient.

I am not sure I understand the leasing provision under section 20 of the amendments. I have only been in Nevada for 23 months so am not familiar with this, however I know it is not your intent to create the same situation that now exists.

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Chairman Monroe: Mr. Gray, what is your definition of an Independent Certified Accountant?

Mr. Gray: An auditor certified by a duly licensed firm of which each member of the firm is a licensed certified public accountant. They are certified and licensed in the state where they work and reside.

Chairman Monroe: Has anyone else any comments?

Senator Brown: I concur that we should not have to use a Nevada CPA. As the law stands now a Nevada CPA would have to go back over a three year period and it would be too costly.

Mr. Dixon: I am Mead Dixon, Attorney. The people I have discussed this with are quite concerned regarding the three year audit by a Nevada Certified Public Accountant.

Mr. Stephensen: I think there has been an excellent job done in presenting this and it might be helpful to look at just what was trying to be accomplished to make us understand it better. There was a goal and purpose in presenting this, mainly to regulate gambling in order to insure honesty and integrity and to keep out the hoodlum and adverse elements. We have proposed a bill that should treat two kinds of corporations differently. This seems to be the sensible approach and the basic concept.

Mr. Dixon: A corporation licensed in Nevada are subject to the regulations as long as they own 10% of the stock. This regulation should apply to section 12, a corporation of 500 shares and holding under \$1,000,000 in assets.

I believe we should strike out that the Gaming Commission should license gaming corporations and should require that only the person owning the stock should be licensed. I would suggest that 5% or more of the voting stock should be licensed.

Chairman Monroe: What do you do if the 5% is owned by stockholders who are investing officers?

Mr. Dixon: I would substitute 5% for the 10% as this seems to be more workable. I am not sure that section 12 G is a fair test. I would say that a corporation listed on the exchange should be branted exemption for the officers unless they are directly connected with gambling. There should be power to

exempt when it is found suitable. With that exception Don Stephensen and I see eye to eye but I am agsinst the 12 G corporations being automatically exempt. You could have a 12 G corporation that does not have solvency. It might have \$1,000,000 in assets and could have \$2,000,000 in debts and not suitable for exemption. Otherwise this is an excellent piece of work.

Mr. Winne: I did not understand that SB 89 would be discussed today, so am not fully prepared to comment on it at this time. I appreciate Mr. Stephensen's kind words. There have been two governors and two committees that have advocated tighter controls, however I do have a few reservations that I would like to discuss before I comment on them here. Do not construe this to mean that I am against this or that the present administration is against it. The present bill has several short comings and I would like to be able to report back to you at a later date.

Mr. Stephensen: When this was approached we felt that we have honest people in the State of Nevada. The purpose of this amendment was to give more control. You would now have a chance to regulate and own a person and could dquelsh him if he does something wrong. To fix the terms would set this back twenty or thirty years. This will bring honest people into the state. On Meade Dixon's point, Herb and I labored over this at great length. There are a lot of good corporations listed on the stock exchange and there are lots of good corporations below that. Section 12 was put in as a yardstick.

Chairman Monroe: I am sorry but we must break up this meeting for today as we have no more time. Is there anyone from Las Vegas that made a special trip that would like to say a few fast words? If not, will you gentlemen please submit the proposed changes in writing and we will continue this later.

The hearing was adjourned.

Respectfully submitted,

Jeanne M. Smith, Secretary

Approved: _____