



State of New Jersey

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT

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January 22, 1988

Members of the Commission
Casino Control Commission
3131 Princeton Pike
Building #5, CN-208
Trenton, New Jersey 08625

RE: IN THE MATTER OF THE APPLICATIONS OF RESORTS INTERNATIONAL HOTEL, INC. FOR RENEWAL OF ITS CASINO LICENSE, THE TRUMP HOTEL CORPORATION FOR ISSUANCE OF A CASINO LICENSE, AND LECTROLARM CUSTOM SERVICES, INC. AND INTERNATIONAL INTELLIGENCE, INC. FOR RENEWAL OF CASINO SERVICE INDUSTRY LICENSES

Honorable Commissioners:

I. INTRODUCTION

By Resolution No. 87-144, effective February 26, 1987 and for a period of one year, the Casino Control Commission ("Commission") renewed: the casino license of Resorts International Hotel, Inc. ("RIH" or "licensee"), a non-publicly traded New Jersey corporation which operates the Resorts International Hotel and Casino ("RICH") and is wholly owned by Resorts International, Inc. ("Resorts" or "RII"), a publicly traded Delaware corporation; the casino service industry license of International Intelligence, Inc. ("Intertel"), a Delaware corporation and subsidiary of Resorts; and the casino service industry license of Lectrolarm Custom Systems, Inc.

THC's application for a casino license, will apprise the Commission of the results of the Division's investigation and summarize significant developments as concern RIH, Intertel and Lectrolarm.

II. THE TRUMP HOTEL CORPORATION ("THC")

THC is neither a subsidiary or affiliate of Resorts, RIH, Intertel or any related entities. THC, subject to its payment of an application fee pursuant to N.J.A.C. 19:41-9.4(b), is an applicant for a casino license. That application on the part of THC for initial licensure as a casino licensee is being considered by the Commission in conjunction with the instant license renewal proceeding.

As noted previously, and as more particularly described within appropriate sections of this report which follow, THC is a party to a management agreement approved by the Commission on December 16, 1987, which agreement among other things calls for THC's management of the casino hotel operations of RIH and the Taj Mahal, when completed. As a party to the said agreement, THC is required to hold a casino license pursuant to N.J.S.A. 5:12-82(3) and N.J.S.A. 5:12-82(c)(7).

THC is a non-publicly traded New Jersey Corporation formed on September 1, 1987. THC filed with the Commission a Business Entity Disclosure Form ("BEDF") in connection with its application for a casino license on October 8, 1987, which filing was amended by THC on November 5, 1987 and on or about January 15, 1987. THC's amended BEDF filing reflects: that Donald J. Trump, who was elected Chairman of Resorts' Board of

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Directors on July 21, 1987, owns 100% of the issued and outstanding stock of THC and is the Chairman of the Board and President of THC; that Robert S. Trump, who was elected Vice-Chairman of Resorts' Board of Directors on July 21, 1987, is Director/Vice-President of THC; and that Harvey I. Freeman, who was elected to Resorts' Board of Directors on July 21, 1987, is a Director/Vice-President of THC. Each of these individuals have previously been found to be qualified by the Commission and, most recently, pursuant to the 1987 casino license renewal proceeding of Trump's Castle Associates.

In addition to Donald J. Trump, Robert S. Trump and Harvey I. Freeman, the Division has identified the following individuals as persons required to qualify, with respect to THC's application for casino licensure, under the terms of the Act and the regulations promulgated thereunder: 1) Walter Haybert, identified in THC's amended BEDF as a Vice-President, whose duties include assisting THC in its relationship with Resorts; and 2) Richard Meister, also identified in THC's amended BEDF as a Vice-President, whose duties relate primarily to construction activity at the Taj Mahal and RICH. See "Exhibit A" hereto, prepared by Commission Staff. The Division would note that Mr. Haybert has held a key casino license (#649-11) since November 14, 1980, while Mr. Meister was issued a casino license (#25309-22) on November 12, 1982 and, since January 21, 1987, has held a key casino license (#3637-11). The Division is continuing its investigation into the suitability of Messrs. Haybert and Meister with respect to their status as

qualifiers of THC and, at this time, anticipates reporting upon the qualifications of each at the license renewal proceeding.

