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STORMING BACK

Strong return business and multi-million-dollar investments are creating a wave of optimism for Mississippi's Gulf Coast gaming market

Crowds of eager casino patrons enter the Imperial Palace Hotel & Casino in Biloxi when it reopened in December.



JAMES EDWARD BATES, BILOXI SUN-HERALD

Back in business

Early results for the Gulf Coast's reopened casinos have operators optimistic about the region's future

BY ANDY HOLTMAN

"We had our first full month of gaming revenue the month of January. That was \$64 million for those three casinos. To put that in perspective, prior to Katrina, a year ago, January '05 just in Biloxi, we had nine casinos that took in \$90 million. So we're at 70 percent of our gross gaming revenue from those three casinos."

—Larry Gregory, executive director, Mississippi Gaming Commission

In the days after Hurricane Katrina pummeled the Mississippi Gulf Coast and New Orleans, there were immediate feelings of loss and despair. Thousands of homes, businesses, landmarks and other points of interest were reduced to shambles—piles of timber, brick and mud. Flood waters that in some areas stayed put for weeks caused even more damage. Loss of life was rampant.

For the Gulf Coast's gaming industry, the devastation Katrina wrought was almost unimaginable. Casino barges tossed ashore like beached whales, or in some cases shredded to bits in the water; structural damage to land-based ancillary buildings; flooding throughout first and second floors of hotel facilities.

The once-thriving Gulf Coast gaming market seemed, at first glance, destined to be a gambler's ghost town for many years at the very least.

"I was down there the day after the hurricane. You couldn't help but look at the devastation, and I thought to myself, 'Goodness, how in the world are we going to get this industry on track... it's going to take a long time,'" said Larry Gregory, executive director of the Mississippi Gaming Commission.

But thanks to Southern resiliency, sincere commitments to rebuild from nearly every Mississippi casino operator and a strong showing of regulatory and governmental support, getting back on track became more than a priority. It became the Gulf Coast's new lifestyle.

The typically laid-back Southern culture has shifted into 10th gear, and just months after Katrina wiped out nearly everything in her path, three of the 13-property Gulf Coast casinos—Imperial Palace, Palace Casino and Isle of Capri Biloxi—reopened and got the region's gaming industry operating again, generating more than two-thirds of the market's entire revenue before the storm.

"Those all opened the last week of December," Gregory said. "We had our first full month of gaming revenue the month of January. That was \$64 million for those three casinos. To put that in perspective, prior to Katrina, a year ago, January '05 just in Biloxi, we had nine casinos that took in \$90 million. Those nine casinos included all the amenities, hotel rooms, golf—the full deal. So we're at 70 percent of our gross gaming

revenue from those three casinos."

Those three casinos are employing 3,600 workers, added Beverly Martin, executive director of the Mississippi Casino Operators Association. Residents of the southern Mississippi communities desperately needed that employment to begin their own rebuilding and recovery efforts, she said.

The early signs of booming business for Gulf casinos are encouraging, Martin said.

"I think this shows the strength of the gaming industry and the tourism

industry in general in Mississippi," she said. "The extraordinary amount of relief workers here on the Coast, coupled with the returning tourists, is what makes up the base of our customers. We also have 100 percent air service back in operation."

Opening opportunity

The Imperial Palace, largely spared from the sweeping destruction its fellow Gulf Coast properties, was the first to reopen in late December. For John Lucas, the property's general manager, the throngs >>

Northern exposure

Webster Franklin, president and CEO of the Tunica Convention & Visitors Bureau, recently spoke with Casino Journal about what the Tunica market is providing to gaming customers as the Gulf Coast rebuilds.

With the Gulf Coast gaming markets—save for a handful of casinos—out of action, business in Tunica's casinos has picked up in recent months. Are you at all surprised by the amount of play the casinos there have seen?

Not at all. I think we expected that. I think when you have \$1.1 billion of gaming revenue, basically when the places to spend that \$1.1 billion are no longer in existence, you know the traffic is naturally going to go to the next place. The demand is still there. We're very fortunate in Mississippi to have a destination like Tunica that can hopefully satisfy part of that demand while the Gulf Coast is rebuilding. Right now, year to date, (casino revenue) is up about 7.5 percent.

