

ORIGINAL

STATE OF NEW JERSEY
CASINO CONTROL COMMISSION

1
2 IN RE: :
3 HEARING ON THE PETITION OF TRUMP :
4 PLAZA ASSOCIATES, TRUMP'S CASTLE :
5 ASSOCIATES, TRUMP TAJ MAHAL :
6 ASSOCIATES AND TRUMP HOTEL MANAGEMENT: :
7 CORPORATION FOR APPROVAL OF A :
8 TRANSFER TO BANKING INSTITUTIONS IN :
9 THE ORDINARY COURSE OF THEIR BUSINESS: :
10 OF SECURITY INTERESTS IN THE EQUITY :
11 OWNERSHIP OF CERTAIN CASINO RELATED :
12 ENTITIES AND FOR CERTAIN OTHER RELIEF:

Casino Control Office
Atlantic City Commission Office
3131 Princeton Pike,
Trenton, NJ 08625
Thursday, August 16, 1990
9:45 a.m. to 1:00 p.m.
VOLUME I

12 B E F O R E:

13 VALERIE H. ARMSTRONG, ACTING CHAIR
14 W. DAVID WATERS, COMMISSIONER
15 E. KENNETH BURDGE, COMMISSIONER
16 FRANK J. DODD, COMMISSIONER
17 JAMES R. HURLEY, COMMISSIONER

16 PRESENT FOR THE CASINO CONTROL COMMISSION:

18 KAREN G. BIACHE, ADMINISTRATIVE ANALYST
19 DARYL W. NANCE, ADMINISTRATIVE ANALYST
20 JOSEPH FLYNN, PUBLIC INFORMATION OFFICER

20 ON BEHALF OF THE COMMISSION STAFF:

21 STEVEN M. INGIS, ASSISTANT COUNSEL
22 JOHN R. ZIMMERMAN, DEPUTY DIRECTOR

23 SILVER & RENZI REPORTING SERVICE
24 824 West State Street
25 Trenton, New Jersey 08618
609-989-9191 (Toll Free NJ) 800-792-8880

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ON BEHALF OF THE DIVISION STAFF:

THOMAS N. AURIEMMA, DEPUTY ATTORNEY GENERAL
CHARLES F. KIMMEL, DEPUTY ATTORNEY GENERAL
MARK P. SIVETZ, SENIOR AGENT
ANTHONY RESTUCCIA, SENIOR AGENT
ROBERT LATIMER, SENIOR AGENT

ON BEHALF OF THE TRUMP TAJ MAHAL ENTITIES

RIBIS, GRAHAM, VERDON & CURTIN, ESQS.
BY: NICHOLAS L. RIBIS, ESQ.
and
JOSEPH A. FUSCO, ESQ.

ON BEHALF OF THE CREDITORS COMMITTEE

HORN, KAPLAN, GOLDBERG, GORNY & DANIELS, ESQS.,
BY: JOHN DANIELS, ESQ.

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1 MS. BIACHE: I would like to read an
2 opening.

3 "This is to advise the general public
4 and to instruct that it be recorded in the Minutes
5 that in Compliance with Chapter 231 of the Public Laws
6 of 1975, entitled the 'Open Public Meetings Act,' the
7 New Jersey Casino Control Commission at 11:16 a.m. on
8 August 13, 1990 hand-delivered to the Secretary of
9 State's Office and caused to be posted on the bulletin
10 board located outside the Office of the Secretary of
11 State at the State House, Trenton, New Jersey and at
12 4:30 p.m. on August 13, 1990 mailed to the Press of
13 Atlantic City and to the Newark Star Ledger and to the
14 Office of the Clerk of Atlantic City an Annual Meeting
15 Schedule setting forth the time, date and location of
16 this meeting.

17 "Members of the press will be
18 permitted to take photographs at today's meeting. We
19 would ask, however, that this be done in a manner
20 which is not disruptive of the meeting or distracting
21 to the Commission and which does not interfere with
22 the public's right to observe the meeting."

23 ACTING CHAIR ARMSTRONG: Thank you,
24 Ms. Biache.

25 Good morning everyone. We call this

1 hearing to order and I note the presence today of all
2 five Commissioners.

3 As the first order of business, let's
4 have the entry of appearance of counsel please.

5 MR. RIBIS: Nicholas Ribis and Joseph
6 Fusco on behalf of the petitioners, Trump entities.

7 MR. AURIEMMA: For the Division of
8 Gaming Enforcement Thomas Auriemma and with me is
9 Charles Kimmel.

10 ACTING CHAIR ARMSTRONG: At the
11 outset, I would note that we have a petition to
12 participate in today's hearing filed on behalf of the
13 Creditors Committee and we will hear that matter first
14 and I would suggest that we have the entry of
15 appearance.

16 Mr. Daniels.

17 MR. DANIELS: Yes, good morning,
18 Madam Chair and good morning members of the
19 Commission.

20 My name is John Daniels. I am an
21 attorney of the State of New Jersey, partner in the
22 law firm of Horn, Kaplan, Goldberg, Gorny & Daniels
23 with offices in Atlantic City and Voorhees, New
24 Jersey.

25 I represent a Creditors Committee.

1 That committee represents approximately 60 million
2 dollars in unpaid construction claims on the Taj
3 Mahal. The seven members of that committee for
4 purposes of the record are Joe Rich, Steve
5 Sciaretta--by the way, Joe Rich is Liber Rich & Sons,
6 Steve Sciaretta is Claremont Interiors, John Woodland
7 from Avalon Commercial, John Sykes, Sr. from the John
8 Sykes Company, Martin Rosenberg from Atlantic Plate
9 and Window Glass Company, Steve Labov from Labov
10 Mechanical Contractors and David Copeland from
11 Copeland Surveying. That seven member committee
12 represents the range of individual company claims from
13 in excess of \$250,000 to in excess of 7.5 million
14 dollars. The total of the approximately 60 million
15 dollars in unpaid claims is represented by
16 approximately 58 companies represented by this
17 Creditors Committee.

18 Before I go on, I would like to
19 incorporate into this proceeding this morning the
20 brief that I filed with you. I hope you had an
21 opportunity to review the memorandum. Obviously I
22 will rely on the contents therein. I know what the
23 test is to be permitted to participate, and you do
24 too, and that test is whether a party has significant
25 interest in the outcome of the proceeding and whether

1 the participant's interest is likely to add
2 constructively to the case without causing undue delay
3 or confusion. I can think of no group that is here
4 today with the possible exception of Mr. Trump and
5 this deal that have more interest in the outcome of
6 these proceedings. These men, those subs, have their
7 personal life, their individual credit, their bonding
8 capacity, their father's lives and in some cases their
9 grandfather's lives in these companies. They built
10 the Taj Mahal.

11 In a proposed concept of an agreement
12 to settle the claims of that group would be an initial
13 cash payment to that group that would come out of cash
14 flow of the Taj Mahal. There would be a note and that
15 initial payment would occur between now and October
16 15. There would be a note or notes for the balance
17 owed for a period of three to five years that would
18 come out of the hundred percent of the net cash flow
19 of the Taj. That note, hopefully if this Commission
20 would approve, and the bank group would approve, would
21 be secured by a second mortgage on the Taj.

22 There is a specific provision in the
23 plan presented to you in the petition on page eight
24 that states that the management fees to be paid by Taj
25 Mahal to Trump Hotel would be deferred to make

1 payments to the subs. So obviously if there is an
2 increase in the debt structure on the Taj that somehow
3 impacts cash flow, which is proposed to be pledged to
4 the subs to pay off their claims, then the subs have
5 an interest in the outcome of this proceeding if
6 that's permitted. If there is a granting of
7 additional security interest in the Taj that would
8 limit the ability of the unsecured creditors to
9 realize recovery from any future transaction involving
10 the Taj, obviously that impacts their interest. The
11 plan specifically provides for payment of the subs
12 through deferral of management fees.

13 The Creditors Committee's
14 participation will add constructively to this hearing
15 because we present and add a position that is not
16 represented before you. The Creditors Committee will
17 give you that additional viewpoint. We don't seek
18 your assistance. I don't need your assistance to help
19 me to settle anything. Whether it's settled or not
20 doesn't stop us from needing to participate in this
21 hearing because we are impacted one way or the other,
22 significantly impacted, and like anyone else, of
23 course there is no one else that is being pledged a
24 hundred percent of the cash flow until they are paid
25 off. We seek to participate simply to apprise you of

1 how the bank debt restructuring will impact this
2 group. We would like to help you weigh the
3 information you receive over the next two days to help
4 you make a determination whether it should be approved
5 or not. We would like to be able to stand up at the
6 end of this hearing and state what we believe the plan
7 means to the subs and when it impacts the subs it
8 impacts Atlantic City, it impacts Atlantic County, it
9 impacts the whole industry because there are 70
10 companies that are on the verge of bankruptcy and if
11 they don't get paid, we are going to have a whole
12 bunch of people out of work this winter.

13 The Creditors Committee has no
14 intention to disrupt these proceedings. I don't ask
15 to intervene. I don't ask to ask a question. I don't
16 need to present witnesses. I just need to sit here,
17 measure the information as you receive it and be able
18 to take a position at the end of the case and let you
19 know what that position is. I don't seek to delay.
20 We are ready to proceed right now.

21 There is precedent for what I am
22 asking you to do. You permitted in the Elsinore case,
23 the Atlantis case, the Unsecured Creditors Committee
24 to participate under the same circumstances that I am
25 asking, to sit, to listen, you will not hear from me

1 again until the end of this case.

2 Thank you for listening to me.

3 ACTING CHAIR ARMSTRONG: Thank you,
4 Mr. Daniels.

5 Mr. Ribis.

6 MR. RIBIS: Yes.

7 We have already filed a letter and I
8 really have nothing to add except that Mr. Daniels is
9 right that we are on the verge of a settlement of
10 these disputes and Mr. Daniels has worked very hard
11 along with his committee in working with us over the
12 last number of days and nights and I believe that--I
13 never believed Mr. Daniels has been disruptive but we
14 have stated our position in a letter and we feel that
15 the resolution of the contractor dispute should be
16 something that is not an issue that is before this
17 Commission because it won't be an issue between the
18 parties before this hearing is finished tomorrow.

19 Thank you very much.

20 ACTING CHAIR ARMSTRONG: Mr.
21 Auriemma.

22 MR. AURIEMMA: Yes, members of the
23 Commission, good morning.

24 As you know, Mr. Daniels has asked
25 for a very limited right of participation which is a

1 defined term under the Uniform Administrative Rules
2 and Procedure. It is different from intervention and
3 he is not seeking to ask questions of witnesses or
4 anything like that. Certainly the Division of Gaming
5 Enforcement is very sympathetic to the plight of these
6 contractors. We have been monitoring the various
7 lawsuits that have been filed. I personally and
8 agents working for me have monitored complaints as
9 well. We recognize the financial predicament that the
10 Taj Mahal is in at this point in time so we are
11 sympathetic to that.

12 But getting back to the actual
13 participation of Mr. Daniels at this point, the
14 Division doesn't feel that its participation is
15 critical to an understanding of the true issues before
16 the Commission at this point in time and I think that
17 Mr. Daniels has pretty much in his opening remarks
18 here today stated the seriousness and the concern that
19 the creditors of the Taj Mahal have at this point in
20 time.

21 So in that respect the Division
22 doesn't see the need for further statement by Mr.
23 Daniels at the end of this hearing, but certainly
24 that's a matter of discretion with the Commission and
25 I will abide by whatever ruling the Commission makes.

1 ACTING CHAIR ARMSTRONG: All right,
2 thank you.

3 Mr. Daniels, anything further?

4 MR. DANIELS: Yes. One thing I want
5 to be corrected about when I talked about the pledge
6 of the cash flow, it's obviously the net cash flow,
7 that's a technical term.

8 The second point in all due respect,
9 the Division, to the Division's position, in fact, I
10 think I made a much easier case for everybody to say I
11 wanted the limited right to participate because I
12 could have made a case that maybe we are an
13 indispensable group if we are going to get a second
14 mortgage on the Taj if its approved by the Commission
15 by the bank group. Again, as I say I don't see not I
16 can add constructively to the proceedings by
17 cross-examining witnesses, I don't want to do that,
18 but I believe this group built the Taj deserves to be
19 heard at the end of this case, I really do. I was
20 trying to think of the phrase that sets forth the
21 subs' position and I thought it's like at the banks
22 are the pharrows, then the subcontractors are those
23 that toiled in the mud making the bricks and that
24 position deserves to be heard.

25 Thank you.

1 ACTING CHAIR ARMSTRONG:

2 Commissioners, any questions for Mr. Daniels, Mr.
3 Ribis or Mr. Auriemma concerning the petition to
4 participate in today's hearing?

5 COMMISSIONER WATERS: Yes, Madam
6 Chair, I just have one question.

7 Mr. Auriemma, can you contrast the
8 recommendation you are making here with the treatment
9 of four of the Creditors Committee in connection with
10 Elsinore.

11 MR. AURIEMMA: I think in Elsinore
12 the issues were clear. Here we are really talking
13 about approval of an agreement. The Creditors
14 Committee here is a specific matter involving a
15 specific facility, the Taj Mahal, and if this hearing
16 only we are dealing with the Taj Mahal and the license
17 of the Taj Mahal, I might have a different position.
18 I think the issues are much broader in scope and I
19 think that's the distinguishing factor.

20 COMMISSIONER WATERS: Okay, thank
21 you.

22 ACTING CHAIR ARMSTRONG:

23 Commissioners, further questions?

24 In order to be permitted to
25 participate in the hearing, the petitioner must

1 satisfy certain standards set forth in the
2 Administrative Procedure Rules which are made
3 applicable to proceedings before the Commission by
4 N.J.A.C. 19:42-1.2. Pursuant to N.J.A.C. 1:1-16.6 the
5 Commission has the discretion to permit participation
6 by any person or entity with a significant interest in
7 the outcome of the contested case. In deciding
8 whether to permit participation, the Commission shall
9 consider whether the participants' interest is likely
10 to add constructively to the case without causing
11 undue delay or confusion. Participation is less than
12 full intervention and is limited to the right to argue
13 orally or to file a brief or both.

14 Petitioner is an unincorporated
15 association comprised of seven members which represent
16 approximately 60 subcontractors who are owed, I
17 believe Mr. Daniels indicated, about 60 million
18 dollars by Trump Taj Mahal Associates and certain of
19 its affiliates in connection with the construction of
20 the Trump Taj Mahal Casino Resort. In its petition
21 the Creditors Committee states that it is negotiating
22 with Trump representatives to settle these debts. The
23 committee admits in its papers that although it
24 believes it will be affected by the outcome of these
25 proceedings, it is not in a position to determine

1 whether it supports or opposes the petition for
2 restructuring. Under these circumstances I would find
3 it extremely doubtful that the committee would be able
4 to add constructively to this case.

5 Moreover, the fact that petitioner
6 has an economic interest in the outcome of this
7 hearing does not by itself warrant participation and
8 while it is true that our decision may have a profound
9 impact upon the numerous debt holders, as well as
10 parties in litigation with Trump affiliates, we are
11 not entrusted with the specific responsibility of
12 protecting those diverse interests, and while
13 certainly we are sympathetic to the interests of this
14 petitioner, the critical inquiry is not how this
15 restructuring affects these myriad interests, but
16 whether it should be approved pursuant to the mandates
17 and policies of the Casino Control Act. Unless the
18 petitioner for participation can measurably aid in our
19 decision making process, participation should be
20 denied and I would, therefore, move to deny the
21 petition to participate.

22 Is there a second?

23 COMMISSIONER BURDGE: Second.

24 ACTING CHAIR ARMSTRONG: Comment or
25 discussion?

1 COMMISSIONER WATERS: I only have one
2 comment, Madam Chair, that I can't support that motion
3 I guess basically for the same reason I was alluding
4 to when. I asked Mr. Auriemma to explain the
5 difference between Elsinore and this instance. I
6 recognize what he said about the broadness of the
7 issues here, but I don't see that there is a
8 difference between the situation where Elsinore owed
9 as an entity--Atlantis owed creditors certain amounts
10 of money and in this instance where maybe it's the Taj
11 Mahal, but it's still the Trump organization and
12 that's my reason for dissenting.

13 ACTING CHAIR ARMSTRONG: Thank you.
14 Further comments or discussion?
15 If not, all those in favor?
16 Those opposed?
17 The motion carries four to one.