The Division has previously apprised the Commission of several matters relevant to THC's application for a casino license. See Division's November 10, 1987 Answer re: Application of Resorts International, Inc., Resorts International Hotel, Inc., Resorts International Financing, Inc., The Trump Hotel Corporation and Donald J. Trump for Declaratory Rulings, PRN 281707 at pp. 35-36. The Division there observed that THC is not properly a casino license applicant as it has not paid its casino license application fee pursuant to N.J.A.C. 19:41-9.4(b) and that, although mandated by N.J.S.A. 5:12-82(d)(6), THC's certificate of incorporation failed to specifically include among its stated purposes the conduct of casino gaming. Moreover, the Division emphasized that THC is required by N.J.S.A. 5:12-82d(2) through (5) to maintain an office in the licensed premises, maintain all operating accounts required by the Commission in a bank in New Jersey and, among other things, maintain a ledger in its office in New Jersey which shall at all times reflect the current ownership of every class of security issued by the corporation and be available for inspection by the Commission or Division.

Through a December 23, 1987 letter to counsel for THC, Commission staff requested that THC address several of these and additional matters. In response thereto, on or about January 15, 1988, THC filed with the Commission: 1) copies of its "Amended and Restated Certificate of Incorporation", a related

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"Certification of Adoption" and a petition seeking Commission approval of the "Amended and Restated Certificate of Incorporation"; 2) a copy of THC's revised "By-Laws"; 3) and an Original Certification regarding THC's compliance with N.J.S.A. 5:12-82(d). THC, on that same date, also amended its BEDF filing to reflect that Walter Haybert and Richard Meister are indeed Vice-Presidents of the corporation and submitted to the Commission a certification of Donald J. Trump. Through that certification, Mr. Trump has represented that THC is in compliance with all New Jersey laws pertaining to corporations, that THC maintains a stock ledger account in its registered office in New Jersey, that THC has an office in RICH and that THC maintains all operating accounts required by the Commission in New Jersey banks.

Thus, with the exception of the payment of its casino license application fee, THC has remedied each of the deficiencies as previously noted by the Division and Commission

staff.¹ The Division will state its position, as concerns the Commission's issuance of a casino license to THC, at the conclusion of the license hearing.

III. QUALIFIERS: RIH, INTERTEL AND LECTROLARM

A. Entities

1. Resorts International Hotel, Inc. ("RIH")

RIH was issued a temporary casino permit which was effective May 26, 1978. It was issued a plenary casino license effective February 26, 1979, which casino license has been renewed annually since that time.

In conjunction with RIH's application for relicensure, two entities are required to demonstrate their continued

1 The Division would note that, effective January 4, 1988, N.J.S.A. 5:12-88 was amended to provide that a casino license shall be effective for a period of one year for the initial license and the first two renewals thereof. Thereafter, a casino license under the amendment is to be renewed for a two year term, although the Commission on its own accord or at the request of the Division may reopen licensing hearings at any time. Further, N.J.S.A. 5:12-88, as amended, gives the Commission discretion, for purposes of facilitating its administration of the Act, to renew the casino license of licensees who initially opened after January 1, 1981, for a period of one year and on a one-time basis. Here, RIH commenced operations prior to that date and in May 1978. Thus, as properly noted in the Entities and Qualifiers Report prepared by Commission staff, any renewal of RIH's casino license shall be for a two-year period, while any casino license issued to THC must be limited to a one year term.