Have there been any unique marketing efforts—either from your organization or the casinos—to attract new customers to experience Tunica?

Yes, absolutely. We're in the middle of it right now. The Tunica casinos and the Convention and Visitor's Bureau, along with the state of Mississippi, have joined together in a \$2 million ad campaign. The ad campaign is designed in different phases. The first phase of it was to go to television in Mobile, Birmingham and Montgomery, Ala. and Pensacola, Fla. Those are markets that we would not necessarily be advertising in if it had not been for Katrina. And our message there is while the Gulf Coast is rebuilding, Mississippi still has viable options, and when you look to spend your entertainment dollar, we would invite you to come. We also announced scheduled service into our airport on Pan American airlines, three flights a week beginning May 2 from Atlanta. In support of that announcement, which is the first scheduled service into the Tunica market, we'll be spending, over the next six weeks, roughly a million dollars in the Atlanta market with six weeks of television, an eight-page newspaper insert, along with outdoor billboards in and around the Atlanta market inviting people from that market to come and take advantage not only of the flight, but of all the opportunities we have available here as a gaming destination.

What's your outlook for Tunica as a market going forward? Can we expect more growth and/or new projects or expansions?

Well, I think so. The evolution of Tunica as a destination from one of the poorest areas in the country to a \$1.2 billion gaming market with 6,400 hotel rooms and the nine casinos, and our three golf courses—we've built an infrastructure here that is allowing us to grow. In 1994 we didn't have one sector four-lane highway anywhere in the county. Now you're hard-pressed to find a two-lane road. And we just announced scheduled air service, so pardon the pun, but the sky's the limit for Tunica. We feel like we now have built an infrastructure and are putting the pieces in place that are going to allow us to bring visitors from further away and stay here longer. And I don't think the market outlook has been any brighter than it is today in Tunica.

—Darby Harris





JAMES EDWARD BATES, BILOXI SUN-HERALD

Imperial Palace roulette dealer Thu-Ha Nguyen (left) entertains players, from left, Carlos Church of Tuscaloosa, Anne Browne of Pensacola and Rosa Johnson of Pensacola. The IP was the first casino of the Mississippi Gulf Coast to reopen after Katrina devastated the region.

of visitors that have packed the IP's casino, hotel and eating establishments have been both comforting and of crucial importance to the region's overall healing.

"It was huge," Lucas said. "People that game, that didn't game—they were so appreciative and so grateful that we got up and running. Sure it's about business, but it's also about the whole rebuilding process itself. What better way to rebuild the communities than to employ 2,200 employees? What better

way to kick-start the economy than to start rebuilding tourism?"

Just days after the storm, Lucas was utilizing the IP's employees, putting them to work in cleanup efforts and a variety of other roles.

"It really helped to start building a sense of camaraderie, family and teamwork here because everyone was in this together, and people saw hope as opposed to an oncoming freight train at the end of the tunnel. People saw we were going to rebuild and that they

were going to have jobs. They saw things were going to get back to normal. Adding to that, the cooperation we got from the Gaming Commission, the state, the city, the mayor, the building department, etc.—it was amazing; like nothing I've ever seen."

Lucas was hired to run the IP just six weeks before Katrina hit. Ironically, one of his tasks was to renovate the property to give it a fresher, more contemporary look and feel. Katrina sped up Lucas' plans.

In the four months the Imperial Palace was closed, crews worked on a fast-tracked renovation project. Lucas said the IP has done away with the Asian look. New landscaping was added, and the property's roof and exterior blemishes were repaired. Inside, nearly 1,000 new slot machines were added, as well as all new table games and a high-limit table area. A new, 470-seat buffet was added, and the Crown Room restaurant on the property's 32nd floor was remodeled into a steak and seafood restaurant called 32. The IP's lobby, which took in 12 feet of water, has been revamped with a new front desk and VIP services area.

In the weeks ahead, the IP is also adding a new coffee bar, a Brazilian-themed restaurant, retail outlets and a state-of-the-art spa and fitness center.

"Our goal was to open with a repositioned property—a very different property than what was here before. The original property was not very competitive and it didn't have a great reputation. It was a tired property and it wasn't the cleanest," Lucas said. "We have a lot of people who weren't our customers who've won over. The reaction we've gotten at our place has been very positive."