18 (Acting Chair Armstrong and
19 Commissioners Burdge, Dodd and Hurley voted in favor
20 of the motion)

21 (Commissioner Waters dissented)

22 ACTING CHAIR ARMSTRONG: Thank you,
23 Mr. Daniels.

24 Now, turning to the main order of
25 business, we have before us a petition filed by the

1 Trump Castle, Trump Plaza and Trump Taj Mahal casino
2 licensees. The petition seeks a variety of rulings
3 concerning a proposed restructuring of some of the
4 debt related to casinos and other Trump assets.

5 The two principal restructuring
6 documents are denominated the Override Agreement and
7 the Credit Agreement.

8 Under the Override Agreement nine
9 banks will defer principal and interest payments on
10 approximately one billion dollars in debt related to
11 various Trump assets. The banks will also declare a
12 moratorium on any action to seek recovery from Donald
13 Trump personally despite the fact that 880 million
14 dollars of this debt affords potential recourse to
15 him.

16 Under the Credit Agreement, seven of
17 the nine banks will extend 65 million dollars in
18 additional financing to Mr. Trump, 20 million dollars
19 of which will replace a loan recently made to fund a
20 payment due of the Trump Castle bonds. For his part,
21 Mr. Trump will, among other things, pledge all of the
22 equity in the three casinos to support the payment of
23 the deferred interest under the Override Agreement,
24 the borrowings under the Credit Agreement and certain
25 preexisting debts.

1 The petitioner asks the Commission to
2 approve the pledges of the casino equity. Such
3 approval is mandated by Section 82 (d) (7) of the
4 Casino Control Act which prohibits the transfer of any
5 security, including a pledge, in a nonpublicly traded
6 casino licensee without prior Commission approval.
7 Prior Commission approval of the grant of these
8 pledges is also required by conditions of the casino
9 licenses issued with respect to the three casinos as
10 well as the terms of the partnership agreements of the
11 casino licensees and the charters of the corporate
12 partners in the casino licensees.

13 The petition also asks us to approve
14 the Credit Agreement and Override Agreement. Section
15 104 (b) of the Act grants the Commission the
16 discretion to review these agreements and to approve
17 them based upon the qualifications of the parties
18 involved and the reasonableness and terms of the
19 agreements including any terms of compensation.

20 Finally, the petition asks us to
21 approve certain ancillary documents and transactions
22 involving, among other things, the lease of the Trump
23 Regency Hotel to the Trump Plaza Hotel and Casino, a
24 mortgage of certain land underlying the Trump Plaza
25 and the amendment of a Security Agreement involving

1 the Trump Taj Mahal.

2 The brevity of this explanation of
3 the petition and the underlying transactions belies
4 their complexity. As will be seen shortly when the
5 transaction documents are submitted into evidence,
6 they are voluminous. While the preparation kept a
7 small army of attorneys employed for several months,
8 the regulatory agencies were kept in the dark through
9 most of that process. When we finally received drafts
10 of the documents, our staff and the Division of Gaming
11 Enforcement began the process of trying to master one
12 of the most complex transactions we have ever been
13 confronted with. That process has not been aided by
14 the fact that documents in what we believe to be final
15 form were not received until August 10 and that yet
16 another version of the Credit Agreement and Override
17 Agreement were not received until yesterday.

18 The review process has also been
19 hindered by the fact that the Commission and Division
20 staffs have devoted much of their time over the past
21 eight days in preparing for two Commission hearings,
22 two Appellate Division hearings and a Supreme Court
23 hearing regarding the petitioners' request to seal
24 documents. Petitioners certainly have the right to
25 avail themselves of the processes of the Commission

1 and the courts and I do not mean to criticize them for
2 doing so, and am not criticizing them for doing so.
3 However, being realistic, the fact remains that
4 regulatory resources were diverted from the attempt to
5 prepare for today's hearings.

6 At prehearing conferences held on
7 August 7 and 8, petitioners urged the Commission to
8 attempt to reach a decision in this matter by
9 tomorrow. While this deadline is entirely self
10 imposed by the Trump organization and the banks, we
11 have scheduled the hearing to begin today and to
12 continue tomorrow. However, this was done with the
13 understanding that it may simply be impossible to
14 conclude this matter on the petitioners' schedule. In
15 short, the regulatory agencies have made and will
16 continue to make every conceivable effort to resolve
17 this matter expeditiously. However, we will not be
18 rushed to judgment on a case which may be as important
19 in its consequences to the casino industry and the
20 redevelopment of Atlantic City as any we have ever
21 faced.

22 Petitioners have contended that we
23 can grant the requested relief without a full
24 consideration of the financial stability of the casino
25 enterprises and the Trump organization. While

1 petitioners will proceed on the assumption that this
2 is so, it must be made clear that this issue has not
3 been decided by the Commission. Our conclusion may
4 ultimately be that this petition cannot be dealt with
5 outside of a financial stability review.

6 If we are to accept petitioners' view
7 in this issue, they must convince us that the proposed
8 debt restructuring will enhance the financial
9 stability of the casino enterprises. If we are so
10 persuaded we may be able to conclude that the
11 restructuring should proceed and the issue of
12 post-restructuring stability can be heard after the
13 transactions are consummated.

14 However, petitioners bear a heavy
15 burden of convincing the Commission that the benefits
16 of the 65 million dollars in new financing, the debt
17 deferral and the moratorium on actions against Mr.
18 Trump outweigh the potential detriment of the pledge
19 of the casino equity. Petitioners will have to
20 address in detail the provisions which subject the
21 casino equity to foreclosure based on events unrelated
22 to the financial condition of the casinos. The
23 provisions which place the banks in a position to
24 thwart any future attempt to exchange debt for equity
25 and the financial drain which may be caused by such

1 matters as the proposed lease of the Trump Regency to
2 Trump Plaza Hotel and Casino. This list is by no
3 means exhaustive and petitioners will, of course, have
4 to address all the other issues raised in the reports
5 of our staff and the Division of Gaming Enforcement.

6 With all of this mind, we will
7 proceed with the presentation of the Division and the
8 Commission staff reports and exhibits and we will then
9 hear whatever testimony the parties wish to present.

10 At this point in time I would ask the
11 petitioners and the Division to offer any exhibits
12 they have and I am assuming there is nothing more to
13 be said on the issue of confidentiality of exhibits,
14 but the parties can advise me if I am mistaken on that
15 particular issue.

16 MR. RIBIS: I have nothing more to
17 say on that issue.

18 ACTING CHAIR ARMSTRONG: Do you have
19 exhibits to go in? I think they are yours.

20 MR. RIBIS: Premarked exhibits P-1
21 through P-94 which the Commission has a listing of and
22 I believe the Division has no objection to them.

23 MR. AURIEMMA: That is correct, no
24 objection.

25 ACTING CHAIR ARMSTRONG: No

1 objection? All right, those exhibits which have been
2 premarked P-1 through P-94 will be entered into
3 evidence.

4 (P-1 through P-94 were marked into
5 evidence)

6 ACTING CHAIR ARMSTRONG: Mr.
7 Auriemma, do you have exhibits on behalf of the
8 Division?

9 MR. AURIEMMA: I have two exhibits
10 which have been premarked as D-1 and D-2.

11 D-1 is a 27 page response filed by
12 the Division of Gaming Enforcement to the petition
13 dated August 13, 1990.

14 D-2 is the Division of Gaming
15 Enforcement preliminary report on the financial
16 condition of the Donald J. Trump organization
17 post-restructuring. It is also dated August 13, 1990
18 and at this point in time I would move those two items
19 into evidence.

20 ACTING CHAIR ARMSTRONG: Any
21 objection?

22 MR. RIBIS: I have no objection.

23 ACTING CHAIR ARMSTRONG: Those two
24 exhibits will be admitted into evidence.

25 (D-1-2 were marked into evidence)

1 ACTING CHAIR ARMSTRONG: Mr.
2 Zimmerman, I understand there is one Commission staff
3 report to be offered into evidence.

4 MR. ZIMMERMAN: Yes, Madam Chair.
5 There is a report of the Division of Financial
6 Evaluation and Control which is premarked C-1 and it's
7 my understanding that neither the petitioners nor the
8 Division has an objection to the report going into
9 evidence.

10 MR. RIBIS: I have no objection.

11 MR. AURIEMMA: The Division has no
12 objection.

13 ACTING CHAIR ARMSTRONG: That exhibit
14 will be marked C-1 into evidence.

15 (C-1 was marked into evidence)

16 ACTING CHAIR ARMSTRONG: I think that
17 takes care of it for exhibits and reports.

18 MS. BIACHE: Madam Chair, I received
19 copies of revised Override Agreement and revised
20 Credit Agreement this morning and they are not on the
21 exhibit list.

22 ACTING CHAIR ARMSTRONG: That is
23 correct.

24 MS. BIACHE: The Override Agreement I
25 have marked as P-87A and Credit Agreement as P-88A.

1 ACTING CHAIR ARMSTRONG: Mr. Ribis,
2 you would like to have those submitted?

3 MR. RIBIS: Yes.

4 ACTING CHAIR ARMSTRONG: No
5 objection?

6 MR. AURIEMMA: No objection.

7 ACTING CHAIR ARMSTRONG: We will
8 admit exhibits those as P-87A and P-88A.

9 (P-87A and P-88A were marked into
10 evidence)

11 ACTING CHAIR ARMSTRONG: Anything
12 further with regard to exhibits?

13 All right, Mr. Ribis, if you are
14 ready to proceed.

15 MR. RIBIS: Thank you, Chair
16 Armstrong and Commissioners.

17 As the Commission is aware, today is
18 the return date of the petition filed by three Trump
19 casinos, the Castle, the Plaza and Taj Mahal, as well
20 as Trump Hotel Management Corporation, seeking the
21 approval of the transaction between those entities,
22 Donald J. Trump and the bank group which all the
23 documents have previously referred to. I have been
24 informed that the Credit and Override Agreements have
25 been executed in counterparts by Mr. Trump and the

1 various financial institutions and those documents are
2 now being held in escrow by the parties pending the
3 Commission's consideration of this transaction with a
4 closing anticipated immediately upon the completion of
5 this hearing. As the Commission well knows from the
6 submissions before it and due to the current financial
7 condition of the Trump organization, it is imperative,
8 if possible, that the Commission complete this hearing
9 as soon as possible.

10 The Credit and Override Agreements
11 should be approved because the 65 million dollar new
12 money facility provided by the banks and the deferral
13 of up to 85 million dollars annually in obligations
14 for three to five years will provide additional
15 liquidity to Donald Trump and his companies and ease
16 the payment and other terms of existing indebtedness.
17 Therefore, the restructuring will enhance the current
18 financial stability, not only of Donald Trump, but
19 also of the Atlantic City casinos.

20 I submit that we are here today to
21 consider the approval of the transaction and
22 specifically the license condition which requires the
23 Trump casinos to receive prior Commission approval of
24 the equity liens which will be granted to the banks on
25 Mr. Trump's casinos by these transactions. This is

1 just a short summary of why we are here today.

2 As a backdrop to this I will more
3 specifically detail the background of this transaction
4 for the Commission. In early May the Trump
5 organization began experiencing severe financial
6 problems as a result of cash flow shortages. As
7 contained in the documents before the Commission the
8 Trump organization through its various asset purchases
9 had borrowed more than three million dollars.
10 Unfortunately, many of these assets although having
11 substantial asset value, became cash drains to the
12 Trump organization during the construction and
13 completion of the Taj Mahal Casino Hotel which
14 required Mr. Trump to use available cash and credit
15 lines from the Trump organization for its completion.

16 Further, anticipated business
17 transactions were not completed. A depressed real
18 estate market in the northeast caused the further
19 deterioration of the New York real estate marketplace,
20 and the softening of the casino marketplace caused Mr.
21 Trump to commence discussions with the bank group
22 relating to his financial condition.

23 In order to deal with the impending
24 critical cash shortfall, Mr. Trump in May retained the
25 accounting firm of Kenneth Leventhal & Company to

1 represent him in negotiations with his lending
2 institutions and for the preparation of a report with
3 respect to his current financial condition. At that
4 time certain bank debt and bondholder payments were
5 rapidly coming due for payment and without a
6 forbearance by several banks defaults would have
7 occurred in June and July of this year.

8 The discussions with the banks were
9 lengthy and complex. They culminated on June 26 with
10 an agreement in principal for a 65 million dollar new
11 money facility and the totaling of defaults and a
12 deferral of current debt obligations in various
13 interests and principal on--on various interests and
14 principal which would amount to 85 million dollars in
15 the first year of the loan agreement and in excess of
16 85 million dollars a year during the term of the
17 agreements. Although formal documents were not
18 executed, a 20 million dollar bridge loan was extended
19 to the Trump organization on June 26 which was used in
20 its entirety to meet interest in sinking fund payments
21 due on Castle bonds. Since that time, the banks and
22 Mr. Trump have been finalizing the documents which the
23 Commission is considering today. The documents
24 include a Credit Agreement and an Override Agreement.

25 Although Mr. Cerabino of the law firm

1 of Willkie, Farr & Gallagher will testify in great
2 deal with respect to each of these documents and their
3 effect on the Trump organization, I will briefly
4 outline the terms of each agreement for you.

5 The Credit Agreement provides for a
6 65 million dollar new money facility. There are seven
7 banks which are parties to that agreement the lending
8 banks are First Fidelity, Midlantic, NatWest Bank,
9 City Bank, Bankers Trust, Chase Manhattan and
10 Manufacturers Hanover. The use of the proceeds of
11 this loan are to be in accordance with a June 14
12 Leventhal report as updated on August 15. This 65
13 million dollar new money facility includes the 20
14 million dollars advanced by the banks in June for the
15 payment of a sinking fund obligation on the Castle
16 bonds.

17 The Credit Agreement has a three year
18 term and provides for a two year extension period and
19 is secured by certain assets of Mr. Trump including a
20 second priority equity lien on Mr. Trump's three
21 casinos.

22 The Override Agreement is the basic
23 agreement to affect the restructuring of approximately
24 one billion dollars of existing debt including 850
25 million dollars of debt which Mr. Trump personally

1 guaranteed. The parties to the agreement are the
2 seven banks as earlier noted, Marine Midland and
3 Boston Safe.

4 The principal features of the
5 Override Agreement are the following: One, principal
6 and interest are deferred on certain existing debt for
7 periods generally ranging from three to five years
8 with Mr. Trump able to achieve substantial discounts
9 if deferred interest is paid prior to the end of the
10 deferral period.

11 Two, each bank has agreed not to
12 enforce any claim against Mr. Trump personally for
13 five years.

14 Three, the banks are totally in
15 compliance with certain covenants in existing loans
16 which currently could be events of defaults.

17 Four, the banks will receive specific
18 collateral for their existing loans and are granted
19 junior liens on collateral securing the new money
20 facility.

21 Five, the banks will receive as part
22 of the transaction which includes their tolling of
23 current defaults and deferral of interest and
24 principals a deferred facility fee.

25 Again, Mr. Cerabino will discuss this

1 agreement in substantially more detail shortly.

2 The Override Agreement does
3 specifically relate to the New Jersey casinos and
4 provides for deferrals in the following loans:

5 One, a 75 million dollar First
6 Fidelity loan to Trump Taj Mahal Realty Management
7 which has--will have a principal in deferral
8 interest--principal deferral for five years, excuse
9 me, and an interest deferral for three years to the
10 extent those funds are needed for Taj operations.

11 Two, a 13 million dollar Midlantic
12 loan to the Castle will have principal deferred for
13 five years.

14 Three, a seven million dollar loan to
15 Trump Plaza will have principal and interest deferred
16 for a five year period.

17 Four, a 19 million dollar NatWest
18 letter of credit referring to the Penthouse
19 acquisition will have principal and interest deferred
20 for five years if the letter of credit is drawn upon.

21 It also should be noted that there is
22 a five year moratorium on all casino related
23 indebtedness which is recourse to Mr. Trump.

24 These new agreements provide for
25 liens on Mr. Trump's equity and his three casino

1 properties which must be approved by this Commission.

2 Certainly as the testimony will
3 illustrate, without the tolling of the current
4 defaults as to outstanding indebtedness without the
5 funds that will be available from the new money
6 facility and the deferrals provided for by the
7 Override Agreement, the stability of the Trump
8 organization will be in considerable immediate
9 jeopardy. This transaction provides for an immediate
10 infusion of badly needed cash funds and deferrals
11 which will immediately stabilize Mr. Trump's business
12 operations.