qualification for licensure, that is, RIH and its holding company, Resorts.²

Resorts, as noted previously, is a publicly traded Delaware corporation.³ Resorts is also the sole shareholder of RIH, Resorts International Hotel Financing, Inc. ("RIHFI") Resorts International Financing,, Inc. ("RIF") and Resorts International, Inc. of New Jersey ("RINJ"). RIH, RIF and RINJ are each New Jersey corporations. As noted previously, RIH operates the Resorts International Hotel and Casino located at North Carolina Avenue and the Boardwalk, Atlantic City, New Jersey. RIF has issued and outstanding \$200 million principal amount 16-5/8% subordinated sinking fund debentures unconditionally guaranteed by RII on a subordinated basis and, although not a holding or intermediary company as to the licensee, it has been determined to be a financial source of RIH. RINJ is an applicant for a casino license and the owner of the casino hotel facility under construction in Atlantic City to

2 In addition to being a holding company of RIH, Resorts is required to hold a non-gaming casino service industry license by virtue of its lease with Atlantic City Showboat, Inc. See Resolution No. 86-597.

3 In addition to 752,297 shares of issued and outstanding Class B Common stock ("B stock"), the authorized capital stock of Resorts consists of 5,679,411 shares of issued and outstanding Class A common stock ("A stock"). Both types of stock are identical in all respects except that one share of B stock entitles the holder to one vote, while one share of A stock entitles the holder to 1/100th of a vote.

be known as the Taj Mahal. RIHFI is a Delaware corporation having been formed for the purpose of serving as an instrument through which financing could be obtained to complete the Taj Mahal's construction. As discussed below, Resorts is the majority stockholder of Intertel, which itself is the majority shareholder of Lectrolarm.

2. International Intelligence, Inc. ("Intertel")

Together with RIH's application for relicensure, Intertel is seeking a renewal of its gaming related casino service industry license. Intertel was incorporated in the State of Delaware in 1970 and maintains its principal office in Rockville, Maryland. It operates through several business locations, including one located in Atlantic City, New Jersey. Intertel, a 99.8% owned subsidiary of Resorts, furnishes services focusing on investigating, analyzing and resolving issues pertaining to the protection, preservation and enhancement of corporate assets.

The Division has reviewed various documentation submitted by Intertel, including its BEDF filed in support of its application for relicensure, and has identified the following individuals as persons required to qualify for licensure under the terms of the Act and regulations promulgated thereunder: 1) Robert D. Peloquin, Chairman of the Board; 2) Thomas J. McKeon, President; 3) Vadja V. Kolombatovic, Executive Vice-President; 4) John J. Olszewski, Vice-President, Financial Services; and 5) Gary Gardner, Vice-President, Atlantic City office. All of the above named individuals, with the exception of John J.

Olszewski, have been previously qualified by the Commission in conjunction with Intertel's current casino service industry license. Mr. Olszewski, it should be noted, was last required to qualify, as a member of Resorts' Audit Committee, pursuant to the licensee's 1985 license renewal proceeding. In April 1985, Mr. Olszewski commenced employment with Intertel as Vice-President of Financial Services. Mr. Olszewski has been identified as a qualifier of Intertel as a result of his appointment, on May 7, 1987, to Intertel's Board of Directors. The Division has initiated an investigation into the suitability of Mr. Olszewski as a qualifier of Intertel and, at this time, anticipates reporting upon his qualifications at the license renewal proceeding.

Although the Division's investigation has not revealed derogatory information as concerns Intertel, the Division's investigation has revealed what appears to be a deficiency in Intertel's operational procedures. That deficiency, discussed infra., relates to the disclosure of derogatory information discovered by Intertel investigations with regard to prospective employees and vendors of the casino licensee.

3. Lectrolarm Custom Systems, Inc. ("Lectrolarm")

As is true of Intertel, Lectrolarm is seeking a renewal of its casino service industry license which will expire on February 26, 1987. Lectrolarm, which is an 80% owned subsidiary of Intertel, maintains its principal address at Memphis, Tennessee. The remaining 20% interest in the company is held by William V. Smith, Lectrolarm's Director/President. Lectrolarm

provides system design, development, installation and maintenance of closed circuit television security systems and other sophisticated electronic devices to law enforcement agencies and private industry. Lectrolarm, for example, has developed and maintained the CCTV system for RICH and the Sands Hotel and Casino in Atlantic City. In addition, the corporation is in the process of installing a CCTV system, at an estimated cost of \$2,764,554, for the Taj Mahal complex.

