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Smoking ban hard on Herbst Gambling company says earnings decline

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Tougher new laws outlawing smoking in grocery stores, convenience stores, restaurants and taverns are squeezing earnings for Herbst Gaming, which operates 7,200 slot machines in those locations, the company said Wednesday.

Herbst Gaming, one of Nevada's largest slot route operators with some 650 statewide locations, reported a net loss of \$3.9 million for the first quarter wended March 31. A year ago, the gaming company reported net income of \$17.2 million.

Herbst Gaming, which is privately held by the Herbst family, files quarterly earnings reports with the Securities and Exchange Commission because it has publicly owned debt. Slot route operators manage games in noncasino locations and share in the revenues with the business owners.

The company, which also operates 16 casinos in Nevada, Missouri and Iowa, said its net revenues were \$150.4 million in the quarter, a 4 percent increase compared with \$144.9 million a year ago. The jump was largely due to the addition of four Northern Nevada casinos that Herbst purchased in January for \$119 million.

However, the company's cash flow, described as earnings before interest, taxes, depreciation and amortization, was \$23.5 million, a decrease of 33 percent compared with \$35 million a year ago. In its slot route operations, Herbst said net revenues were \$74.7 million, a 17.8 percent decline compared with \$90.9 million a year ago. The loss, company leaders said, was directly attributed to the smoking ban, approved by voters last November.

Herbst Gaming President Ed Herbst said during a morning conference call to discuss the earnings that grocery and convenience stores immediately banned smoking in December. Taverns, restaurants and other locations where food is served didn't eliminate smoking until January, after the state court system rejected several attempts to throw out the ban.

Ed Herbst said the company would undertake some cost-saving efforts in its slot route operations in order to recoup some of its losses. Most of the measures will center on renegotiating some of the slot machine management contracts Herbst Gaming has with various businesses where it operates the slot machines. Herbst Gaming Chief Financial Officer Mary Beth Higgins told investors and analysts the company expects its slot route revenues to rebound during the year as taverns and bar customers become acclimated to the new smoking regulations. However it may take time for revenues to return to historic levels.

"The revenue hits were most profound in January, when the bars began adopting the new smoking ban," Higgins said. "The first quarter was probably going to be our most difficult. As people start getting used to the idea of stepping outside to smoke and then stepping back in, we think our customers will return without much intervention from us."

She said Herbst Gaming will look at rewording contracts; most have triggers for renegotiation based on total revenues. Also, the company expects to expand into new slot route locations this year, which will add to the revenue stream.

"We're going to handle this carefully with a long-term focus," Higgins said. "We're not going to have a knee jerk reaction."

Meanwhile, the company's four new Northern Nevada casinos helped boost overall revenues. Herbst's Nevada casino operations reported \$43.9 million in revenues for the quarter, compared with \$24.5 million a year ago. Higgins said the new casinos, including the Sands Regency in Reno, were responsible for about \$18.5 million of the revenue increase.

Ferenc Szony, who remained in charge of the Northern Nevada casinos for Herbst, said renovations and expansions are almost finished at the four resorts. Two have been branded with the Terrible Herbst name.

"This was a very easy consolidation and a smooth transition," Szony said. "We are focused on growing the brand in Northern Nevada and creating a strong presence in the market."

In Southern Nevada, Herbst operates Terrible's on East Flamingo Road and four smaller casinos; one each in Henderson and Searchlight and two in Pahrump. Higgins said the company had disruptions at its Pahrump casino during February while a new slot machine management system was added.

In April, Herbst Gaming closed a \$400 million acquisition of the three Primm casinos from MGM Mirage. Results from those casinos are not included in the first-quarter earnings

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Taverns hurt by smoking ban Dec 3, 2007

Revenue has dropped at many taverns -- as much as 30 percent in some locations -- because of the state smoking ban.

The prohibition against smoking, which took effect in January, sent gamblers who want to light up while playing slot machines to traditional casinos.

Nevada Tavern Owners Association president Joseph Wilcock says his members are feeling the pinch and are slowing construction of new taverns. Herbst Gaming is Nevada's largest slot route operator with approximately 7,200 slot machines. In the third quarter, Herbst said revenues from the company's route operations were about \$66 million, a 21 percent drop over the same period in 2006. Many of its machines are in areas affected by the ban.

<http://www.lvrj.com/business/12031836.html>

With butts out, bars lowered

Smoking ban in food-serving sites hurts revenue, slows spread for taverns

Southern Nevada's weakening economic conditions, coupled with a voter-enacted statewide ban on smoking inside businesses where food is served, has cast a pall over the once-booming tavern industry. New taverns aren't being built as fast as in previous years, said an official with the Nevada Taverns Owners Association, a trade group that represents the industry. Meanwhile, revenue has dropped at many taverns -- as much as 30 percent in some locations -- because of a decline in customers and a decrease in the amount loyal patrons are spending.

Most blame the lost business on the smoking ban, which took effect in January. The prohibition against smoking sent gamblers who want to light up while playing slot machines to either a traditional casino or one of the handful of taverns built before 1992 that have 35 slot machines and are thus exempt from the smoking ban because the businesses were classified as casinos.