13 Testimony will indicate that although
14 this transaction does not resolve immediately all of
15 Mr. Trump's financial problems, it does provide for a
16 realistic opportunity to resolve these problems on a
17 going forward basis.

18 Now looking to the future, the Trump
19 organization has hired Steven Bollenbach as their
20 senior financial officer. As the Commission is aware,
21 Mr. Bollenbach has substantial experience not only in
22 the casino hotel arena through his previous
23 employment, but also substantial experience with
24 respect to financial restructurings. Mr. Bollenbach
25 will testify with regard to the resolution of Mr.

1 Trump's upcoming casino debt payments and the
2 implementation of a business plan to deal with the
3 current situation. Further, Mr. Trump has retained
4 the investment banking firm of First Boston with
5 relation to his Atlantic City properties. I submit
6 that on balance the Commission after consideration of
7 the documents and testimony to be presented will
8 permit this transaction to go forward and close as
9 soon as possible and approve the specific request
10 delineated in the petition previously filed with the
11 Commission.

12 Thank you very much.

13 ACTING CHAIR ARMSTRONG: Thank you,
14 Mr. Ribis.

15 Mr. Auriemma, do you have any opening
16 comments?

17 MR. AURIEMMA: Yes, I do.

18 Members of the Commission, we are
19 here today as a result of a petition filed on July 30,
20 1990 by various Trump entities. The Division of
21 Gaming Enforcement has answered the petition by its
22 two filings of August 13, 1990 which has been admitted
23 into evidence earlier today. Those filings are a 27
24 page response to the petition and a 111 page financial
25 analysis of the Trump organization.

1 As is evident by now, this brings the
2 much publicized financial problems of Donald Trump and
3 his organization have resulted in the complex
4 agreements that are before you today for approval. In
5 June an interim accord was reached which permitted
6 seven major American banks to immediately loan 20
7 million dollars to avert a crisis at the Trump's
8 Castle which had defaulted on its public bonds.
9 However, the problems within the organization were and
10 still are very severe necessitating the major
11 renegotiation of massive debt. Intense discussions
12 occurred with the resultant agreements allowing 65
13 million dollars of new bank money to be loaned to Mr.
14 Trump, the 20 million dollars already advanced and 45
15 million dollars more. This money, as you know, as Mr.
16 Ribis said, is being loaned pursuant to the Credit
17 Agreement.

18 The cause of the financial crisis
19 which has struck the Trump organization is the sheer
20 volume of debt borrowed from lending institutions or
21 from the public through the sale of bonds. The amount
22 borrowed by Mr. Trump or related entities in this
23 manner to finance the various assets of the
24 organization exceeds three billion dollars. Certain
25 assets were unable to produce sufficient cash to

1 service the debt upon them, thereby becoming cash
2 drains on the organization. The casinos and, in
3 particular, Trump Castle in the spring did not produce
4 sufficient excess cash to allow Mr. Trump to rectify
5 such a shortfall. Planned sales of assets such as the
6 Trump Shuttle Airline, Trump Princess yacht or an
7 equity interest in the Plaza Hotel in New York did not
8 come to fruition, thereby depriving the organization
9 of badly needed cash. The slumping real estate market
10 affected the possible sale of other assets. Just as
11 this cash shortage was becoming acute, certain debts
12 were maturing or otherwise requiring payment.

13 In June obligations on Trump's Castle
14 bonds as well as a Donald Trump personal loan became
15 due. In July the 36 million dollar working capital
16 loan secured by the Grand Hyatt property in New York
17 City and the 63 million dollar loan to Mr. Trump
18 personally became due. Simply put, neither Mr. Trump
19 nor his organization had available cash to meet all of
20 these obligations. Further borrowings at that point
21 were impractical.

22 This cash shortfall is what
23 subsequently led to the bank negotiations which, as I
24 just noted, culminated in the Credit Agreement and
25 Override Agreement and other related documents.

1 Maturing obligations which precipitated the
2 negotiations, except for the Castle bond payment, were
3 deferred. The Castle bond payment was made
4 principally from the funds from the 20 million dollar
5 bridge loan which is to be repaid from the funds
6 provided by the Credit Agreement. It should thus be
7 apparent that without approval of the Credit and
8 Override Agreements Mr. Trump or entities within his
9 organization would today be in default on several
10 major obligations.

11 In return for the fresh capital
12 contemplated by the banking board Mr. Trump will
13 provide pledges of his ownership interest in the three
14 Trump Atlantic City casino hotels and certain
15 affiliated entities in order to secure his obligations
16 relating to this capital infusion. In addition, the
17 Override Agreement negotiated with the seven lending
18 institutions and two other banks will provide for a
19 deferral by the Trump organization certain principal
20 and interest payments for three to five years as well
21 as under certain circumstances a moratorium by the
22 nine banks on the assertion of any claims against Mr.
23 Trump personally for five years.

24 Mr. Trump's new obligations under the
25 Override Agreement likewise will be secured by his

1 equity interest in the casino entities. Also,
2 additional pledges of ownership in Trump Plaza
3 Associates entities, Trump Castle Associates entities
4 and Trump Taj Mahal Associate entities will secure
5 certain existing, but not now collateralized debt
6 obligations.

7 Under the agreements negotiated with
8 these banks the Trump organization, Mr. Trump
9 personally, must embark upon fundamental changes since
10 a comprehensive business plan needs to be formulated,
11 a new chief financial officer needs to be selected,
12 which, as you know, has just occurred, and a
13 substantial fiscal reporting requirement system
14 implemented. There are also strong incentives in the
15 agreement to dispose of organization assets thereby
16 repaying some of the bank debt. The Division would
17 like to emphasize at this time that even if these
18 agreements are approved and strictly adhered to by the
19 parties they do not and will not bring to a conclusion
20 the financial difficulties facing the Trump
21 organization. Rather, the agreements offer simply the
22 prospect of immediate relief without which the fiscal
23 stability of the organization must be seriously
24 questioned.

25 The Division's financial analysis of

1 the Trump organization, which is now D-2 in evidence,
2 has comprehensively analyzed the financial health of
3 the organization. Needless to say, as we commence
4 this hearing, the organization is in dire straits.
5 Several of the Trump casinos have debt obligations due
6 either in the immediate future or within less than a
7 year that in the Division's view cannot be satisfied.
8 Additionally, there are numerous other entities within
9 the Trump organization which currently have a cash
10 draining nature. It is against this backdrop that the
11 Commission must weigh the request of the petitioners
12 to approve these agreements and grant the relief
13 sought.

14 Thus, in evaluating these agreements
15 and their impact upon the New Jersey regulatory
16 structure and the Trump casinos, we believe the
17 Commission should weigh the potential benefits of the
18 Credit and Override Agreements versus the concerns
19 that we have raised in our response to the petition
20 and thereby determine if the strictures and policy
21 dictates of the Casino Control Act are being
22 satisfied.

23 More precisely, we believe that the
24 Commission should carefully consider the additional
25 liquidity which will result from the infusion of new

1 money and the deferral of payments as well as the
2 potential stability which could result--which could be
3 the result, excuse me, as a result of the moratorium
4 against the nine lenders asserting a claim against Mr.
5 Trump personally. In conjunction with these benefits,
6 we believe the Commission should thoroughly examine
7 the business controls that are imposed upon the Trump
8 organization by the Credit Agreement as well as the
9 value to the organization of the retention of the
10 nationally recognized accounting firm and the recent
11 employment of an experienced chief financial officer,
12 a position which we believe is long overdue within the
13 company.

14 Further, in reviewing the potential
15 benefits of these proposed agreements, it would seem
16 in the Division's estimation that the possibility of a
17 complete financial collapse of the Trump organization
18 is not out of the question. That collapse could be
19 far reaching and include not only such things as a
20 personal bankruptcy for Mr. Trump, but foreclosure
21 and/or bankruptcies of affiliated entities including
22 one or all of the Trump casino hotels.

23 On the other hand, this is not to say
24 that the agreement submitted to the Commission should
25 be approved without a thorough and searching

1 scrutiny. For example, we expect the petitioners,
2 among other things, would address themselves to a
3 number of issues outlined in the Division's responsive
4 filing as well as outlined in exhibit C-1 which is the
5 Commission staff report. Those issues include, but
6 are not limited to, the ability of the organization to
7 operate on an ongoing basis. We know, for instance,
8 that the most significant problem faced by the three
9 Trump casinos debt service on mortgage bonds is not
10 part of a moratorium or debt deferral. However, as
11 has been recently announced, we have also learned that
12 First Boston Corporation has been retained by the
13 organization to examine the question of casino debt as
14 opposed to the current bank debt that we are talking
15 about today and assist the organization in resolving
16 these upcoming financial problems. Further, the
17 impact of collateralizing Mr. Trump's equity in his
18 casino hotels must be explored as must the future role
19 of the lending institutions and the operations of the
20 Trump organization.

21 In a larger sense, we know that the
22 bank agreement by itself will not resolve all the
23 financial troubles confronting Mr. Trump personally,
24 his Atlantic City properties in particular or on a
25 broader scale his organization. In the Division's

1 view these agreements should be evaluated in the
2 following fashion: That it seemingly makes economic
3 sense to break up the organization, sell parts of the
4 business that are more valuable outside the company,
5 shrink overhead and focus the energies of the
6 organization on a few core operations. The proceeds
7 generated by these overdue restructurings can then be
8 used to reduce debt to more sustainable levels
9 creating, in turn, what will hopefully be a leaner
10 more efficient and competitive organization. However,
11 if this is to occur, it should not be at the expense
12 of the three casino hotels. While several factors
13 have contributed to its troubles, the over leveraging
14 of this organization, particularly in its recent
15 acquisition of noncasino assets, has created the
16 crisis atmosphere wherein debt service payments cannot
17 now be satisfied out of operating cash flow and has
18 forced the company to rethink its entire strategy and
19 capital structure. In this case excessive debt has
20 acted as a powerful agent for change and ironically
21 has served as a break on management mistakes. It may
22 very well be that the greatest hope for preserving the
23 remaining value lies in a quick and efficient workout
24 process or as some have called it a private ties
25 bankruptcy of sorts outside the courtroom.

1 The success of this restructuring
2 will undoubtedly depend upon the skill and experience
3 of the officers and managers of the Trump
4 organization. In this regard we emphasize that the
5 rapid personnel changes that have become a routine
6 occurrence throughout the organization are a cause for
7 concern and a proper subject of this proceeding.
8 Documents submitted into evidence today are lengthy
9 and technical. Because of the very short time frame
10 that is requested by petitioners for review, the
11 burden on them falls heavier than is usually the case
12 to slowly, comprehensively and clearly explain the
13 meaning of these agreements to the Commission.
14 Otherwise, the Commission will be left with questions,
15 but no hard answers.

16 In sum, because of circumstances
17 beyond control of the regulatory agency, the time now
18 seems right for a full and complete review of these
19 agreements so that the Trump organization can have the
20 opportunity to satisfy us that the policies of the Act
21 and the public interest would be well served by
22 approval of these agreements.

23 Thank you.

24 ACTING CHAIR ARMSTRONG: Thank you,
25 Mr. Auriemma.

Cerabino - Direct by Mr. Ribis

1 Mr. Ribis.

2 MR. RIBIS: I would like to call my
3 first witness. I would like to call Thomas Cerabino.

4 T H O M A S M. C E R A B I N O, having been first
5 duly sworn, testified as follows:

6 DIRECT EXAMINATION

7 BY MR. RIBIS:

8 Q Mr. Cerabino, tell the Commission where
9 you are employed.

10 A Thank you.

11 Good morning. My name is Tom
12 Cerabino. I am a partner in the law firm of Willkie,
13 Farr & Gallagher. We have been directly involved for
14 the past three months in the negotiation and
15 preparation of the documents that are before you
16 today. We acknowledge the complexity of these
17 documents and greatly appreciate the effort devoted by
18 the staff of the Commission and the Division of Gaming
19 Enforcement in coming to grips with the issues raised
20 here.

21 I will say that while complex, there
22 are a couple of basic principles underriding these
23 agreements, which I think Mr. Ribis has pointed out,
24 which are key to an understanding and appreciation of
25 what they are trying to accomplish. The restructuring

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1 is affected--

2 Q Tom--

3 ACTING CHAIR ARMSTRONG: I think the
4 question was where are you employed.

5 MR. RIBIS: He reminds me of some
6 other witnesses that won't be testifying today.

7 ACTING CHAIR ARMSTRONG: We won't get
8 into that.

9 A I think I covered that somewhere.

10 Q You represented Mr. Trump for too long.

11 ACTING CHAIR ARMSTRONG: You work for
12 Willie, Farr & Gallagher.

13 MR. RIBIS: I think the question was
14 answered. I was ready to sit down.

15 BY MR. RIBIS:

16 Q Mr. Cerabino, your law firm has
17 represented Mr. Trump in various corporate and
18 litigation matters for a number of years now, has it
19 not?

20 A We have represented the Trump organization
21 on various matters over the past two years.

22 Q And you are familiar generally with the
23 Trump organization and its structure?

24 A Yes, I am.

25 Q I became more familiar during the course

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1 of this transaction?

2 A Certainly.

3 Q Now, as you have heard from the Commission
4 and, as you know, there are numerous agreements and
5 there are a level of complexity and this Commission is
6 very interested in knowing the agreements as well as
7 you and the lawyers from the other New York law firms
8 and so let's start with an overview of the
9 restructuring. Let's start there if we could.

10 A Sure.

11 Q Thanks, Tom.

12 A As I began to say prematurely, the
13 restructuring is affected through the two main
14 agreements, the Credit Agreement and the Override
15 Agreement.

16 The Credit Agreement is the document
17 under which 65 million dollars of new capital is
18 injected into the Trump organization to be used in
19 accordance with the business plan, as has been
20 identified by Mr. Ribis, and is encompassed in the
21 Kenneth Leventhal report.

22 The Override Agreement is the basic
23 document which provides for the restructuring of
24 approximately one billion dollars of existing debt
25 obligations, and the basic concept of the Override

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1 Agreement and the Credit Agreement are a concept of
2 deferral of existing principal and interest
3 obligations which directly lessens the financial
4 obligations of the organization.

5 Secondly, the moratorium is an
6 agreement on the part of these banks not to assert for
7 a five year period or enforce any claims against
8 Donald Trump personally with respect to the
9 obligations under these agreements. That is true even
10 if the agreements are in default, even if the lenders
11 under their documents as amended have a right to move
12 against a specific asset involved. The deferral and
13 moratorium features of the Override Agreement are
14 critical to the stability that we think is enhanced by
15 virtue of these agreements.

16 Q Can we step back for a minute? Can you
17 describe at the time that you became involved in this
18 transaction the state of the financial structure and
19 potential defaults under other existing obligations of
20 the Trump organization?

21 A Yes. It is from our review of the
22 existing agreements and the documentation prepared by
23 the Kenneth Leventhal firm, there are a number of
24 existing debt obligations of Mr. Trump personally that
25 are covered by this agreement that would have imminent

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1 payments of principal and interest and, therefore,
2 would require treatment in some way in terms of a
3 deferral. Otherwise, the banks under those agreements
4 would have a right immediately to demand payment of
5 those obligations and, assuming payment wasn't made,
6 to seek to enforce its right to payment against all of
7 Mr. Trump's assets subject to any liens that are in
8 existence today.

9 Q Would that have included the casino assets
10 in Atlantic City?

11 A Yes, absolutely. The equity interests in
12 the casinos which at present are unincumbered are
13 nonetheless an asset of Mr. Trump's and, therefore,
14 subject to claims of creditors generally. This
15 agreement merely protects that equity from the claims
16 of this group of contractor creditors in the sense
17 that we have lessened or hopefully eliminated the
18 possibility of defaults under these agreements that
19 could be used as a basis for asserting those claims.

20 Now, as Mr. Ribis has stated, there
21 are a number of obligations which are not part of the
22 Override Agreement and I think the two basic
23 categories of agreements that are not covered are
24 existing first mortgage obligations principally on
25 many of the underlying assets.

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1 For example, the first mortgage at
2 Trump Tower. It is the expectation that those first
3 mortgage obligations will be serviced currently out of
4 the cash flow of the particular assets and there was
5 no need beyond the deferrals of certain of those that
6 are addressed in here, there was no need to defer
7 principal and interest or seek a moratorium on those
8 obligations.