The Division has reviewed various documentation submitted by Lectrolarm, including its BEDF filed in support of its application for relicensure, and has identified the following individuals as persons required to qualify for licensure under the terms of the Act and the regulations promulgated thereunder:

- 1) Robert D. Peloquin, Chairman of the Board;
- 2) William V. Smith, Director/President;
- 3) Thomas J. McKeon, Vice-President and Secretary;
- and 4) Thomas F. O'Donnell, Treasurer.

Each of these individuals have been previously qualified in connection with Lectrolarm's current casino service industry license. The Division, during the course of the license renewal year, has uncovered no derogatory information with respect to Lectrolarm.

B. Individual Qualifiers: Resorts, RIH

Thirty two (32) individuals are required to qualify to the standards applicable to a casino key employee, as required by N.J.S.A. 5:12-85(c), (d) and (e), with regard to Resorts and RIH. Those thirty two qualifiers and their respective positions are set forth on the attached "natural person qualifiers" list ("Exhibit B"), incorporated herein, which was compiled by

Commission Staff. The Division has reviewed the information contained in the list and is in agreement therewith.

The Division would call the attention of the Commission to the following deletions from the licensee's qualifiers list, as compared with that applicable at its last renewal: 1) Georgiana Farr Abreu (RII-Vice President, Interior Design); 2) Marvin Ashner (RIH-Director, President and Chief Operating Officer); 3) William M. Crosby (RII-Director, Vice President and Security Holder); 4) Jack Johnston (RIH-VP, Casino Manager); 5) Antonio Mancheno (RIH-VP, Latin American Marketing); 6) Charles E. Murphy, Jr. (RIH-Director; RII-Director, Vice Chairman of Board and Ass't Secretary; RIF-Director); 7) Elaine Murphy (RII-Security Holder); 8) Henry B. Murphy (RII-Director, Chairman of Board and Secretary; RIF-Director); 9) Suzanne Murphy (RII-Security Holder); 10) Columbus O'Donnell (RII-Special Projects); and 11) Stuart Platt (RIH-Senior VP, Hotel Operations).

The Division would also call to the Commission's attention the following additions to the licensee's qualifier list, as compared with that applicable at its last renewal: 1) John A. Arnesen (RIH-Executive VP, Operations); 2) John M. Egnor (RIH-VP, Facilities); 3) Harvey I. Freeman (RII-Director); 4) Horst Gaumert (RIH-Senior VP, Hotel Operations); 5) Jeffrey Ross (RIH-Executive VP, Casino Operations); 6) Donald J. Trump (RII-Director, Chairman of the Board and Security Holder); and 7) Robert S. Trump (RII-Director and Vice-Chairman of the Board).

All of the above listed individuals now required to qualify relative to RIH's casino license renewal application, with the exception of John A. Arnesen and Horst Gaumert, have previously been qualified by the Commission or hold current, valid casino key employee licenses. As concerns those previously qualified individuals, the Division's investigation has not to date established any matters which would impact negatively upon their suitability as qualifiers of the licensee. The Division, at this time, anticipates reporting upon the qualifications of Mr. Arnesen prior to the February 1, 1988 license renewal proceeding. With regard to Mr. Gaumert, who was granted a temporary casino key employee license from the Commission on December 9, 1987, the Division was formally advised by the licensee, on January 4, 1988, that he had been employed by RIH in the position of Senior Vice President - Hotel Operations, effective January 1, 1988. The Division has initiated an investigation into the suitability of Mr. Gaumert as a qualifier of RIH and will make every effort to report upon its findings to the Commission prior to the licensee's February 26, 1988 license expiration date.