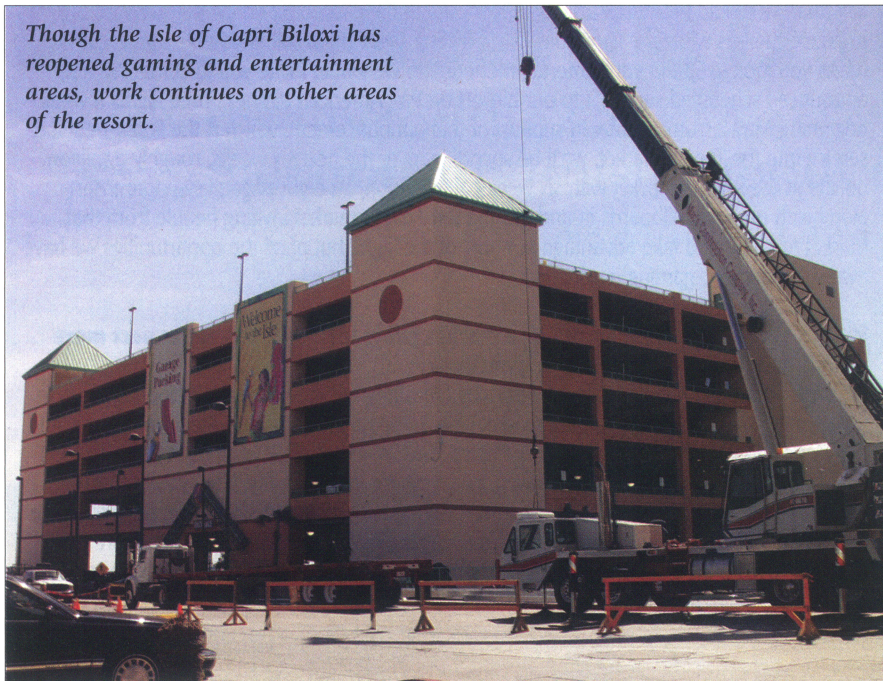
Just down the road at the Palace Casino, general manager Keith Crosby wasn't as lucky with Katrina.

"We lost our barge—actually there were two of them. One was a mile north of us on dry land and the other is being chopped up outside right now," Crosby said. "In the hotel, we lost the first floor and got a little water damage in the second floor, but those were common public assembly areas—ballrooms, meeting rooms, etc. Sadly enough, the storm did such a good job that all we had to do was put Bobcats at one end and push everything out the other end of the building, then haul it off."

Like Lucas, Crosby was eager to get

>>

Though the Isle of Capri Biloxi has reopened gaming and entertainment areas, work continues on other areas of the resort.



LORI BETH SUSMAN, MISSISSIPPI GAMING NEWS

up and running again. The Palace hired Yates Construction and, in somewhat of a race against time, worked round the clock to seal up the property before it sustained any further damage from humidity. Crosby said Yates was able to do so in 48 hours.

With construction crews staying at the hotel, they were able to renovate the intact building space into a temporary casino. Crosby said the Palace was fortunate in that it had some slot machines and other equipment already on order and available for the temporary casino.



The Beau Rivage (above) was the most expensive property in the Gulf Coast market when it opened in 1999. MGM Mirage said it will invest over \$1 billion, and work is already underway (below) on elements like the property's new theater.



PHOTO BY CHARLIE PUNZO

"We're weeks into our conceptual design for the build out for the property. Everything will be shore-based at a 31-foot elevation. We had just around 45,000 square feet of gaming space before. We're looking at in excess of 100,000 as part of the build out, as well as additional rooms," Crosby said.

Sitting out over the waters of the Gulf of Mexico, the Isle of Capri Biloxi's casino barge took a severe beating from Katrina's brutal waves and winds.

"The day after the storm we started cleaning up. We wanted to be aggressive, and we knew that the market was still going to be there, even though there

was only one bridge out of three left to get you on to the peninsula," said Tim Hinkley, president and chief operating officer for Isle of Capri Casinos. "We decided to put all effort into it."