9 Obviously, the other major category
10 of existing debt which isn't covered by these
11 agreements is the publicly held mortgage bonds at the
12 casino level. I think to date all of the payments
13 made on those bonds--all required payments have been
14 made on each of those bonds. They are not currently
15 in default and it was necessary to address the
16 imminent defaults that would be presented by the other
17 agreements which are covered by this. So what we have
18 done is created a framework where we have alleviated
19 the pressure of defaults or pending defaults on a very
20 large amount of debt personally guaranteed or under
21 which Mr. Trump is direct obligor to permit us to move
22 forward and address the other issues that exist.

23 Q Now moving forward, the first agreement I
24 would ask you to describe in as much detail as you
25 feel is necessary is the Credit Agreement. We have

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1 all talked about it and Commissioner Armstrong
2 precisely summarized it, but there are many terms and
3 conditions and covenants and rather than interrupting
4 you as we go through this, why don't we just let you
5 go on a narrative of that.

6 A Okay, the Credit Agreement is a commitment
7 on the part of these seven banks to lend 65 million
8 dollars. As has been mentioned, 20 million dollars
9 has already been advanced in June. Those were the
10 funds necessary to satisfy the sinking fund obligation
11 at the Castle. While that 20 million dollars has
12 already been advanced, it is, in effect, part and
13 parcel of this restructuring. The monies were
14 advanced only after an initial term sheet was
15 initialed by the banks to go forward with the
16 restructuring and, therefore, I think it's very
17 important to recognize the fact that without a
18 restructuring, or the possibility of a restructuring,
19 we would not have attained the 20 million dollars. So
20 while we have a new 65 million dollar facility, in
21 essence, it includes the 20 million dollars that has
22 already been advanced and provides for additional
23 borrowings of up to 45 million dollars.

24 The loans that are made under the
25 Credit Agreement are due, the Credit Agreement has a

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1 three year term, as has been mentioned. There are
2 certain provisions for mandatory prepayments of
3 amounts advanced under the Credit Agreement which I
4 will touch on, but the basic maturity date of the
5 loans advanced under the Credit Agreement is June of
6 1993. At that time the Trump organization is
7 permitted to submit a business plan for the next two
8 year period and to obtain, if that business plan is
9 found acceptable to the banks, an additional two year
10 extension on that revolving credit facility. It is
11 our expectation and hope that the revolving credit
12 facility will be a five year credit facility.

13 The lending banks as mentioned, or
14 Banker Trust Company, which will make 28 percent of
15 the loans, City Bank which will make 28 percent of the
16 loans, Chase which--whose share is approximately 13.8
17 percent, Manufacturers Hanover Trust Company,
18 approximately 10 percent, First Fidelity,
19 approximately eight percent, NatWest approximately
20 seven percent and Midlantic National Bank for the
21 balance which is approximately three percent.

22 MR. RIBIS: Would you mind, Madam
23 Chair, if I sat down? I have a little back problem
24 because I think it will be lengthy and I have a little
25 twinge if you don't mind.

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1 ACTING CHAIR ARMSTRONG: No problem.

2 MR. RIBIS: Sorry for interrupting.

3 A As I mentioned, the Credit Agreement has a
4 three year term with the possibility of a two year
5 extension. The mandatory reduction of borrowings
6 under the Credit Agreement would occur on--if capital
7 events occur, and by that I mean sales or refinancings
8 or issuances of equity at the various entities where
9 there are required prepayments under some very
10 detailed provisions in the Credit Agreement to be
11 paid. However, the company retains the ability
12 instead of paying down the revolver and losing the
13 ability to draw back those funds to post LCs or
14 various forms of cash collateral, and basically these
15 detailed provisions are in there to permit us to have
16 a five year revolving credit facility so that we can
17 borrow, pay down funds and reborrow those funds and
18 provide a continuing source of liquidity throughout
19 this period.

20 As mentioned, the loans are going to
21 be secured by a basket of assets including a lien on
22 the equity in each of the casino partnerships. There
23 are various priorities being granted with respect to
24 those liens which I will touch on a little bit later.

25 The other assets that are being used

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1 to secure that loan are certain real estate interests
2 in New York, the Trump Princess yacht, the 727
3 aircraft, various other assets which are necessary or
4 were necessary to be pledged in order to get new money
5 injected into this situation.

6 The other assets that are being
7 pledged, two other assets that are being pledged
8 include existing note obligations from the Taj and
9 from the Castle to Mr. Trump; namely, an existing 25
10 million dollar note that represents the note that Mr.
11 Trump has for injecting 25 million dollars of working
12 capital into the Taj which was done in April I believe
13 and an existing two million dollar note which
14 represents a repayment obligation on two million
15 dollars that was funded by Mr. Trump into Trump's
16 Castle.

17 The Credit Agreement contains a
18 number of representations and warranties which are
19 customary for new money bank loans. These are things
20 like title to assets, due incorporation, due
21 authorization of the agreements. I think that the
22 representations and warranties here while they go on
23 for pages are very customary representations that are
24 intended to insure that the agreements are binding,
25 that the borrower has title to his assets, that he is

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1 properly insured and those representations and
2 warranties are there to elicit those facts.

3 A number of covenants, both
4 affirmative and negative covenants are included in the
5 agreement. The affirmative covenants include
6 requirements that I would, again, list as very, very
7 customary in loan transactions; namely, that he will
8 comply with the law, that he will maintain insurance,
9 and keep proper books and records and things of that
10 nature.

11 There is a covenant that deals with
12 the distribution of cash from the operating company
13 levels up to Mr. Trump, and I would like to explain
14 that in a little bit of detail. The agreement
15 requires that if there is any cash in excess of
16 amounts that are necessary to meet the operating needs
17 of the various operating companies that those funds be
18 distributed up so that any excess cash can be used
19 where necessary or to pay down debt.

20 With regard to the casino entities,
21 we specifically dealt with the issue of retaining cash
22 at the casinos, and the agreements as presently
23 drafted permit the casinos to retain any cash that
24 cannot be distributed under the existing bond
25 indentures, and that also permits the company to

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1 retain any cash that is required to be retained under
2 the Casino Control Act or by any order of the Casino
3 Control Commission or the Division of Gaming
4 Enforcement. To the extent that cash is upstreamed
5 from the various assets up to Mr. Trump, there is a
6 provision in the loan for a repayment of borrowings
7 under the revolving credit by that excess cash, and
8 for this purpose the excess cash means anything that
9 is left, any cash balance at the end of the month in
10 excess of a 10 million dollar basket amount that is
11 available to satisfy the ongoing needs of the
12 organization. That cash sweep, if you will, commences
13 in February of 1991, and really all it does is it pays
14 down the revolving borrowings--the borrowings, but
15 since this is a revolving loan, the borrower is
16 entitled to immediately thereafter redraw amounts as
17 necessary.

18 So we believe that this covenant, A,
19 permits the companies to retain the necessary cash
20 that they need to run their business in the ordinary
21 course and provides enough liquidity to us in the form
22 of an existing revolving credit facility where we can
23 continually borrow, pay down and reborrow.

24 A separate covenant deals with the
25 use of the proceeds of these loans and essentially the

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1 loan proceeds. Permissible uses of the loans are in
2 accordance with the Kenneth Leventhal business plan,
3 which is a very detailed report, on each corner of the
4 organization and demonstrate where cash is necessary,
5 where liquidity has to be injected into various
6 operations, and basically the Credit Agreement
7 specifies that funds drawn on this Credit Agreement
8 must be used in accordance with this business plan.

9 A covenant which was satisfied
10 yesterday by Mr. Bollenbach's arrival at the Trump
11 organization was the appointment of a senior executive
12 officer and that is in the document and, as I
13 mentioned, has been satisfied before the document even
14 is affected.

15 A separate set of covenants deals
16 with the provision of extensive financial reporting to
17 the various banks, and essentially the reporting
18 involves the preparation of monthly, quarterly and
19 annual statements that detail in a very great level of
20 detail the existing financial picture of each of the
21 entities that are covered by this plan and also
22 requires that on an annual basis a new business plan
23 be adopted and submitted to the banks. A separate
24 covenant requires the delivery within 90 days of a
25 strategic business plan which is, again, a more long

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1 range estimate of an operating plan for these
2 companies.

3 So I think in summary there is a
4 very, very detailed comprehensive set of financial
5 reports that will be generated henceforth concerning
6 all of these assets and that information will be
7 delivered to each of the banks who is a party to this
8 arrangement.

9 I will say that there are no
10 financial covenants in this document and I will
11 explain for a minute why I think that is significant.
12 There is a covenant that keys into--there is a
13 covenant that is designed to measure the compliance
14 with the business plan on an ongoing basis and that is
15 a covenant which looks at the cash balances at the end
16 of each month in each business plan and requires that
17 we be within a certain--within a certain cushion
18 amount, within a range of that number. We obviously
19 thought a lot about that covenant and that was drafted
20 and then negotiated with a view toward our becoming
21 comfortable that we could comply with that covenant.
22 However, there are no other covenants in the document
23 which measure things like net worth or other measures
24 that could create default situations as are customary
25 in loan agreements. We don't have, as I say, a net

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1 worth covenant. We don't have an interest coverage or
2 fixed charge coverage type covenant. So I think we
3 have a document which basically says we have to live
4 within these limits in accordance with this business
5 plan.

6 There are a number of negative
7 covenants which deal with restrictions on the ability
8 of the various entities to do various things; namely,
9 the incurrence of additional debt, the placing of
10 additional liens on assets, the--our ability to invest
11 funds that may be available in investments of any
12 kind, the ability of the organization to have
13 transactions with other affiliated companies.

14 There are covenants also that relate
15 to the sale of assets or equity interests in the
16 various companies.

17 Now, let me point out the following:
18 There is no restriction other than what I will cover
19 in a moment on the ability to sell assets. The only
20 requirement in the Credit Agreement is the requirement
21 that that sale be on commercially reasonable terms and
22 we would be required to apply proceeds from that sale
23 in accordance with this agreement. However, there is
24 no restriction at all on our ability to obtain
25 additional liquidity, if you will, through asset sales

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1 and, in fact, as--when we speak about the Override
2 Agreement I think it will be a significant fact
3 because I think, as pointed out, the structure of the
4 Override Agreement and the Credit Agreement is
5 intended to encourage the sale of assets as a means of
6 obtaining liquidity throughout the system.

7 Asset sales then and equity issuances
8 are permitted as long as we apply proceeds in
9 accordance with the agreement. There is an issue as
10 to the issuance of equity at the casino entities which
11 I will cover, but as a general rule there is no
12 prohibition on those transactions. The proceeds of
13 those sales after any required repayments of debt are
14 made, and that would include any first mortgage
15 obligation, any other indebtedness not covered by
16 these agreements that is required to be repaid by its
17 terms must be repaid before any net cash proceeds go
18 up from there. Once if there are net proceeds
19 available from those sales they will either reduce
20 borrowings under the credit facility or collateralize
21 the obligations of the banks for the loans that are
22 outstanding on the facilities. This latter point is
23 what permits us to keep the revolver outstanding for
24 this five year period. We can do extensive sales, we
25 can take the proceeds, collateralize the LC and retain

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1 our ability to borrow and reborrow these funds.

2 The provisions regarding defaults and
3 what are called foreclosure events in the document are
4 lengthy. I know we have had several conversations
5 with your staff about these, and I think I would like
6 to spend some time in going through this because I
7 think it is very important to understand the entire
8 arrangement.

9 We have a series of events in this
10 agreement that could become an event of default. If
11 there is an event of default, that could give the
12 lenders a right to require repayment of the loans made
13 under this agreement or terminate the credit
14 facility. In light of the fact that we fully expect
15 to have this facility available and it's important for
16 our--the ongoing stability of the company, we
17 negotiated very hard on these provisions and the
18 structure that evolved was the following: No event
19 that occurs within the list of events of defaults that
20 I will outline, no event is automatically an event of
21 default other than a personal bankruptcy of Mr.
22 Trump. If any other event occurs that comes within
23 the definition of one of the possible events of
24 default, there is a mechanism that is designed to
25 ensure a very deliberate consideration of that event

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1 and the consequences of that event not only by the
2 company, but by the entire bank group to insure that
3 there isn't any event which automatically has an
4 effect that cascades throughout the various operating
5 companies.

6 Q Can I just stop you there. Just mirror
7 that against where we would be if there is no
8 agreement. What is this so the Commission can
9 understand these events of default and the new
10 arrangement and the events what would happen if an
11 event of default happens now.

12 A Today there are a series of separate
13 distinct loan agreements with each lender, each lender
14 that is a party here. They all have their own events
15 of default. They all have their own collateral or
16 some of them are unsecured. There are events which
17 could be construed to constitute or give an argument
18 that there are events of default under covenants that
19 there are material adverse change clauses, alternative
20 kind of conditions in the existing documents. If any
21 of those lenders were to conclude that anything that
22 has occurred to date constitutes an event of default
23 under those agreements, they could call a default.
24 They could go against not only the collateral for
25 their loan, but seek to get a judgment and enforce

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1 that judgment against all of Mr. Trump's or any of Mr.
2 Trump's personal assets, including the equity in the
3 casinos, and basically we have today an arrangement
4 where individual lenders making individual decisions
5 each having their own considerations in mind would act
6 accordingly.

7 What this agreement and the Override
8 Agreement does, it imposes a discipline, it imposes an
9 order to that process and it's intended to insure that
10 actions by individual lenders who for whatever reasons
11 may be inclined to pull the plug, that that doesn't
12 happen, and it really was a critical part of the
13 agreement from our perspective.

14 I will detail briefly what that
15 protection is as part of our agreement. If an event
16 occurs that is--could be an event of default, there is
17 a procedure under which a notice would go out to the
18 lending group.

19 Within 20 business days of the date
20 that notice is sent two things can happen: First,
21 two-thirds of the banks can decide that that event is
22 material enough that they will declare an event of
23 default, that that takes a two-thirds vote of the
24 lenders and it's not two-thirds in numbers, it's
25 two-thirds measured by commitment amounts. If within

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1 that 20 days--or within that 20 days if we can
2 convince one-third, one-third of the banks that that
3 event isn't material enough to warrant the drastic
4 action of calling the event a default, then that
5 default will be waived and will not thereafter
6 constitute a basis to accelerate these loans, to
7 terminate the moratorium under the Override Agreement
8 or take any other action with respect to those
9 events. If within that 20 business day period there
10 isn't either two-thirds electing to declare a default
11 or one-third electing to waive, a second ballot goes
12 out. That second ballot says the results of the first
13 ballot were inconclusive and here is a second proxy to
14 ask you what your vote is on this event. That second
15 proxy unless two-thirds affirmatively say that this
16 should be an event of default, it is--it constitutes a
17 waiver. In other words, even if we don't have signed
18 waivers by one-third, the inaction of two-thirds of
19 the banks to declare this a default will constitute a
20 waiver of that default and thereafter may not be used
21 as a basis for claiming a default.

22 From my perspective that is a
23 substantial protection. It is very unusual in my
24 experience, and I have represented borrowers and
25 lenders in a number of loan transactions, it is very

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1 unusual to have a one-third waiver provision and
2 provisions which effectively preclude a majority or
3 could preclude a majority of the lending institutions
4 party to an agreement to exercise remedies, and we
5 feel that that is a substantial protection and
6 introduce a substantial order in the process and,
7 again, because it is one-third of the commitment
8 amount, that could be as few as two banks out of the
9 seven who will give us a waiver if asked for.

10 Q Tom, can I interrupt you for a second.
11 Just so it's easier, could we talk about let's assume
12 a default, for example, of a covenant relating to the
13 second mortgage on the Plaza Hotel, obviously the
14 Commissioners are interested how does that effect New
15 Jersey and the equity and now that we know, now you
16 have the procedures set down, maybe you could use a
17 couple of examples, specific examples to assist the
18 Commission.

19 A Sure. It's important to know what is or
20 isn't an event that could become an event of default.
21 If we assume there has been a material adverse change
22 or a default on one of the Plaza loans, for example,
23 Plaza Hotel in New York, a nonAtlantic City asset, if
24 that event constitutes an event which could give rise
25 to a default, and in many cases it would, we go

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1 through the balloting procedure that we have described
2 here. The agent would send out a notice and say the
3 company has notified us that there is a failure to pay
4 real estate taxes at the Plaza, we have a covenant
5 that says you will pay taxes and ask for the vote of
6 the various lenders as to how that event--whether that
7 event should constitute an event of default under this
8 agreement. Then as we would go through the balloting
9 procedure referenced here and at the end of the second
10 balloting procedure, either we would have an event of
11 default or we wouldn't, and if we didn't that event no
12 longer could be the basis of an acceleration. If it
13 was an acceleration, if two-thirds of the lenders
14 said, yes, I think this is material enough so that
15 this should be an event of default, then the banks
16 have rights to go against their collateral which would
17 include the equity in the casinos subject to the lien
18 priorities that we are establishing which I will
19 mention.