C. Financial Sources

Several institutions and individuals have been identified by staff members of the Commission and the Division as financial sources of RIH. These entities and a description of their respective interests are set forth on the attached list designated as "Exhibit C." The financial sources have all been previously qualified by the Commission. The Division calls to

the attention of the Commission that First Fidelity Bank, N.A., although designated a financial source of RIH in connection with the licensee's 1986 license renewal proceeding, has obtained an additional interest in the licensee, as delineated in paragraph nine of Exhibit C hereto, by virtue of a \$75,000,000 loan it made to RIH on December 28, 1987.⁴ Based upon its continuing investigation, the Division has not ascertained any derogatory information with regard to the identified financial sources of RIH.

D. Security Holders

1. RIH

As noted above, RIH is a non-publicly traded New Jersey corporation. It has issued and outstanding one hundred (100) shares of common stock, all of which is held by Resorts, a holding company of RIH which must be qualified in connection with the instant application.

4 The Division has determined that these funds were utilized to pay off a \$15,000,000 debt which resulted from RIHI's establishment of a revolving line of credit with the Midlantic National Bank and to pay off a \$30,875,000 debt which resulted from RIH's establishment of a previous revolving line of credit with First Fidelity. The remaining proceeds of this loan have been allocated to the Taj Mahal construction project, general/corporate interest and trade payables.

2. Resorts

As previously described, Resorts is a publicly traded Delaware corporation and the parent company of RIH. Resorts has 5,679,411 shares of Class A common stock ("A stock") and 752,297 shares of Class B common stock ("B Stock") issued and outstanding. One hundred shares of A Stock is the voting equivalent of one share of B Stock.

At the time of RIH's 1986 license renewal proceeding, no one shareholder of Resorts held in excess of 5% or more of the combined voting authority of Resorts common stock except: 1) the Estate of James M. Crosby (48%); 2) Elaine C. Murphy (10.3%); 3) Suzanne C. Murphy (5.4%); and 4) Cede and Co., the nominee of the Depository Trust Company, New York, New York ("Cede").

By virtue of a March 8, 1987 purchase and sale agreement between Donald J. Trump and the estate of James M. Crosby and several members of the Crosby and Murphy families, as more particularly described below, Mr. Trump, at the July 21, 1987 closing on the transaction contemplated by the purchase and sale agreement, acquired 585,067 shares of B stock. That total number of shares included Mr. Trump's purchase of 390,783 shares of B stock from the estate of James M. Crosby, 83,471 shares from Elaine C. Murphy and 43,988 shares thereof from Suzanne C. Murphy. As a result of that transaction, as of July 21, 1987, neither Mr. Crosby's estate, Elaine C. Murphy nor Suzanne C. Murphy held in excess of 5% or more of the companies combined voting authority. Mr. Trump, on the other hand, acquired 77.8%

of the B stock, a 9.10% ownership interest in Resorts and a 72.3% voting control interest in Resorts. As of January 11, 1988, for reasons explained infra., Mr. Trump had increased his Resorts B stock holdings by approximately 124,918 shares to a total of 709,985 shares. That amount of B stock represents approximately 94.4% of the issued and outstanding B stock, an 11% ownership interest in Resorts and a 87.7% voting control interest in the company.

Presently, no one shareholder of Resorts holds in excess of 5% or more of the combined voting authority of the companies common stock except: 1) Donald J. Trump (87.7, as of January 11, 1988); and 2) Cede (15.79, as of December 9, 1987). The licensee submitted a security position listing to the Division which contains the identities and amounts of shares owned by the various shareholders for whom Cede holds Resorts stock. Based upon its investigation and review of that shareholders list, the Division determined that none of the listed shareholders own 5% of the combined voting authority of Resorts common stock.⁵

5 The only owners or beneficial owners of five percent or more of either class of Resorts' common stock are: Donald J. Trump, 711,985 shares of B stock or 94.6% of that total issued and outstanding class (as of January 11, 1987); Tweedy Browne Company, L.P., approximately 484,195 shares of A stock or 8.53% (or .0059 voting control in the company) of that total issued and outstanding class of shares (as of December 29, 1987); and Mutual Shares Corporation/Mutual Qualified Income Fund Inc./Mutual Beacon Fund, Inc./North American Assets Limited/NAS Limited which aggregately owns 298,400 shares of A stock or 5.25% (or .0036 voting control in the company) of that total and outstanding class of shares (as of December 7, 1987).