Isle of Capri Biloxi's land-based facilities were built in such a way that the first floors of the property were essentially parking areas. While still receiving damage, the property's lobby and convention areas—at about 39 feet above the mean tide—survived the brunt of the storm. Crews were able to remove debris and immediately start renovating those areas into a temporary casino,

and the day after Christmas, Isle became the first shore-based facility to open under the new rules passed by the Legislature.

"We are working on a plan to expand it and create an entirely new gaming area, switch what we're doing in the hotel and revert our meeting and convention space back to what it was, because there is going to be a real need for that," Hinkley said.

On the way

The fact that three casino properties are now open and operating along the Gulf Coast has been welcome news. That business has been so

strong is even better news, and others—familiar faces and new entrants to the market alike—are eager to get their own operations up and running.

At the Beau Rivage, which upped the bar of elegance and luxury when it entered Biloxi in 1999 at a then-whopping price tag of \$680 million, general manager George Corchis has been busy with redesign plans. Officials with the Beau Rivage's parent company, MGM Mirage, have said that over \$1 billion will be invested into the properties when all renovations and expansions are complete.

"We've worked with some of the

most creative people in our industry to redesign the property, to not only recapture the charm and elegance that defined Beau Rivage before the storm, but to also leverage the knowledge and experience of the best minds at MGM Mirage to create a completely new experience for our guests," Corchis said. "Having a parent company that operates facilities on the scale and quality of the Bellagio, Mirage and MGM Grand gives us access to creative minds that have proven themselves time and time again."

Unlike many of its Gulf counterparts, the Beau Rivage is not building a temporary land-based facility.

"At some point in the future we may look at creating a land-based facility, but at this time we don't need it," Corchis said. "Our casino barge did exactly what it was designed to do—it stayed in place. This has allowed us to rebuild the casino where it was originally designed to be. We see that as a huge advantage over our competitors who lost their casino barges. We are able to put our casino where it has optimum visibility and ease of access. Our competitors are being forced to put their casinos where they were never intended to be while they redesign and rebuild to get what we already have."

Corchis said all of the property's rooms, restaurants and other amenities are being upgraded as part of the overall renovation. The resort is aiming for an Aug. 26 reopening—on the one-year anniversary of Katrina.

Harrah's Entertainment recently announced its own significant plans to reopen its Grand Casino Biloxi property.

The property's existing land-based facilities, including the Bayview Hotel tower and the convention center, will be rebuilt into a casino and a 500-room hotel featuring a steakhouse, a 300-seat buffet, a swimming pool, and a 16,000-square-foot full-service spa. Harrah's too is aiming for a summer 2006 reopening, yet those plans are just the first step in what Harrah's said will be a multi-phased, world-class project for Biloxi as it explores opportunities that the shore-based regulations provide.

"In the coming months and years we will develop our property in Biloxi into a true destination resort, building on the Mississippi Gulf Coast's position as a must-visit vacation spot," said Anthony Sanfilippo, president of Harrah's Central Division.

Harrah's sold its other Gulf Coast property, the Grand Casino Gulfport, to Gulfside Casino Partnership LLC, whose principle owners, Rick Carter and Terry Green, had operated the Copa Casino prior to Katrina.

Carlton Geer, senior vice president of CB Richard Ellis' Global Gaming Group, helped foster the deal between Harrah's and Gulfside. He said plans are for Gulfside to be open with a temporary gaming facility on the north side of Highway 90 in the Grand's former Oasis Hotel. At the same time, plans are well under way for construction of a permanent shore-based facility.

"I started talking to Rick Carter and Terry Green pre-Katrina. They came to our offices and were looking for opportunities to expand their brand outside of Biloxi to Nevada," Geer said. "I suggested to them that, although the Harrah's Gulfport site wasn't publicly for sale, if we came in with a strong enough offer, it might motivate Harrah's to combine insurance proceeds from that site along with their Biloxi site and develop a bigger and better product in Biloxi."

Harrah's officials, Geer said, had the same idea. The deal allowed Gulfside to essentially move its own position-challenged Copa site to a more appealing location.

"I think it worked out well for both sides," Geer said.