20 However, just to contrast that to
21 where we are today, we don't have a balloting
22 procedure. We don't have some of the materiality
23 standards I think and protections that we have in this
24 agreement. Events like that today could give a lender
25 in the system the right to say my loan is in default,

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1 I am electing unilaterally to call my loan and I'm
2 seeking to enforce my loan against your assets
3 including your equity in the casinos, and I think once
4 an event like that happens, in my judgment, it would
5 have a snowballing effect among the various other
6 lenders who don't want to see presently unincumbered
7 collateral being used to satisfy the obligations of
8 some other lender, and we would have a series or could
9 have a series of defaults in which judgments are
10 obtained and efforts are made to move against every
11 asset that any lender can find in the entire world. I
12 think what we have today, we have upon the completion
13 of this agreement is far preferable to that situation
14 from the point of view of the Trump organization. Any
15 lender I think given the consequences of calling a
16 default here, the consequences are that the new money
17 facility terminates and that that event also could
18 give rise to a termination of the moratorium
19 provisions in the Override Agreement is such a
20 critical decision that, in our view, it would be
21 subject to the most intense scrutiny, understanding of
22 the problem and, frankly, gives us the comfort that an
23 event that isn't really material to this company on a
24 global basis is not going to be used to call a default
25 and have these drastic consequences.

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1 Q Can you address yourself for a second, I
2 know we are jumping into the Override Agreement, you
3 got to the event of default and the vote. Now there
4 are even more protections, are there not, in the
5 Override Agreement with the priorities and the rights,
6 the direct lien holders, for example, the 75 million?

7 A I was going to touch on that.

8 Q Thanks.

9 A Just a couple of points. Events of
10 default, as I mentioned, while an event could give
11 rise to an event of default, we built in another
12 protection in that this insures that events that occur
13 at any individual asset level will not have overall
14 consequences throughout the organization. That is a
15 concept that is very difficult to read and understand
16 in the agreements. It's the concept of special or the
17 concept of foreclosure events. Basically what that
18 says is if there is a problem at a specific asset
19 level rather than giving the lenders the choice of
20 waiving a default and bringing an event of default on
21 that could have consequences throughout, there is a
22 notion that a lender who has a priority lien on a
23 particular asset could move against that asset
24 directly without implicating the possibility of an
25 event of default under the agreement. If in the

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1 example that we started on, the Plaza Hotel, City Bank
2 is the senior lender for purposes of this provision.
3 If City Bank deems that to be material enough so that
4 they want to foreclose on their liens at the Plaza,
5 then they could do it. Everybody else who has a
6 subordinated lien at the Plaza could do it and that
7 foreclosure event would be contained within that
8 asset. They don't then have to consider the fact that
9 my only choice would be either a waiver or an
10 acceleration of the entire loan. So we feel the whole
11 special foreclosure event session, in addition to the
12 one-third, two-thirds process, in addition to the
13 materiality standards that we have tried as hard as we
14 can to build into this agreement, that there are
15 various, and from the company's perspective, real
16 protections against a non--against a problem at one
17 particular asset having global effects. I will say it
18 was one of the issues that probably was negotiated.
19 We spent a lot of time on this issue. The company is
20 satisfied that we have protections.

21 I will also add as a general matter
22 lending institutions are reluctant to call events of
23 default unless there are serious, serious problems in
24 loans, and while you might look at a detailed set of
25 covenants or events of default and think that they

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1 provide a very expansive basis on which to seek to
2 move against collateral or accelerate a loan, I think
3 as a practical matter there are a lot of protections
4 in the law and just in practice and in good business
5 judgment that says that lenders don't accelerate loans
6 unless there are real problems, and the issues of
7 lender liability are often discussed in this context.

8 So what we--what we feel we have on a
9 global basis are really three or four different levels
10 of protection, the fact that we negotiated specific
11 covenants reps and warranties and default provisions
12 that had materiality standard, the fact that we have a
13 balloting procedure, the fact that we have the ability
14 through the special foreclosure event mechanism to
15 give a lender an opportunity to move against a single
16 asset and not move against the entire facility. That
17 plus the fact that, as I said, I think the general
18 body of case law and just good practice is that
19 individual problems that are not overall material to a
20 particular loan facility generally are not the basis
21 of accelerations and the declarations of the events of
22 default, and I will add that, as I think I mentioned,
23 in my experience the provision of a one-third waiver
24 is extremely unusual and gives us the ability to have
25 to only persuade as few as two banks that these events

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1 shouldn't constitute the basis of a foreclosure, that
2 we have the ability to do that and we expect that if
3 the situation occurs that we will be able to do that.

4 Having--one more point on that. You
5 will notice that the Override Agreement has an entire
6 separate set of defaults and those defaults are
7 substantially the same as the defaults under the
8 Credit Agreement. There are particular defaults that
9 are peculiar to the Override Agreement since there are
10 special obligations under the Override Agreement;
11 namely, the ability to distribute or to pay down loans
12 from capital events, in particular percentages that
13 are not part of the concept of the Credit Agreement.
14 So there are some additional specific monetary
15 obligations for which there are separate default
16 sections, but other than that, there is uniformity in
17 the default provisions.

18 So as to the lenders who aren't party
19 to the Credit Agreement they are subject to the same
20 general rules. I will add the following: While the
21 Credit Agreement is in effect, if there is an event
22 that is an event of default under the Credit Agreement
23 and also an event of default or what's called the
24 uniform event of default under the Override Agreement,
25 a waiver by the Credit Agreement banks, the seven

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1 banks party to the Credit Agreement will automatically
2 constitute a waiver of the corresponding default under
3 the Override Agreement. The consequences of a default
4 under the Override Agreement are the termination of
5 the moratorium, the acceleration of all the debt.
6 That's obviously a very drastic set of circumstances.
7 However, it has been specifically negotiated as part
8 of this transaction that if the seven banks which you
9 know of are inclined to waive by a one-third vote,
10 that one-third waiver carries not only through the
11 Credit Agreement but through the Override Agreement
12 also.

13 Now, I would like to point out that
14 the Credit Agreement banks are these seven
15 institutions. There are no syndicates, there are no
16 participants. It's these seven banks. The same
17 banks, seven of the seven banks party to the Credit
18 Agreement are also a part of the Override Agreement.
19 However, in some of those loans, as you know, they are
20 acting as agent for various participant banks. The
21 effect of what I have said in terms of the Credit
22 Agreement waivers governing is that it effectively
23 isolates or insulates the decision making process
24 within these seven institutions. Those loans, it's my
25 understanding, are not to be participated, are not to

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1 be syndicated and we expect for the five year period
2 to be dealing with the seven banking institutions that
3 are part of this agreement.

4 Just to touch on, for your benefit,
5 what the events are that could be events of default,
6 there are customary, we don't pay an amount required
7 to be paid under the Credit Agreement. If we do, we
8 breach one of the covenants. Most of the covenants
9 have grace periods attached to them so if we
10 inadvertently violate a covenant we have a period of
11 cure. There are some that don't. Breach of the
12 representations in warranties that we make in the
13 agreement could become an event of default. If any of
14 the loan documents that we have executed as part of
15 this transaction are deemed to be invalid, that
16 provides a basis to declare a default. A five
17 million--if Mr. Trump has a payment default on a five
18 million dollar debt obligation, that could become an
19 event of default.

20 Let me just mention something in that
21 regard. We think as part of this Override Agreement
22 that we have addressed the debt that could give rise
23 to this kind of event of default. We have negotiated
24 with the various lenders who have recourse debt
25 obligations against Mr. Trump and this provision only

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1 applies to indebtedness for proceed money. So we
2 think that the possibility that there could be such a
3 default is remote. Bankruptcy events with respect
4 either to Mr. Trump or his affiliated companies with
5 some exclusions for immaterial companies could be an
6 event of default. If certain ERISA liabilities are
7 asserted against the entities that maintain plans
8 governed by ERISA, that could be an event of default.
9 A five million dollar judgment against Mr. Trump or
10 certain of the entities could give rise to an event of
11 default. A material adverse change of any of the
12 operating entities could give rise to events. As to
13 the casino related events that could be events of
14 default, if there is a suspension or revocation of a
15 casino license, that would be subject to the voting
16 process that we--that I described. Death or
17 incapacity of Mr. Trump, a destruction of collateral
18 or loss or destruction of collateral. There are two
19 other casino events which could be events of default.
20 One is the institution of proceedings by a person to
21 foreclose on a consensual lien given on assets of any
22 of the casino entities and, secondly, the issuance of
23 equity that dilutes Mr. Trump's equity in the casino
24 partnerships as part of a restructuring of the casino
25 debt.

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1 Let me just pause on that one for a
2 moment, and let me tell you the effect of that. The
3 practical effect of that is were the company to decide
4 to go forward and implement a restructuring of the
5 casino related debt, if that restructuring took the
6 form of an exchange of equity for existing debt
7 obligations in order to be able to consummate that
8 transaction without risking an event of default under
9 this agreement, we would have to get the consent of
10 one-third of the lending institutions party to this
11 agreement. Now, we have not currently proposed an
12 exchange offer. Were some kind of restructuring to
13 occur at that level, there are various forms that that
14 can take. As has been mentioned, First Boston has
15 been retained to study matters relating to those
16 things, but I would like to point out that if the
17 particular form of exchange offer, if it occurs, that
18 is used involves the issuance of new equity, that is
19 something that we would expect to go through this
20 one-third process that I have described. We would
21 have to persuade possibly only two banks that that is
22 beneficial and that transaction would be permitted to
23 go forward. The equity, if issued as part of that
24 transaction, would be free of any of the liens that we
25 are talking about here. The banks as part of that

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1 one-third process would not only be authorizing the
2 issuance of the equity, but the release of their liens
3 on the equity. So that is the mechanism that I know
4 questions have been raised in the various reports that
5 are relevant to that and that is--that would be the
6 process were we to undertake that particular kind of
7 exchange offer.

8 While I have described in these
9 events of default provisions what are the--when I have
10 said on various ones that they apply to Mr. Trump or
11 certain of his affiliates or his affiliates, there
12 are, as I mentioned, excluded affiliates that
13 constitute small companies not with material assets.
14 There is also a set of exclusions that relate
15 specifically to the Trump shuttle operation. So, for
16 example, a material adverse change at that particular
17 asset or many of the other events with respect to that
18 particular asset would not even be the basis of a
19 vote. That is specifically not an event of default
20 under this agreement. The one exception to that would
21 be if in the future a bankruptcy filing were made with
22 respect to that entity that would be subject--that
23 would be an event that could ripen into an event of
24 default, but most of the other defaults that I have
25 mentioned as regarding that particular asset would be

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1 excluded.

2 The concept of foreclosure event
3 which I touched on before is, as I say, a protection
4 built into this agreement which is intended to isolate
5 problems at particular levels. What could give rise
6 to a foreclosure event are breaches in the underlying
7 security documents that relate to that particular
8 piece of collateral. So, as I said, failure to pay
9 real estate taxes at the Plaza Hotel, the invalidity
10 of some license, for example, at one of the other
11 operating companies that is necessary for the
12 operation of that business. That would be an event
13 which could be an event of default and could be--give
14 rise to a special foreclosure event. A special
15 foreclosure event would also include the commencement
16 of foreclosure actions by a lender who has a senior
17 lien to the lien that might be granted to any other
18 lender. So if a senior lien holder is accelerating
19 and exercising remedies, the junior lien holders can.
20 Again, this is only with respect to that asset that
21 secures the particular loan. Breach of covenants,
22 payment defaults on the indebtedness that are secured
23 by those assets would give rise to foreclosure events
24 only if there wasn't a senior lien holder for that
25 asset.

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1 These, I acknowledge, are extremely
2 complicated provisions and not easily summarized and
3 not easily written, but the basic thrust, as I say, is
4 to insure that anyone who has an interest in a
5 particular asset if there is a problem can go against
6 that asset and that's the end of it, that's where the
7 problem ends in terms of the company.

8 I think I touched on the amendment
9 and waiver provisions of this agreement. I think
10 while the agreement is long, those are really the
11 salient and relevant points in the Credit Agreement.

12 MR. RIBIS: Before we head into the
13 Override Agreement, maybe it would be a good time to
14 take a short recess. I think the Override will be a
15 little bit longer.

16 ACTING CHAIR ARMSTRONG: Let's take
17 10 minute.

18 (At which time a break was taken)

19 BY MR. RIBIS:

20 Q Mr. Cerabino, continuing, we completed
21 your explanation of the Credit Agreement. Can we now
22 pass to the Override Agreement starting with the basic
23 terms and then I will let you continue.

24 A Sure. The Override Agreement, as I
25 mentioned, is the basic agreement which provides for

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1 the restructuring of the existing debt obligations
2 that are covered by that agreement which I mentioned
3 are approximately one billion dollars of total debt.
4 Approximately 850 million dollars of that debt is debt
5 which is either a direct obligation of Mr. Trump or is
6 debt that he has guaranteed of some other entity.

7 The parties to that agreement, again,
8 are the seven banks party to the Credit Agreement and
9 two additional banks, Midlantic which has loaned some
10 funds in connection with a property in Florida, and
11 Boston Safe Deposit and Trust Company which has some
12 secured and unsecured loans outstanding.

13 The Override Agreement, as I
14 mentioned, does not cover first mortgage obligations,
15 both the casino first mortgage bonds and the first
16 mortgage obligations at some of the existing
17 properties. As I said, those obligations are intended
18 to be funded currently. The first mortgage
19 obligations are at the asset levels and, therefore,
20 certain of them like the Tower first mortgage it was
21 not necessary for us, in our view, to include that
22 within the Override Agreement.

23 As was alluded to earlier, the
24 principal features are deferral and moratorium. To
25 give you some feeling as to the economic consequences

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1 of the deferral, the interest deferrals in the first
2 year, the banks that have agreed not to require
3 current payments of interest on these loans within the
4 first year, that represents approximately an 85
5 million dollar savings or a deferral of interest in
6 the first year. In the subsequent years the deferrals
7 are equal to at least that amount and more if the
8 deferral remains in place. However, as was mentioned
9 there is a substantial incentive on the part of Mr.
10 Trump to pay the interest, the deferred interest off
11 early, and the Override Agreement contains provisions
12 which say that if we can pay the deferred interest in
13 the first year, the first year's deferred interest at
14 the end of the first year we can achieve an 80 percent
15 discount on the amount of interest obligations that
16 have been deferred. So we could pay off a dollars
17 worth of interest with 20 cents. The discount
18 declines in subsequent years from 80 to 60 to 40 to 20
19 over the five year period contemplated by the Override
20 Agreement, but the existence of the discount feature
21 is an incentive to make this work, to provide
22 liquidity, to pay off as much of the debt as we can.

23 The other feature apart from the
24 deferral, as I mentioned, is the moratorium and this
25 is a principle which says no lender can enforce a

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1 claim against Mr. Trump for five years and there are
2 very, very limited exceptions to that general rule.
3 The moratorium terminates if there is an acceleration
4 of all of the obligations following an event of
5 default.

6 There is one other circumstance where
7 a creditor subject to this agreement can enforce a
8 claim against Mr. Trump within this five year period
9 and that involves some very limited circumstance where
10 we are required to make a payment and don't, but it's
11 a very, very limited exception.

12 The other main feature of the
13 Override Agreement is a tolling of any existing
14 covenant or default provision or representation in
15 warranty that could be construed as putting either Mr.
16 Trump or the entity that is the borrower under the
17 agreement in default today.