Resorts additionally has the following debt securities outstanding: a) \$230,000,000 principal amount 11-3/8% subordinated debentures due April 1, 2013; b) \$95,080,500 principal amount 10% subordinated debentures due June 1, 1998; and c) \$75,000,000 principal amount 10% subordinated sinking fund debentures due August 1, 1999. Resorts also guaranteed the issuance of \$200,000,000 in 16-5/8% subordinated debentures due September 1, 2004, which were issued by RIF. All of the cited Resorts debt offerings are publicly traded and, according to lists of debenture holders together with a security position listing of Cede (which identifies the various persons for which Cede holds these debentures), they are widely distributed among their respective holders.⁶

On October 30, 1987, a petition was filed on behalf of Resorts and RIH requesting that the Commission and Division waive the qualification requirement, in conjunction with this

6 Commission staff has identified the RIF 16-5/8% subordinated debentures as securities of RIF and not Resorts. The Division's investigation has disclosed no circumstances which would warrant any RIF debenture holder being designated a financial source or qualifier of RIH. The Division's position with respect to the latter, however, is expressly conditioned on the presentation of additional satisfactory evidence that "SSB CUST," listed as holders of the RIF debentures (totalling \$36,583,000 or approximately 18.2% of the total debenture issuance) under or through CEDE, do not hold the amount listed for their own accounts. However, as also noted by Commission Staff in its Entities and Qualifiers Report, the Commission's other rulings at the time the mortgage-backed notes were issued remain unaltered, that is, RIF remains a qualifier and financial source of RIH, and the trustee (The Royal Bank and Trust Company) is still an RIH financial source.

license renewal, as to all Resorts security holders except Donald J. Trump. See In The Matter of Petition of Resorts International, Inc., and Resorts International, Inc. For Waiver of Qualification of Security Holders and of Debenture Holders of Resorts International, Inc. and Resorts International Financing Inc., PRN 303701. In view of and subject to the above, with the exception of Donald J. Trump, the Director of the Division would concur with the Commission if it deems it appropriate to waive the qualification of the described security holders of Resorts. See 5:12-85c, d(1).

IV. OTHER REPORTS

The Division has been conducting a review of various matters pertinent to RIH's casino hotel operations, and on December 28, 1987 filed a separate operational review thereto with the Commission.⁷ Relative to that report, which report is incorporated herein, the Division reviewed thirteen (13) areas relating to RIH's casino operations. Each area was reviewed for compliance with the Casino Control Act, the regulations promulgated thereunder, the Certificate of Operation, and the licensee's internal submissions. The Division, in connection with the filing of that report, also reviewed all operational modifications effected since the previous Division operational report of December 17, 1986 and the effectiveness of RIH in correcting deficiencies noted in that prior report.

7 On or about January 11, 1987, RIH filed with the Commission a written response to the Division's operational report.

The Division's December 28, 1987 operational report concluded that RIH's casino operations have generally been in conformity with the Act and regulations promulgated thereunder. Although the Division's report notes that Resorts has demonstrated a high level of compliance in some areas, it also described that in the area of internal and accounting control procedures, especially in the area of cashier shortages, prompt remedial action is necessary. The Division's report further notes that RIH has been unable to locate critical documents in conjunction with several ongoing Division investigations. In its report, the Division set forth 36 issues which are in need of resolution by the licensee and, assuming those issues are resolved prior to the license renewal proceeding, the Division's operational report states that RIH's overall compliance with the requirements for casino operations satisfy the criteria of the Act and none of the deficiencies noted therein should act as a bar to the renewal of RIH's plenary casino license. The Division's operational report further recommends that three conditions be attached to RIH's casino license or Certificate of Operation. Those conditions are as follows:

1. That Resorts develop and implement a program for the regular inspection and maintenance of slot machine coin acceptors.
2. That Resorts take immediate and effective action to reduce the number of cashier shortages by: a) reviewing existing supervisory levels over all

cashiers; and b) initiating an ongoing program of training for all cashiers.