Other casino properties that have graced the Gulf are hard at work to reopen as well. The Treasure Bay Resort & Casino intends to open its 250-room hotel and casino, with approximately 500 slot machines and 22 gaming tables, this summer. Bernie Burkholder has stepped down as president and CEO of the property's parent company, Treasure Bay Gaming & Resorts Inc., but longtime gaming industry veteran Susan Varnes was named chief operating officer and is assuming operational control of the company, including overseeing the rebuilding of the Treasure Bay property.

Meanwhile, both Pinnacle Entertainment, which operates the Casino Magic properties in Biloxi and Bay St. Louis, and Penn National Gaming, which operates the Boomtown Casino in Biloxi, are also working to get their properties up and running, though no official timetables for reopening have been indicated. >>

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New entrants

Rebuilding an established gaming property that was damaged by a storm is one thing. But having to rebuild a property that was only days away from its \$235 million grand opening might be considered the ultimate gut punch.

The Hard Rock was set to open with 1,500 slot machines and 50 table games, four restaurants including a Hard Rock Cafe, a full service spa, 11-story hotel, a unique Hard Rock-themed beach pool, a 1,200 capacity entertainment venue and retail shops. Joe Billhimer, president and chief operating officer of the Hard Rock Biloxi, has since had his hands full trying to get the project back on track.

"The casino structure took the brunt of the storm, but the rest of our facilities are structurally fine, though in need of



The Hard Rock Biloxi was just days away from opening when Katrina hit. Now, in many areas of the property, construction crews have had to start from scratch.

some repair," Billhimer said. "It is definitely our intention to work through a consensual process with our bondholders to get the project moving. We're probably 60 to 65 percent through the insurance process now. That hasn't gone as well as we would have liked, but it also hasn't gone as badly as others might have indicated it would go."

Billhimer said the new Hard Rock project would take advantage of the shore-based legislation and rebuild its gaming facilities on land. He added that the Hard Rock is also exploring other options that might allow the project to come back "even bigger and better" than before.

A temporary casino, however, is not of immediate importance.

"With the Hard Rock brand, it's really not feasible for us to say we're going to operate a temporary facility,"

Billhimer said. "What we may do is open an interim facility, in almost a phased opening, in keeping with brand guidelines. We don't want to do anything that might diminish the brand. We'd be more inclined to operate with sort of a phased opening to our project."

There is also a bevy of other potential new entrants to the Gulf Coast market as well.

The City of Biloxi recently approved plans for Torguson Gaming Groups' \$500 million Bacaran Bay Casino Resort. The upscale project would feature 1,800 slots and 50 table games; seven restaurants; a full-service spa; four acres of pool decks; six movie theaters; a 40-lane bowling center; a 5,000-seat entertainment venue; a 15,000-square-foot shopping esplanade; two wedding

chapels; a children's activity center; and over 80,000 square feet of meeting space. It will also feature the first all-suite hotel on the Mississippi Gulf Coast, with over 600 suites in addition to 432 on-site condominiums.

"The city has been meticulous with their planning for the future of Biloxi, and I think officials realize the location of our resort will play a key role in unifying the development of the casino corridor and Back Bay Biloxi," said Torguson Gaming Group, Inc.'s founder and CEO, Marlin F. Torguson.

Also of note is Landry's Restaurants, which, fresh off its acquisition of the Golden Nugget hotel-casino properties in Las Vegas and Laughlin, Nev., is also looking to enter the Biloxi market, proposing to build a Golden Nugget branded property. The project could feature a 60,000-square-foot casino, 600

hotel rooms, a marina and an amusement park with a 150-foot-tall Ferris wheel and thrill rides. Jeff Cantrell, the company's senior vice president of development, told reporters in November that Landry's has a \$400 million credit line that would enable the project's development.

"We absolutely love the Biloxi area and the Gulf Coast, and we want to help in the rebuilding," he said. "This was one of the main reasons we purchased the Golden Nugget brand. We think this casino concept would be a natural fit with the Biloxi market."

'Not surprising'

The early results for the three Gulf Coast casinos to reopen have widened some eyes, but most of the region's gaming operators say the big crowds and steady business are not unusual.

"While it has exceeded our own expectations, I did expect that we would be reasonably busy," said the IP's Lucas.

Lucas noted that a lot of the Gulf Coast's customers come from areas to the east that weren't affected by Katrina, including Florida, Alabama, Georgia and northern Mississippi. "Convincing customers that the place was up and running and that we were not all devastated was probably the biggest early challenge for us, but it's not surprising that we're busy," he said.