18 So what this agreement does is it
19 solves any existing default in these agreements that
20 might exist and requires the lenders to toll the
21 compliance on our part with those provisions. Those
22 provisions cannot be used as a basis within the
23 moratorium period for asserting a default under their
24 particular loan document. The effect of this and the
25 effect of the interest, the payment deferrals, is from

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1 our perspective to ensure that there is order created
2 within these existing documents. We have eliminated
3 what we feel to be covenants in these documents that
4 might create defaults through the tolling provisions.
5 We have eliminated the possibility through the
6 deferrals of payments of interest or principal that
7 might be required within this time of payment default
8 problems on these obligations. So what we feel we
9 will accomplish by this agreement is a stability
10 within this one billion dollars worth of existing debt
11 which was mentioned before today may give the basis
12 for certain lenders to make immediate claims, demand
13 for payment and create a certain amount of chaos in
14 terms of lenders seeking to get repaid on these loans
15 from various assets of the Trump organization.

16 In exchange for these deferrals, the
17 moratorium, the tolling provisions, obviously the
18 company had to give something, and the negotiations of
19 this agreement were premised upon the company granting
20 certain specific liens to specific lenders on
21 particular collateral and securing the new money
22 facility by good collateral and securing the deferred
23 recourse interest obligations, that is the interest
24 obligations of Mr. Trump under these agreements which
25 are being deferred. Those obligations were required

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1 to be secured by the lenders. So the various liens
2 that you see being granted as part of this agreement
3 is an attempt in exchange for the stability, the
4 certainty, the order that we get from this agreement
5 that we were able to get that, but the lenders
6 requested that they receive collateral for some of
7 these loans. So you will see certain banks have
8 gotten specific liens in assets. City Bank as to the
9 Plaza Hotel and the shuttle, Manufacturers Hanover got
10 certain real estate in New York that was specifically
11 dedicated as collateral for their loans, and the
12 basket of collateral that supports the Credit
13 Agreement which secures the Credit Agreement also we
14 granted a junior lien on those assets to the lenders
15 who have deferred their recourse interest obligations
16 under this agreement.

17 As to the casino properties, the
18 liens that would be in place are as mentioned, a lien
19 on the equity and the casino partnerships. The two
20 promissory notes owed one by the Taj and one by the
21 Castle to Mr. Trump are being pledged to in the case
22 of the Taj note a special pledge to Bankers Trust, and
23 the Castle note and the Taj note both secure the new
24 money facility as well as the deferred interest
25 obligations. There is a series of liens, a series of

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1 lien priorities that are fully set forth in the
2 schedules to this agreement and that establishes who
3 would have a claim on the particular asset should a
4 default occur and a foreclosure occur or a sale occur
5 of that asset, should a capital event occur with
6 respect to that asset, those lien priorities establish
7 an order of payment as well as other provisions in the
8 Override Agreement.

9 As I mentioned, the moratorium that
10 is established can only be terminated following a
11 uniform event of default or a default and an
12 obligation to pay proceeds of a capital event to a
13 particular lender who is entitled to get a share of
14 those payments, and the same of balloting and waiver
15 procedures apply under the Override Agreement as apply
16 under the Credit Agreement, but, as I mentioned, while
17 the Credit Agreement is live and out there and hasn't
18 been collateralized, the waivers granted under the
19 Credit Agreement apply equally here and these lenders
20 would not have a right to vote on any event that the
21 new money lenders have already passed on as part of
22 the Credit Agreement.

23 The Override Agreement also contains
24 specific foreclosure right provisions that are
25 analogous to the provisions in the Credit Agreement

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1 that I described which, again, permit the lenders to
2 look to a single asset if there is a problem without
3 terminating the entire moratorium and deferral
4 arrangement put into effect by the Override
5 Agreement.

6 As far as covenants, the covenants in
7 the Override Agreement are substantially identical to
8 those in the Credit Agreement and only come into
9 effect when the Credit Agreement is either paid off or
10 fully collateralized. So, again, there we don't
11 expect covenant defaults or the possibility of
12 covenant defaults while the Credit Agreement is out
13 there to be a factor at all in terms of the Override
14 Agreement. We feel through that and through the same
15 protections we built into the default provisions that
16 we have really preserved for the five year period the
17 sense of order that's imposed. The deferrals, the
18 moratorium, all of those beneficial provisions to the
19 company of the Override Agreement we expect would be
20 preserved throughout the five year period.

21 There are very detailed provisions
22 set forth in the Override Agreement regarding the
23 application of proceeds from capital events, and by
24 that I mean sales of assets, refinancing of debt which
25 generates excess refinancing proceeds, equity sales.

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1 If one of those events occur the proceeds are
2 specifically allocated under a complicated formula in
3 the Override Agreement, but the basic premise is that
4 any existing creditor who has a right to prepayment
5 upon that sale gets prepaid first. So, for example,
6 if any, you know, if the casino entities were sold,
7 the first mortgage bonds obviously would have a first
8 claim on those assets, of those proceeds.

9 To the extent that--whether or not
10 covered by the Override Agreement, the existing--to
11 the extent there are excess proceeds that are
12 available after the payment of that kind of debt,
13 there are certain special applications under the
14 Override Agreement essentially to the people who have
15 the priority lien on the particular asset being sold.
16 As to the casino entities, it has been mentioned or
17 will be mentioned that First Fidelity Bank has a first
18 lien on the equity of the--have a first lien on the
19 equity of the Taj to secure their existing 75 million
20 dollar loan. There is a formula under which excess
21 proceeds after which we pay all the obligations of the
22 entity that excess proceeds that would otherwise be
23 receivable by Mr. Trump would be applied to that
24 particular loan in certain specified amounts. To the
25 extent they were excess proceeds over that after

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1 taking care of the first lien holders, in the example
2 I am mentioning, the money would be used to
3 collateralize the new money facility or pay down
4 borrowings under the new money facility. To the
5 extent there are excess proceeds remaining, and again,
6 this is all an application of what Mr. Trump
7 personally would receive from that sale, those
8 proceeds are subject to a sharing formula between the
9 lenders who have agreed to defer here and Mr. Trump
10 and those sharing formulas vary. They are exceedingly
11 complicated. On certain assets it's 50/50 sharing, on
12 other assets it's 90/10 sharing, but essentially the
13 concept is it is a required application of excess
14 proceeds after all the entity obligations are
15 satisfied to the payment of debt, to the reduction of
16 debt which is--which this agreement creates a great
17 incentive to do.

18 As I mentioned, to the extent Mr.
19 Trump retains the excess proceeds from that sale, he
20 can use those funds to pay the deferred interest
21 obligations at a substantial discount. That also
22 creates further incentives in this--as part of this
23 agreement to increase liquidity throughout the system
24 through asset sales.

25 The concept has been raised in the

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1 reports and questions have been raised in the reports
2 as to the deferred facility fee. The deferred
3 facility fee, again, relates only to the proceeds or
4 value that is receivable by Mr. Trump under this
5 Override Agreement, and let me just explain in a
6 little bit of detail how the facility fee works. The
7 facility fee is, first of all, only payable with
8 respect to a capital event occurring at one of the
9 casino entities. If there is a refinancing of
10 obligations or a sale or an equity offering which
11 generates proceeds that pass through these complicated
12 sharing formulas and stay with Mr. Trump, the banks
13 have negotiated as part of their agreement to defer
14 and they would not have agreed to defer, but for the
15 inclusion of this fee, is that the banks are entitled
16 as a fee for deferring the interest to get 10 percent
17 of the amounts within the first five years of the
18 amounts that are receivable by Mr. Trump from those
19 events. It's only 10 percent of what he receives
20 after going through the satisfaction of any claims
21 that are required to be satisfied before he is
22 entitled to retain proceeds. It is impossible sitting
23 here today to tell you whether a facility fee will
24 ever be paid, will be zero or will be a significant
25 number. But, again, it's just in terms these interim

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1 payments will just be a percentage, 10 percent of
2 whatever is retained by him after applications as
3 specified.

4 At the end of the five year period,
5 June 30, 1995, there will be a facility--a computation
6 of a fee that will be payable in any event whether or
7 not there have been interim capital events which have
8 either generated fees or haven't generated fees. That
9 final calculation is set forth in a fairly lengthy
10 provision, but boil down and amount to the following:
11 Whatever Mr. Trump's remaining equity interest is in
12 the casinos at that point in time, there will be an
13 appraisal of what the value of that remaining equity
14 is. The banks will be entitled to receive 10 percent
15 of that remaining equity minus or an amount, an amount
16 in cash that's computed with respect to the remaining
17 equity which is 10 percent of the remaining equity
18 value less all of the covered debt obligations that
19 haven't been repaid as of that date, and just to put
20 some numbers to it, if the equity in the casinos at
21 that date were worth 900 million dollars and if not
22 one penny of the 850 million dollars approximately of
23 covered debt had been paid within this five year
24 period, the facility fee payable at that time would be
25 five million dollars, and I will say there are certain

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1 other reductions that even lower it, but it would be
2 the 900 million equity value less the amount of
3 covered debt not paid. In my example that would be 50
4 million, 10 million, 10 percent of that or five
5 million dollars would be the fee for a full five year
6 deferral of interest. There are deductions from that
7 amount. In computing what the equity value is we are
8 under the agreement permitted to take deductions for
9 assumed transaction costs, assumed tax effects of such
10 a sale to Mr. Trump. So even in the example I gave
11 you, the five million dollar number would be lower.
12 However, as I said, that fee is computed on whatever
13 that equity value is less the debt. If we paid off
14 all the debt and there is a large remaining equity
15 value in the casinos, the fee would obviously be
16 higher, but that would be the computation that would
17 occur five years out.

18 If the facility fee, as I said, five
19 years out or if we paid off all the current covered
20 debt, that fee would be computed at that earlier date,
21 but five years out that computation would occur. A 10
22 percent fee would be computed and at that point in
23 time at Mr. Trump's option could be satisfied by the
24 delivery of a five year promissory note. Now, that
25 obligation is only an obligation of Mr. Trump. It is

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1 not an obligation of any of the casino entities. It
2 is a personal obligation that under our example might
3 not be called upon until 10 years from now, but it is
4 a personal obligation of Mr. Trump only. It does not
5 affect the casinos, it does not affect any transaction
6 that might occur with respect to the casinos, and is
7 merely a measurement of the remaining equity value at
8 a specific point in time fairly far out into the
9 future. The banks who might be entitled to receive
10 that fee at that time would not have any right to
11 demand any equity in the casinos or any other
12 operation in satisfaction of their fee, is merely a
13 payment obligation at that time to pay a specific sum
14 of money at a specific period of time in the future.

15 I think those are the principal
16 features in a somewhat abbreviated format of the main
17 features of the Override Agreement which is deferral,
18 moratorium, application of proceeds.

19 I think I would like to cover as to
20 the Atlantic City assets specifically what this all
21 means, who has a prior lien securing what and really
22 what exists specifically with respect to Atlantic City
23 regarding these assets of this agreement.

24 First Fidelity is a lender who is
25 party to this agreement. They have an existing 75

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1 million dollar loan to Trump Taj Mahal Realty
2 Corporation. The debt service for that loan, that 75
3 million dollar loan was intended to come from payments
4 received by the Trump Hotel Management Corporation
5 under the existing management contract with the Taj.
6 That was--and those fees had been pledged or that
7 right to receive those fees had been pledged to First
8 Fidelity to secure that payment obligation that exists
9 today. Under this agreement First Fidelity will agree
10 to defer principal for five years. Under the current
11 agreement they have a three year loan. Upon payment
12 of a fee that loan could be extended for an additional
13 two years, but as part of this agreement we have a
14 flat five year deferral on principal without an
15 extension fee. All interest that would be payable on
16 that loan which is payable currently under the present
17 agreement. We have existing interest payment
18 requirements under that lien. Under this agreement
19 during the first three years the company will be
20 entitled to defer all interest on those loans to the
21 extent that the cash that would otherwise be paid out
22 under this management contract and servicing that loan
23 would be needed for use in the operations of the Taj.
24 So what, in effect, this does is it protects the out
25 flow of funds or it gives us the flexibility to retain

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1 funds, not pay this obligation, keep those funds at
2 the Taj and use them in accordance with the necessary
3 operations of the Taj.

4 There are further deferrals in years
5 four and five of the Fidelity agreement and what that
6 entails is a calculation at the time three years out
7 which says if it's necessary for us to retain those
8 proceeds at the Taj in order to make the interest
9 payments under the first mortgage bonds at the Taj,
10 that we are entitled to do that. Fidelity will agree
11 not to require payments of that interest currently if
12 those funds are necessary to service the existing
13 first mortgage bond obligations at the Taj.

14 Fidelity has also agreed to a three
15 year deferral of principal and interest on the 37
16 million dollars Pent loan that they made in connection
17 with the Penthouse site. Other lenders in Atlantic
18 City who are covered by this are Midlantic and
19 NatWest.

20 As to Midlantic, Midlantic currently
21 has a 13 million dollar loan which is a demand loan
22 under which Mr. Trump and Trump's Castle are
23 responsible for, I believe, in 50/50 portions. The
24 principal on that loan is being deferred for five
25 years. So as today Midlantic could demand payment on

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1 that loan. Upon the completion of this agreement it
2 would not be a current obligation on the part of the
3 Trump Castle to fund that should the demand occur for
4 five years. Interest on that loan will remain payable
5 currently out of operations, but there is a full five
6 year deferral of principal.

7 National Westminster has an existing
8 19 million dollar letter of credit facility which is
9 in place. It relates to the Penthouse site as well.
10 The agreement would provide if amounts are called upon
11 under that letter of credit that any obligation to
12 reimburse those amounts would be subject to a full
13 five year deferral of principal and interest.

14 So those three loans, each of which
15 is either directly an obligation of a casino or is
16 very closely related to the operations of a casino,
17 are the subject of deferrals, are the subject of
18 moratoriums.

19 Q Tom, in the first, you mentioned 37
20 million First Fidelity, it's Midlantic?

21 A Sorry.

22 Q I just wanted to correct the record.

23 A That's correct, the 37 is Midlantic, not
24 First Fidelity.

25 On all of this debt the five year

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1 moratorium applies. No claims could be made against
2 Mr. Trump for this.

3 There is also a concept in the
4 Override Agreement that requires excess operating cash
5 or 50 percent of excess operating cash to be used to
6 pay down loans. As to the casino companies, we have
7 negotiated that the operating cash flow payments do
8 not apply to cash that is required to be held at the
9 casino entities either because that payment is not
10 permitted under the bond indentures or that because of
11 Casino Control or DGE orders or the application of the
12 Act that those monies can't be distributed. So we
13 feel we have in terms of the casinos I think we have
14 protected the cash flow at the casino entities from
15 this provision. We have achieved actual deferrals of
16 payment obligations currently existing at those
17 entities or at closely related entities.

18 The new liens that we put on as part
19 of this in favor of these lenders are as to First
20 Fidelity. First Fidelity will have a first lien on
21 the equity in the Taj to secure the amounts that they
22 are entitled to receive, and, as I say, the agreement
23 would require applications of proceeds to pay First
24 Fidelity from capital events at the Taj and this just
25 gives them a right through a prior lien to receive

Cerabino - Direct by Mr. Ribis

1 those funds.

2 NatWest will have a first lien on the
3 equity and the Plaza to the extent necessary to secure
4 that 19--approximately 19 million dollar reimbursement
5 obligation.

6 Midlantic will have a first lien on
7 the Castle equity to the extent necessary to secure
8 that 13 million dollar payment obligation.

9 As I mentioned earlier, the existing
10 debt obligations of the Taj in the amount of 25
11 million dollars to Mr. Trump, that note will be
12 pledged to Bankers Trust and--who will receive the
13 right--who will have the right to receive the first I
14 believe it's 10 million dollars of proceeds from that
15 15 and then that would secure the new money loan.

16 The Castle two million dollar note
17 will also be pledged to the bank group to secure the
18 new money loan.

19 Q Now that you have finished your overview,
20 if you have--

21 A Well, let me just make one more statement,
22 that is that we aren't as part of this agreement
23 placing any liens on the assets of the casino entities
24 directly. We are not--the liens that I have described
25 are liens on the equity, liens on Donald's equity

Cerabino - Direct by Mr. Ribis

1 interest in these casinos and not the direct assets of
2 the casinos.

3 Q Also there are several things that were
4 raised in the Division and Commission reports and by
5 Chair Armstrong today.

6 There was discussion of a lease
7 between Trump Plaza and Trump Regency regarding the
8 Manufacturers Hanover existing mortgage. Could you
9 just review for the Commission the basis of that
10 agreement and your understanding of that?