3. That Resorts review its procedures for document storage and take whatever measures are necessary to assure that all casino related documents are immediately retrievable.

V. OTHER INFORMATION AND CORPORATE DEVELOPMENTS

A. Donald J. Trump's Purchase of 585,067 of Resorts Class B Common Stock From The Estate of James M. Crosby, Charles E. Murphy, Jr., Members of the Crosby and Murphy Families and Subsequent Developments

On March 8, 1987, Donald J. Trump entered into a purchase and sale agreement ("agreement") with the Estate of James M. Crosby, Emily M. Crosby, John F. Crosby, Marietta Crosby, Henry B. Murphy, Elaine C. Murhpy, Suzanne C. Murphy and Charles E. Murphy (collectively, the "sellers"). The agreement contemplated Mr. Trump's purchase of 585,067 shares of B stock, at a cost of \$135 per share or \$78,984,045. More particularly, the agreement encompassed Trump's purchase of: 390,783 shares (at \$52,755,705) from the Estate of James M. Crosby, the former Chairman of the Board and Chief Executive Officer of Resorts who died during lung surgery on April 10, 1986 at the age of fifty eight; 23,550 shares (at \$3,179,250) from Emily M. Crosby, the mother of James M. Crosby; 20,595 shares (at \$2,780,325) from John F. Crosby, the brother of James M. Crosby; 3,750 shares (at \$506,250) from Marietta Crosby, the wife of William Crosby (who is a brother of James M. Crosby); 4,530 shares (at \$611,550) from Henry B, Murphy, the husband of Elaine C. Murphy and brother-in-law of James M. Crosby; 83,471 shares (at

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\$11,269,585) from Elaine C. Murphy, the wife of Henry B. Murphy and sister of James M. Crosby; 43,988 shares (at \$5,938,380) from Suzanne C. Murphy, the sister of James M. Crosby; and 14,400 shares (at \$1,944,000) from Charles E. Murphy, a cousin of Henry B. Murphy.

On April 3 and 6, 1987, Donald J. Trump, Resorts and the sellers jointly filed with the Commission PRN 096701, entitled In The Matter of The Sale of Certain Shares of Class B Common Stock of Resorts International, Inc. By The Estate of James M. Crosby, Charles E. Murphy, Jr., and Members of The Family of James M. Crosby To Donald J. Trump. The filing of that petition was directly related to the above described March 8, 1987 purchase and sale agreement between Trump and the sellers, which agreement contemplated Mr. Trump's purchase from the sellers of 585,067 shares of B stock at a cost of \$135 per share. The purchase and sale agreement required that, following the closing date on the transaction, Mr. Trump commence a tender offer to purchase all of the remaining outstanding shares of B stock

(that is, 167,230 shares) at a price per share of not less than \$135.⁸

That joint petition sought relief in the form of: 1) approval of the purchase and sale agreement; 2) approval of a related confidentiality agreement; 3) approval of the transfer of the B stock to Mr. Trump; 4) the qualification of Mr. Trump as a natural person qualifier of Resorts; 5) a waiver of the provisions of N.J.S.A. 5:12-137 so as to permit closing to take place immediately following approval of the transaction by the Commission and other governing authorities; 6) a ruling that the policy directive in N.J.S.A. 5:12-1(b)(12), that the Commission regulate, control and prevent economic concentration and encourage and preserve competition in the casino industry, did

8 As noted previously, in addition to 752,297 shares of issued and outstanding B stock, the authorized capital stock of Resorts consists of 5,679,411 shares of issued and outstanding A stock. Both types of stock are identical in all respects except that one share of B stock entitles the holder to one vote, while one share of A stock entitles the holder to 1/100th of a vote. The closing on the transaction contemplated by the agreement (585,067 shares), which occurred on July 21, 1987, resulted in Mr. Trump's acquiring 77.8% of the issued and outstanding B stock; a 9.10% ownership interest in Resorts; and a 72.3% voting control interest in Resorts. On October 27, 1987, Mr. Trump announced that he would tender for Resorts remaining B stock at \$135 a share within five business days of that announcement. On November 2, 1987, Mr. Trump in fact did so. Although the tender offer was scheduled to expire on January 4, 1988, Mr. Trump on December 24, 1987 announced that the tender offer had been extended to January 11, 1988. As of the expiration of that tender offer, Mr. Trump owned 709,985 shares of B stock, which vests in him ownership of 94.4% of the issued and outstanding B stock; an 11% ownership interest in Resorts; and a 87.7% voting control interest in the company.