Corchis noted that what has surprised people has been that one-third of the casino properties existing before Katrina are generating more than two-thirds of the pre-Katrina gaming revenue—with limited capacity.

"Our company saw a huge potential in the market that is being demonstrated through those numbers. We also see in Mississippi a very pro-business environment. When you combine the two, you have to feel very optimistic about the Coast's future," he said.

"We all understood that the industry as a whole on the Gulf was really hitting its stride right before the storm," added the Palace's Crosby. "We were really rolling. I take that as an indication that we hit one of those benchmarks of maturity that was really exciting. The coastal region was rapidly overtaking the rest of the state in terms of predominance in the marketplace. If you could preserve that growth cycle, there's nothing to suggest it won't recover and return and probably have more vitality than it did before."

Sadly, operators said, Katrina

"cleansed the palate" in that by wiping away people's shore-side homes and small businesses, there's now plenty of land for prime development, including dozens of condominium, retail and entertainment projects that have been proposed.

"I have an average of three to five different developers here in my office each week that are looking at different prospects. I think they see that this is just a prime location to build," Gregory said. "Prior to Katrina, we'd never have seen these new companies coming in kicking the dirt. The market was pretty well flat and we might have had one or two new developments in the next few years, but easily I think we'll see the Gulf Coast go from a \$1.2 billion market to a \$2 billion or more market within the next few years. The numbers are ringing too true to believe."

Yet while the early signs are encouraging, some warn not to let hopes and dreams for the Gulf get out of hand.

"I think the more interesting question is going to be, 'What happens when Harrah's and Beau Rivage, Boomtown and others all come on line?'" Crosby said. "'Will the market expand and to what degree?' I'm looking at my marketing guys and saying, 'Don't get carried away right now.'"

For properties in Gulfport and Bay St. Louis, which drew more customers from areas that were directly affected by Katrina, results may be different than what the casinos at the eastern end of Mississippi's Gulf Coast have experienced, Crosby said.

Those looking to develop brand new projects may also want to take a cautiously optimistic approach, he said.

"It's a little easier for those of us who were here and established. We lost our barge, but our hotel is intact, and we've got a foundation to literally build off of. But when you're looking at someone who's coming in brand new, I can see the economics suggesting that they phase their entry into this market along with the growth of the market itself," Crosby said.

Challenges ahead

Going forward, arguably the biggest hurdle the casino resorts must overcome is finding employees to man the facilities. Many southern Mississippians lost their homes, jobs and very means of surviving with Katrina. A significant number of casino employees have been relocated to other properties nationally,



Finding employees, like table game dealers seen here at the Palace Casino, could be the biggest challenge for retooled resorts going forward.

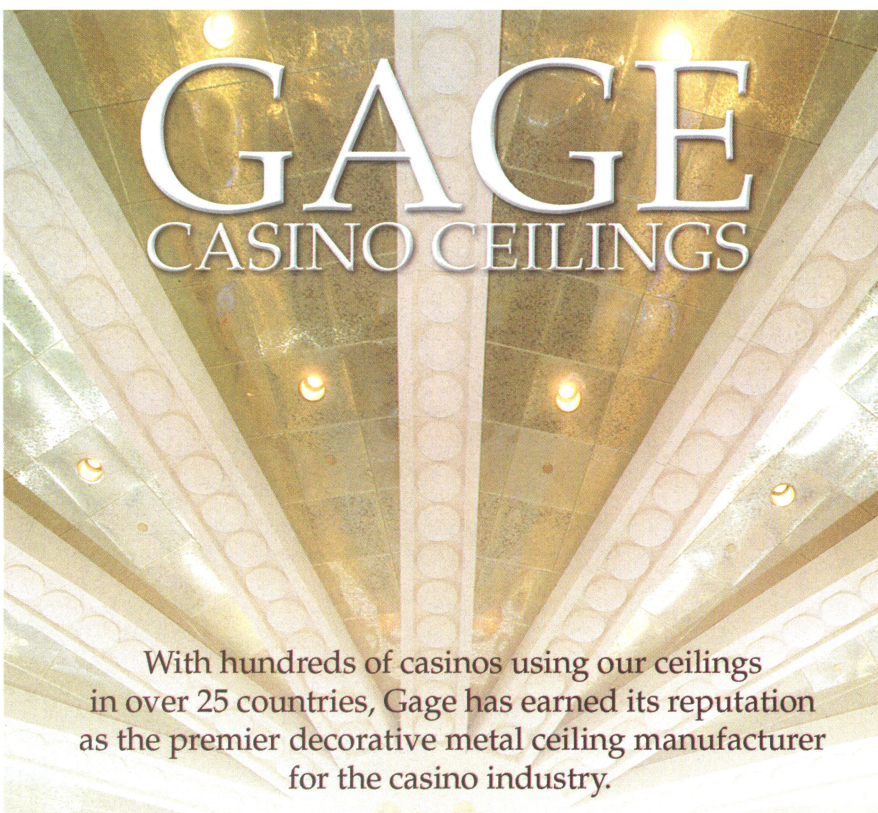
while others have left Mississippi and the gaming industry altogether.