11 A Well, my understanding of the agreement is
12 it's a right on the part of Trump Plaza to lease the
13 entire Trump Regency Hotel. My understanding is
14 currently the Regency is used for overflow guests at
15 the Plaza Casino. This will be a four year lease
16 where the casino has rights to the rooms at the Trump
17 Regency. There will be rent payments for this four
18 years which will be an obligation of the Plaza Casino
19 and those rent payments are calculated with respect to
20 certain requirements at Trump Regency. It is my
21 understanding that this arrangement is one that has
22 been analyzed by the Plaza people and has been
23 concluded in their judgment to be in the best interest
24 of the Plaza Casino in terms of granting the four year
25 access to this facility.

Cerabino - Direct by Mr. Ribis

1 Q Are you familiar, there are certain
2 amendments which have been discussed on the Trump
3 Plaza, Trump Castle and Trump Taj Mahal Associates
4 partnership agreements. Are you familiar at all with
5 those?

6 A Yes. There are various amendments that I
7 would view as technical amendments to those agreements
8 which recognize the fact that for the first time liens
9 are being granted on the equity interests in those
10 casino entities since the current partnership
11 agreements don't provide a mechanism for a secured
12 party with respect to that equity to become a partner
13 in the partnership that there are some very technical
14 amendments to those agreements that are necessary to
15 basically say if a secured party has a right to
16 foreclose on its lien, that there isn't a provision in
17 the partnership agreement which currently Donald Trump
18 is the hundred percent partner of that would preclude
19 that secured party from getting the benefits of that
20 lien. I think what's left of that amendment is a
21 very, very technical provision that basically is
22 designed to effectuate or give practical effect to any
23 possible foreclosure that may occur with respect to
24 that, all subject obviously to Casino Control Act
25 approval and anything else that's necessary before any

Cerabino - Direct by Mr. Ribis

1 secured party could actually become a partner or seek
2 to enforce any rights under that pledge agreement.
3 Obviously all of that is subject to--any exercise of
4 remedies is subject to the requirements of the law.

5 Q In describing both the Credit and Override
6 Agreement you described the Trump relationship with
7 the banks. Obviously the Casino Control Commission
8 and Division of Gaming Enforcement are always
9 concerned about control and right to control business
10 operations. Can you just discuss from the Trump point
11 of view as to whether the banks have any control over
12 the operations?

13 A These agreements do not in anyway give
14 direct control rights to the banks in terms of the
15 day-to-day operations not only of the casinos, but any
16 other entity within the Trump organization. The banks
17 are lenders only, they have certain security interests
18 in assets or liens on equity interests. As such they
19 do not have a role in the day-to-day operations of any
20 of these businesses. There obviously are covenants in
21 the agreement which limit the ability of any entity to
22 take particular actions without a consent, but that is
23 customary and true in every loan transaction, but in
24 terms of the ability of the banks to influence and be
25 there in terms of any notion of operating control,

Cerabino - Direct by Mr. Ribis

1 it's not there. Our requirement is to pay our debt as
2 it becomes due under these agreements, to give them
3 reports, to comply with the covenants, but that in no
4 sense gives the banks a right to participate nor would
5 the banks want the ability to participate in the
6 day-to-day operations of the businesses.

7 Q And let's use a couple of specific
8 examples, for example, the hiring of the senior
9 executive which Mr. Bollenbach has become, was that a
10 Trump decision?

11 A That is a Trump decision. Mr. Bollenbach
12 is on board and I believe the banks have approved that
13 and, therefore, that is a decision and an action taken
14 by the Trump organization.

15 Q And we have spoken about the business plan
16 which is incorporated into the agreements and the
17 responsibility to submit the business plan. Could you
18 explain for the Commission how a business plan works
19 and how relationships with a bank works under those
20 circumstances?

21 A Well, this is somewhat of an unusual loan
22 in the sense that rather than having detailed
23 financial covenants which test where you are at any
24 particular point in time, what the banks have agreed
25 to with us as part of this deal is that we will

Cerabino - Direct by Mr. Ribis

1 prepare a business plan that would be the company's
2 proposal, projections of how these businesses in its
3 view are to be operated, where monies are needed. The
4 initial business plan is already hard, has already
5 been delivered. It's the part of the Leventhal
6 report. That will be the business plan for the
7 current year. There are requirements, as I mentioned,
8 under the Credit Agreement to revise and deliver new
9 business plans on an annual basis, and as part of that
10 we would have the ability to propose applications of
11 funds that we might be entitled to draw down under the
12 revolver or otherwise that are receivable by us in
13 anyway that we think is appropriate at the time. Now,
14 that business plan will be subject to the approval of
15 the banks. The next time we deliver a business plan,
16 two-thirds of the banks would have to approve that new
17 business plan, but we view the business plan, or the
18 company views the business plan as providing a certain
19 amount of flexibility in terms of responding to needs
20 that might arise, while the existing business plan has
21 assumed applications of funds throughout the
22 organization, if we thought at the time that that
23 business plan should be modified to provide for a
24 reallocation of funds we would propose such a
25 modification to the banks and the banks through the

Cerabino - Direct by Mr. Ribis

1 waiver process would be permitted to grant us a waiver
2 of that particular application of funds.

3 Q Does that include the Atlantic City
4 assets?

5 A It would include--it's not limited in
6 anyway, and while the current business plan does not
7 contemplate funds in addition to the 20 million that
8 is already put in which will be fully almost one-third
9 of the entire amount of funds advanced, while the
10 current plan does not provide for additional funding,
11 that is not forever foreclosed, and if we thought at
12 the time that that was the prudent thing to do the
13 company could propose that and that would be subject
14 to an approval by the banks.

15 Q A couple of clean up items, you are
16 familiar with the assignment of rent for a small
17 parcel under Trump Plaza; are you not?

18 A Yes.

19 Q And we have submitted that for approval.
20 Is there anything unusual or unreasonable about that?

21 A Those are, I would say, customary
22 collateral documents that are given in connection with
23 a mortgage. I believe there is one at the Regency on
24 the existing mortgage and there is one on one of the
25 underlying parcels at Plaza, and basically where there

Cerabino - Direct by Mr. Ribis

1 is an existing lease on mortgage property where the
2 company which is the mortgagor, the company that is
3 giving the mortgage to the banks, has a right to
4 receive rent. It is typical in those types of
5 transactions to have a collateral assignment of the
6 right to receive those rents to the lenders as
7 additional security for the loans. That's all those
8 two documents do is provide collateral security for an
9 existing obligation and, as I mentioned, I think both
10 of those obligations are--at least the Regency is
11 subject to deferrals and those are just collateral
12 assignments of rent proceeds that might be receivable
13 under that lease that currently exist between the
14 mortgagor and the other entity.

15 Q There is also an amendment regarding the
16 First Fidelity Bank and Trump Hotel Management
17 Corporation as to the collateral assignment and
18 general security agreement relating to the management
19 agreement. Is that the same?

20 A Yes. What that does, I think I described
21 the Fidelity arrangement earlier and what the Fidelity
22 arrangement does is it permits the company not to make
23 payments under the management contract, to keep that
24 money at the Taj and the amendment that you are
25 referring to is just a technical amendment in the

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1 terms of an existing security document for the First
2 Fidelity loan that basically sets forth those
3 provisions. It gives the company the ability to
4 defer, not pay the management fee, and it also gives
5 the company the ability to defer a 10 million dollar
6 construction fee which I believe was to be paid soon
7 or next year and that obligation also an obligation of
8 the Taj currently would be put off for five years.

9 Q Now before getting to specific points
10 which are raised in the Division and Commission's
11 reports, from your analysis of the overriding Credit
12 Agreement and the transaction with the banks, could
13 you describe for the Commission, I know you have
14 described throughout your testimony just in summary
15 form what you view and what the Trump organization
16 views as the benefits to Atlantic City of this
17 transaction.

18 A Well, I think there are direct benefits
19 and there are indirect benefits. I think the direct
20 benefits I have covered in the sense direct deferrals
21 of current obligations for like the Midlantic loan at
22 the Castle that could currently be financial
23 obligations of those entities. Those are being
24 deferred. The ability to retain the management fee
25 proceeds in the Taj, that is a direct financial

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1 benefit in terms of the operations and the other
2 creditors of that entity. The 20 million dollar
3 payment which while it occurred in June is part and
4 parcel of this restructuring, that was obviously
5 directly satisfying an obligation that was not a
6 personal obligation of Mr. Trump. He put the--he
7 borrowed the 20 million dollars and put it in to pay
8 that sinking fund payment in June. So I think in
9 terms of the 20 million, the existing deferrals, I
10 believe that the funds that are available under this
11 Credit Agreement to be used will stabilize or to the
12 extent they stabilize the Trump organization operating
13 companies, I believe that will have a direct benefit
14 everywhere, not only in Atlantic City, but everywhere
15 even if those funds aren't used in Atlantic City to
16 the extent they stabilize those operations, stave off
17 defaults, cure operating problems that any assets
18 which could have a domino effect throughout to the
19 extent that stability and order is introduced into
20 this system I believe while it's indirect is a very
21 real benefit to all of the properties, including the
22 Atlantic City properties.

23 The moratorium provisions obviously
24 inject order into a process where order doesn't exist
25 today or may not exist today, and the ability to take

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1 the existing debt obligations with current payment
2 obligations defer that out and get a moratorium and
3 stop the possibility of claims being made against Mr.
4 Trump's assets is a direct benefit in terms of one of
5 his principal assets which is his equity at the
6 casinos.

7 I think finally in getting this bank
8 restructuring behind him, it will permit him to focus
9 his attention on other matters and, namely, the ones
10 we have touched upon directly affecting the casinos,
11 but I think it's fair to say that without this
12 agreement that process would be made exceedingly
13 difficult if it had to be undertaken in the face of
14 possible defaults on debt throughout the system.

15 I think that's a summary of the
16 direct and indirect benefits.

17 Q Now, directing our attention to specific
18 areas of concern, could you discuss for the Commission
19 any impacts or limitations which would be--which are
20 imposed by the Credit Agreement or the Override
21 Agreement on casino defaults and/or refinancing of
22 casino debts, in other words, the going forward
23 issue? Does it help us or hurt us?

24 A Overall it has to help in the sense that
25 it creates an ongoing viable entity and I will tell

Cerabino - Direct by Mr. Ribis

1 you there the Credit Agreement, as I think I have
2 mentioned, doesn't give ultimate operating flexibility
3 throughout the system including the casinos. There
4 are covenants and the ability of operating companies
5 to do things like incur additional debt or put
6 additional liens on assets is limited by this
7 agreement. We believe that the agreement contains
8 provision and room for anything that might occur in
9 the ordinary course. There are exceptions that permit
10 the casinos, for example, to incur letter of credit
11 borrowings which are necessary and customary in their
12 businesses outside of this system. So there are
13 certain limitations on what can be done in the sense
14 of new debt and new liens.

15 However, overall, again, to the
16 extent that this creates a framework in which the
17 casino issues can be dealt with and to the extent that
18 we have imposed an order on the possibility of
19 foreclosure actions or defaults, I think our
20 flexibility or the company's flexibility at the
21 casinos to deal with creditors, to deal with
22 obligations that arise in the future have to be better
23 in my view under that scenario than under a scenario
24 where there is no Override Agreement, and we are in a
25 very uncertain phase where banks out there have rights

Cerabino - Direct by Mr. Ribis

1 or possibly have rights to go against assets to
2 declare loans in default and to take actions that are
3 currently permitted under their documents.

4 Q Going onto--

5 A Just to finish up the point with respect
6 to a restructuring, I think I mentioned in detail what
7 what the effect of this is in terms of flexibility.
8 If a restructuring were to be initiated, if new equity
9 was to be used in order to do an equity for debt swap,
10 we would need the consent of one-third of the banks
11 under the Credit Agreement in order to accomplish that
12 transaction. However, it is a one-third vote, it is
13 something that we believe would be easily rationalized
14 with the bank group if that made sense at the time,
15 but that limitation does exist in the current
16 documents.

17 Q Going onto specific areas, there were
18 questions raised that dealt with flexibility, specific
19 question raised as to pledger or pledgee
20 relationship. Does that create more problems if a new
21 capital structure at the parent level was attempted
22 or, again, as a go back?

23 A Again, I think the fact that there are
24 liens on the equity interest, yes. To the extent that
25 we wanted to do anything to affect the capital

Cerabino - Direct by Mr. Ribis

1 structure of these entities, we would need to have a
2 one-third approval mechanism from the banks. However,
3 once that were achieved, there would be a release of
4 liens. So if that was either some kind of
5 restructuring, any change in the equity capital
6 structure of the casinos, again, it's a one-third
7 vote, but once that vote were attained we would have
8 the flexibility to do that transaction in whatever
9 form made the most sense at the time.

10 Q Another specific question that's raised
11 using the Commission report language "What impact and
12 limitations will the Credit Agreement and Override
13 Agreement have on Mr. Trump's Atlantic City casinos
14 should there be a default and/or refinancing of the
15 first mortgage bonds of the Plaza, Castle and Taj
16 Mahal?" I believe you have touched on this, but there
17 is a specific question.

18 A A mere payment default on the first
19 mortgage bonds does not create an event of default
20 under our agreement. It doesn't even get to the
21 one-third. The commencement of foreclosure actions
22 where the possibility of issuing equity does, but
23 again, I think all of this is analyzed in terms of our
24 ability to approach this group with a transaction
25 which if it occurs would presumably be beneficial to

Cerabino - Direct by Mr. Ribis

1 our equity and, therefore, their security interest
2 that if we presented a rational plan at that time that
3 we would be able to get any required vote although
4 that obviously is subject to events and there is an
5 approval mechanism. However, the flexibility is
6 limited to that extent.

7 Q Now, the question of what new risks are
8 placed on Mr. Trump's Atlantic City casinos is
9 throughout both the Division and Commission reports.
10 Are there, and if there are, could you specify them
11 for the Commission?

12 A Well, you know, there is no new debt at
13 the casinos. The only obligation that's created as
14 part of this which doesn't exist today is the Regency
15 lease which is mentioned. The operating people I
16 understand believe this to be a fair, reasonable and
17 beneficial transaction to undertake. So I think we
18 are not putting liens on assets. There is no new debt
19 obligation being incurred down there and what we have
20 done is, in effect, the pledge of the equity and to
21 the extent that the foreclosure or the rights of
22 lenders to go against equity exist today, which it
23 would, then the placing of liens on this equity
24 doesn't add any risk and to the contrary imposes some
25 order through our ability to get any defaults waived

Cerabino - Direct by Mr. Ribis

1 and deal with the lenders in a fenced off orderly
2 atmosphere.

3 Q Now going to the next area, that is how
4 much time do the Credit and Override Agreements
5 provide for the Trump's entities to develop and
6 implement a long-term plan to address his current
7 financial situation?

8 A Well, the agreement, as I mentioned, is a
9 three year agreement with a two year extension. So
10 there is, in the company's view, a five year--this is
11 a five year plan and while we have obligations to
12 delivery advised business plans, the company views
13 this arrangement as creating five--the benefits of
14 this arrangement will last throughout the five year
15 period and one of the principal benefits to the
16 company from that is that stability over that period
17 of time. This was not done with the assumption that
18 this is a three month or a one year fix. I think part
19 of the reason why the negotiations went on as they did
20 was to try to arrive at something that we felt from
21 the company's perspective could provide a viable plan
22 for the next five years.

23 Q Next I believe you already addressed the
24 facility fee. Do you have any other comments to add?
25 Obviously there was a specific query in the Commission

Cerabino - Direct by Mr. Ribis

1 report. I believe you addressed them.

2 A Well, yes, questions were raised as to and
3 questions were raised as to why there were specific
4 equity liens granted to particular lenders and I
5 think, you know, the best I can answer that is to say
6 that in order to get the benefits of this agreement we
7 had to give something and in the case of the lenders
8 under the Override Agreement, it was necessary to give
9 them a fee for their agreement to defer these interest
10 obligations. It does not create an obligation of a
11 casino entity, it does not affect any possible
12 restructuring or refinancing of casino debt, merely
13 places some claim on the proceeds, a percentage of the
14 proceeds that Donald may receive at some future point
15 in time from certain capital events at the casinos.
16 The priority liens given to the other banks is the
17 same thing. They have existing loan obligations which
18 they are agreeing to defer, but in order to do that
19 they wanted to have some right to the extent money
20 flows out to be able to get paid first and to buttress
21 that agreement with a first equity lien on the
22 specific casino equity involved. So it was all part
23 of a give and take and negotiation with the banks
24 where overall neither side probably got everything
25 that they wanted, but both sides feel as if it is a

Cerabino - Cross by Mr. Auriemma

1 fair arrangement.

2 Q Do you have anything you would like to add
3 to your explanations which have been quite detailed
4 for the Commission's edification?

5 A Not at the present time.

6 MR. RIBIS: I have nothing further.
7 Thank you very much.

8 ACTING CHAIR ARMSTRONG: Mr.
9 Auriemma.

10 CROSS-EXAMINATION

11 BY MR. AURIEMMA:

12 Q Mr. Cerabino, one of the things called for
13 by the agreement is the selection of a new senior
14 executive officer, correct?

15 A Yes.

16 Q And that's been accomplished by the
17 selection of Mr. Bollenbach?

18 A Yes, it has.

19 Q My reading of the agreements indicates
20 that that was a Trump organization decision?

21 A I think as I have testified that is my
22 understanding that the bringing on board of a senior
23 executive officer in this capacity was something
24 deemed necessary and was done at the Trump
25 organization.

Cerabino - Cross by Mr. Auriemma

1 Q And my reading of the documents suggest
2 that there was no prior approval of the banks
3 necessary for that selection. Is that an accurate
4 assumption?

5 A Well, the agreement provides that, I
6 believe, that the person who would be designated would
7 be acceptable to the banks. Mr. Bollenbach is here
8 and he is on board. So I presume that he is
9 acceptable to the banks, but I can't tell you that we
10 could have brought anybody on board that is not
11 right. I mean the person has to be acceptable to them
12 and, in fact, is.

13 Q So if a successor at some point in time to
14 Mr. Bollenbach were named, it would--that person would
15 presumably have to be acceptable to the banks?

16 A Yes.

17 Q Pursuant to these agreements I think you
18 have described that there are monthly, quarterly and
19 annual reports that are to be given to the banks; is
20 that right?

21 A Yes.

22 Q And you would have no objection, or would
23 you, if the same reports were given simultaneously to
24 the Commission and Division?

25 A I don't believe so, no.

Cerabino - Cross by Mr. Auriemma

1 MR. RIBIS: We do not have an
2 objection to that obviously.

3 BY MR. AURIEMMA:

4 Q In the ordinary course--let's go to a
5 hypothetical. In the ordinary course of a bank
6 granting a loan to a major corporation, major U.S.
7 corporation, a bank wouldn't ordinarily require some
8 of the reporting requirements that are now--

9 A Sure.

10 Q --part and parcel of these?

11 A That's exactly right. I mean the
12 reporting obligations as part of this agreement are
13 very, very detailed. In my experience they go beyond
14 what you would normally see in financial reporting
15 obligations of a borrower, but let's face it, this was
16 an issue that the banks going forward were very
17 concerned about and the company, from the company's
18 perspective there is nothing to hide, and the company
19 was amenable to providing these very detailed reports
20 in recognition of the fact that that's a reasonable
21 request from the lender.

22 Q In short, the reason for all these reports
23 and the frequency of them is basically required by the
24 severity of the problem and the uniqueness of the
25 problem?

Cerabino - Cross by Mr. Auriemma

1 A That's a reasonable assumption.

2 Q Getting to the business plan for a moment,
3 we know at the moment that the June 14 Leventhal
4 report as updated constitutes the business plan; is
5 that an accurate statement?

6 A Yes.

7 Q That has been shared with the banks?

8 A Yes.

9 Q And on a going forward basis revised
10 business plans and annual plans have to be submitted
11 to the banks?

12 A Yes.

13 Q In your experience as a practicing
14 attorney, have you encountered situations where
15 business plans are ordinarily shared with their
16 lenders?

17 A I think it's customary to have some
18 projection or budget of a business being delivered to
19 lenders. That is very, very customary.

20 Q Is that customary in a situation where a
21 company is, to use laymen's terms, fiscally healthy or
22 fiscally in trouble?

23 A Yes. It applies in either case.

24 Q Just to make it crystal clear again, I
25 think we have gone over this a number of time, if this

Cerabino - Cross by Mr. Auriemma

1 agreement were to fall through for some reason or lack
2 of approval or whatever, Mr. Trump and various
3 entities would, within his organization, would be in
4 default on loans, correct?

5 A That is a distinct possibility, yes.

6 Q And assuming, as you said, that then each
7 lender could pursue its right under its loan
8 obligations, a number of things could happen?

9 A That's right. I mean presumably the
10 lenders would seek to obtain judgments for their loan
11 amounts and once they have a judgment in hand to seek
12 to enforce that judgment against whatever they could
13 find.

14 Q So presumably there would be lawsuits,
15 foreclosures, there would be a judgment at some point
16 in time and whatever assets were not otherwise
17 incumbered could be subject to--

18 A Subject to foreclosure.

19 Q --to foreclosure.

20 Have you read the two reports
21 prepared by the Division of Gaming Enforcement which
22 have been marked as D-1 and D-2?

23 A I have. Sorry, I think I read one
24 Division of Gaming Enforcement report and one report
25 of the staff of the casino.

Cerabino - Cross by Mr. Auriemma

1 Q Did you read the 111 page financial report
2 of the Division?

3 A I read parts of that.

4 Q Right now in general terms the vast
5 majority of debt on the casino hotels in Atlantic City
6 is public bondholder debt?

7 A Yes.

8 Q About 1.3 billion dollars worth; is that
9 correct?

10 A That's right.

11 Q And these agreements in general terms do
12 not deal with the restructuring of that debt at all?

13 A That's correct.

14 Q And that's the subject of First Boston's
15 retainage?

16 A Yes.

17 Q At the time these agreements were being
18 negotiated through late spring and early summer with
19 the banks, was it contemplated that casino debt
20 restructuring was going to occur?

21 A No. I think we--I will say it depends on
22 what part of the process you are at and, you know,
23 April's view and, again, I am probably not the right
24 person to ask this question of, but it has become
25 clear and it was the subject of discussion that there

Cerabino - Cross by Mr. Auriemma

1 are issues that have to be dealt with there and in
2 terms of negotiating the provisions that are in the
3 agreements that you have regarding specifically the
4 possibility of exchange offers and the issuing equity,
5 those provisions were discussed. I can't pinpoint a
6 point in time when that happened, but clearly sitting
7 where we are today, yes, that possibility has been
8 discussed.

9 Q You have indicated that the--there will be
10 no liens by virtue of this new agreement on the assets
11 of the casino hotels, only on Mr. Trump's equity.

12 A Uh-huh.

13 Q Could you explain to this Commission what
14 the difference is?

15 A Well, the difference is that, just to
16 clarify, I mean while there are covenants which
17 say--which regulate the ability to put new liens in
18 favor of somebody else, a so-called negative pledge,
19 but in terms of these lenders, no lender has been
20 given a right to seek to enforce his existing debt
21 obligation directly against the assets of a casino
22 entity or directly against that casino entity, that
23 the difference in this being an equity pledge is the
24 most that the lenders can achieve through a pledge of
25 the equities to be put in the same position where Mr.

Cerabino - Cross by Mr. Auriemma

1 Trump is today with respect to that asset, and that
2 entitles him and by structurally an equity holder is
3 subordinated to any of the existing creditors or
4 future creditors of that casino entity. So the equity
5 lien is just--puts the lender should that lien be
6 foreclosed in the place of Mr. Trump.

7 Q So, again, let's talk hypothetically for
8 the moment. Is there a scenario that could
9 potentially have been if there ultimately is an event
10 of default that is not waived and there is a
11 foreclosure action against the equity of Mr. Trump in
12 let's stick with the Taj Mahal for the moment,
13 foreclosure action against that equity, is it a
14 possible scenario that the lenders could become owners
15 of that casino hotel with the first bond--with the
16 public bondholders still retaining a first lien and
17 still being debt holders?

18 A The foreclosure under the equity lien
19 could not in anyway affect the rights that the first
20 mortgage bondholders have or, for that matter, the
21 rights that any of the creditor of those companies
22 have against that particular company. It merely puts
23 them in the position, and, again, this is subject to
24 protections and subject to obviously timing factors
25 and subject to Casino Control approval and everything

Cerabino - Cross by Mr. Auriemma

1 else that could possibly occur before that.

2 Q I would like to go back to a hypothetical
3 example you gave this morning about a special
4 foreclosure and I think you used the Plaza Hotel.
5 Assume for the moment the Plaza Hotel--strike that.

6 Plaza Hotel is one of the loans that
7 has to be kept current; is that correct?

8 A My understanding is the senior mortgage
9 loan at the Plaza Hotel does. There is a
10 second--there is a loan made to the company that owns
11 the Plaza Hotel that does have a full three year
12 principal and interest deferral.

13 Q Suppose in a worst case scenario things do
14 not go well there, there is default on that loan, a
15 foreclosure and a special foreclosure vis-a-vis that
16 particular asset, I think you have indicated this
17 morning that would not affect the Atlantic City casino
18 hotels?

19 A Well, I think it's a process and
20 ultimately it should not and the process is if, for
21 example, the first mortgage holder had a right to
22 accelerate his loan and that created rights on any
23 other lender who has a lien related to the Plaza Hotel
24 to foreclose on its lien under the special foreclosure
25 events provision, we would expect that that provision

Cerabino - Cross by Mr. Auriemma

1 would be isolated there. However, if the event is one
2 that could be an event of default under our agreement,
3 we would be into the voting mechanism. Now, what
4 special foreclosure events does is it gives the lender
5 an easy way to say I will go after my asset and I will
6 preserve the rest of this structure which obviously is
7 in addition to being beneficial to the company it's
8 beneficial to them.

9 Q Suppose hypothetically the lender went
10 after that particular asset and ultimately its loan
11 obligation was not satisfied by the asset, would that
12 potentially or could that potentially be an event of
13 default?

14 A No. If there is--assuming that there
15 isn't an event of default from the mere fact and the
16 foreclosure is limited to the asset under these
17 foreclosure event provisions. What would happen is
18 there could be a deficiency claim if as a result of
19 the foreclosures the people who have liens on that
20 asset weren't satisfied with the proceeds, that
21 deficiency claim would exist, would not go away. To
22 the extent that the obligation that was accelerated
23 was a personal obligation of Mr. Trump, that
24 obligation would not disappear, but it would go to the
25 end of the five year period at which point the

Cerabino - Cross by Mr. Auriemma

1 moratorium would end and those claims could be
2 asserted. However, a lot of--some of the debt anyway
3 is nonrecourse to Mr. Trump currently. On a lot of
4 the assets I believe the company feels there is equity
5 value there which would be sufficient in a sale
6 context to satisfy many of the existing liens that
7 would be put on there, but in terms of any deficiency
8 there is no way that that gets translated into a claim
9 against him personally to the extent he currently has
10 that for five years short of some other event
11 occurring that accelerates the moratorium.

12 Q Another event of default relates to a
13 judgment in excess of five million dollars against Mr.
14 Trump. Again, speaking hypothetically, there is
15 litigation, there is lots of litigation Mr. Trump is
16 involved in, but one in particular where the claims
17 are quite extraordinary involves the Penthouse
18 litigation in Atlantic City involving other casino
19 related entities as well. That's been scheduled for
20 trial on November 13. Suppose, again, hypothetically,
21 a judgment were rendered in excess of five million
22 dollars against Mr. Trump, are you telling us that
23 that would be subject to the balloting procedure that
24 you described earlier?

25 A Yes.

Cerabino - Cross by Mr. Auriemma

1 Q And presumably the banks would weigh the
2 benefits versus the detriments of declaring an event
3 of default at that point in time?

4 A That's right. Now, I think, you know, in
5 reality, and I'm not familiar with the issues in the
6 particular case, but these are not events which occur
7 overnight either and to the extent that there was such
8 a judgment out in the future somewhere, yes, that
9 would go through the balloting procedures.

10 Q Let's now talk about another asset which
11 was analyzed thoroughly in the Division's financial
12 report, exhibit D-2, the Trump Shuttle. Much has been
13 written about the economic problems of the shuttle.
14 What would the effect be upon Atlantic City casinos if
15 there were a default on obligations of the shuttle
16 which by my reading of the documents loans have to be
17 kept current there?

18 A The existence of problems at that asset,
19 and without saying there are problems at that asset,
20 the shuttle was excluded specifically from a number of
21 the default provisions. So a lender as part of this
22 deal could not claim that there is a material adverse
23 change in the Trump Shuttle and, therefore, I want--I
24 insist that we go through this balloting process.
25 That could not rise to the level of default. The

Cerabino - Cross by Mr. Auriemma

1 payment obligations on a lot of the shuttle, the
2 shuttle junior debt was also deferred so there is no
3 possibility within this three year period short of a
4 foreclosure event of a current payment obligation on
5 that debt. The senior debt is to be maintained
6 current, but I think basically what the agreement does
7 with respect to that particular asset is isolate any
8 problems short of an actual bankruptcy filing at that
9 entity from effects under this agreement and,
10 therefore, effects in Atlantic City.

11 Q Let's compare the two, the Trump Shuttle
12 and the Plaza Hotel. If for whatever reason there was
13 a desire to file a voluntary bankruptcy proceeding,
14 vis-a-vis the shuttle or vis-a-vis the Plaza Hotel,
15 what would the effect be on the Atlantic City casino
16 hotels?

17 A Well, none directly. Again, that could be
18 subject to balloting. If two-thirds of the lenders
19 said this is material enough to the whole transaction
20 that we spent three months negotiating to unwind it,
21 that they could elect to do that by a two-thirds vote
22 and then seek to go against their collateral. Their
23 collateral is subject to these complicated priorities,
24 but some of that being the lien on the equity, but,
25 again, the only ultimate effect as to that would be

Cerabino - Cross by Mr. Auriemma

1 the foreclosure of an equity lien, but, you know, in
2 the same way obviously foreclosures are not healthy,
3 but the whole purpose of this agreement is to avoid
4 that. So, yes, while those problems could occur in
5 the future, we feel that this agreement will
6 substantially lessen the likelihood that we will be
7 faced with it.

8 Q With respect to the balloting procedure
9 among the banks, are there any written standards set
10 forth in either the Credit or Override Agreements as
11 to what criteria should be used in evaluating whether
12 to declare an event of default or not?

13 A No, there are none specified and that's
14 left to the business judgment of the particular
15 lenders. But as I alluded to, I think there is a
16 fairly developed body of case law which
17 notwithstanding what loan agreements say are pretty
18 uniformly construed by bank lawyers and practitioners
19 to mean that banks don't accelerate or can't
20 accelerate loans for trivial reasons, for technical
21 defaults or for reasons that aren't reasonable under
22 the circumstances.

23 Q Let's focus on a casino hotel for the
24 moment. Suppose there were no casino debt
25 restructuring and one of the casino hotels defaulted

Cerabino - Cross by Mr. Auriemma

1 on its bond payments and could not make it in the
2 grace period, and assume there was a foreclosure, what
3 effect would that have vis-a-vis the new money
4 facility and the Credit and Override Agreement?

5 A That would be an event with commencement
6 of foreclosure actions which would put us into the
7 balloting process, could be a default.

8 Q So there could be a situation assuming,
9 again, there were no casino debt restructuring, where
10 a default occurred at one casino hotel, a foreclosure
11 action ensued, the banks would go through a balloting
12 procedure, make a determination at that point in time
13 whether or not to waive it or proceed with their
14 rights?

15 A Yes. Keep in mind the fact that all of
16 that--none of that exists today in terms of the
17 safeguards. So a bank who has a loan agreement that
18 says if there is a material adverse change I can
19 accelerate my loan may seem to assert that right in
20 the absence of that agreement based on those same
21 events. So the answer to your question is yes.

22 Q The phrase "material adverse change," is
23 that defined in the agreements in anyway?

24 A No.

25 Q In your opinion, is that phrase subject to

Cerabino - Cross by Mr. Auriemma

1 standard interpretation under established case law?

2 A I think there is a reasonable standard
3 attached to this and to everything.

4 MR. AURIEMMA: Madam Chair, I am
5 about to go into other areas.

6 ACTING CHAIR ARMSTRONG: Why don't we
7 stop here and we will break for one hour and be back
8 at 2:00.

9 (At which time a lunch break was
10 taken)

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C E R T I F I C A T E

I, CAROLYN GERBER, a Certified Shorthand Reporter and a Notary Public of the State of New Jersey, do hereby certify the foregoing to be a true and accurate transcript of my original stenographic notes taken at the time and place hereinbefore set forth.

Carolyn Gerber

CAROLYN GERBER, CSR

Dated: August 17, 1990.