Even for those who want to come back, affordable, undamaged housing is sparse.

"I don't want to just paint a rosy picture. I will tell you we have a long road ahead of us on the Gulf Coast in terms of rebuilding," Gregory said. "Employment is going to be a difficult task for the casinos. Where are they going to come from? They're scratching their

heads now to try and find out how to man their properties. You're looking at the Beau Rivage opening in August with about 3,500 employees. You're also looking at the Grand-Harrah's property in Biloxi, which is looking at opening a temporary casino on the land where their hotel is. You're looking at another 1,000 employees minimum there. Then you've got the all the others.

"The market is definitely going to be
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GULF COAST

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stretched employee-wise. Do they have an answer for where those employees are going to come from? They don't. They're trying to come up with different sorts of incentives and programs. A couple of the casinos are looking into housing facilities for employees. That's going to be a difficult task to accomplish. We'll need close to 10,000 employees on the Gulf Coast."

Most of the casino properties have made efforts to stay in touch with their displaced gaming employees, attempting to keep relationships with them that will encourage them to come back.

"We have stayed in touch with our employees, have communicated with them about our plans and have asked them questions about their intentions," Corchis said. "Through this ongoing communication we have an understanding of where we stand and in what areas we may be lacking. We have taken pro-active steps to fill in the labor shortages before they become critical."

Several efforts are also being undertaken to assist employees in finding suitable housing.

"We are meeting almost weekly with housing developers to look at everything from apartments to townhouses to temporary living arrangements," said the MCOA's Martin. "A lot of our folks relocated, lost their homes and really may have nowhere to return to. They have been successful in creating new homes for themselves in other areas...but the ones I have spoken with love Mississippi and absolutely want to return."

And don't think that lessons from Katrina will go unheeded. Disaster preparedness and planning have become top priorities for the region's casino properties. Even temporary facilities are being designed in such a way to better protect it from another severe storm. New rules will ensure that shore-based gaming facilities remain at about a second-story level, while some properties are taking additional efforts to storm-guard their facilities.

"I'll give a great example," Lucas said. "Our barge did what it was supposed to do during the storms. It rose, but at a certain level, the ramps collapsed as it was designed to do. But as they collapsed, they did so into the side of the superstructure on top of the barge. That was really the only damage

we got to our casino. When we rebuilt the ramps, we designed them so when they collapsed, they would be caught by a steel brace. When you rebuild you learn from what happened, and you find ways to make it work properly should a similar thing happen again."

Meanwhile, programs are being implemented and employees trained at all Gulf casinos to ensure that safety and security of assets are the top priority in any disaster.

"I had a visit from one of the regulatory guys who I've worked with for years here, and he said we're really going to have to examine our hurricane preparedness criteria again now that we don't have the barges. I said to him jokingly, but still kind of serious, 'In the past, you guys called and told me and when I could close. What's going to happen now is I'm going to call you and tell you when I'm closing.' He laughed, but I'm serious. I've got stuff on the ground floors that I'm going to shut down and move to higher ground. I've learned my lesson," Crosby said.

"Unfortunately, that's the reality of the business here," he added. "We're all looking out over the water thinking, 'Damn, it's three or four months to hurricane season this year.'" **CJ**