not constitute a bar to Commission approval of the transaction; and 7) a Commission ruling that his purchase of the B stock would not result in Mr. Trump being the holder of the casino license of Resorts, as defined in N.J.S.A. 5:12-82(b) and (e). On May 26, 1987, the Division filed with the Commission its Answer to the joint petition. On June 9, 1987, a letter response to that Answer was filed with the Commission on behalf of Mr. Trump.

The Commission considered the joint petition at its public meeting on June 10, 1987. At that time, Mr. Trump provided testimony through which he, among other things, set forth his possible intentions concerning the proposed operation of the Resorts International Hotel and Casino, Inc. ("RICH") and the Taj Mahal facility. Mr. Trump testified that only two viable alternatives, from an efficiency standpoint, exist. According to Mr. Trump's testimony, those alternatives encompassed either: the sale of RICH at or about the time of the opening of the Taj Mahal; or, a merging of the two facilities with RICH comprising a non-casino hotel and the Taj Mahal being the casino hotel facility with a 120,000 square foot casino floor. After hearing the testimony of Mr. Trump and having considered additional evidence presented before it, the Commission resolved to approve the purchase and sale agreement but not, as noted below, the operation of the Taj Mahal facility. As set forth in its Order, dated June 12, 1987, the Commission further: a) approved the confidentiality agreement, subject to certain conditions; b) approved the transfer of the B stock to Mr. Trump; c) found Mr.

Trump to be qualified as a natural person qualifier of Resorts; d) waived the provisions of N.J.S.A. 5:12-137 to permit an acceleration of the closing on the transaction contemplated by the purchase and sale agreement; e) determined that the economic concentration concerns engendered in N.J.S.A. 5:12-1(b)(12) did not constitute a bar to Commission approval of the transaction which resulted in Mr. Trump having a controlling interest in three casino hotel facilities, that is, RICH, the Trump Plaza and Trump's Castle; and f) ruled that Mr. Trump's purchase of the B stock will result in his being the holder of a casino license as defined in Sections 82(b) and (e) of the Act, and that, upon his acquisition of that stock, Mr. Trump shall therefore hold three casino licenses. In regard to the latter ruling, the Commission ordered that Mr. Trump, prior to the operation of the proposed Taj Mahal facility (if permitted), must therefore divest himself of control of one of the existing casino operations, either RICH, the Trump Plaza or Trump's Castle, to then be in compliance with the provisions of section 82(e) of the Act.

As concerns its consideration of N.J.S.A. 5:12-1(b)(12), the Commission's favorable ruling to Mr. Trump was limited to the operation of RICH, Trump Plaza and Trump's Castle. The Commission, as part of its Order, specifically noted that its decision did "not include a consideration of the impact of the Taj Mahal upon economic concentration and competition in the Atlantic City casino industry since that facility was not

specifically addressed in the joint petition and presents issues that [were] not yet ripe for disposition".

On June 17, 1987, Mr. Trump, Resorts and the sellers jointly filed a motion ("joint motion") seeking amplification of the Commission's previous ruling with respect to PRN 096701. Through the filing thereof, the joint movants sought a Commission determination of the impact of the Taj Mahal facility upon economic concentration in the Atlantic City casino industry. For the limited purpose of the resolution of that issue, the joint movants asked the Commission to assume that the Taj Mahal facility will operate with a 120,000 square foot casino floor having a maximum of 175 table games and 3,084 slot machines. On June 26, 1987, the Division filed with the Commission its Answer to that joint motion.

The Commission considered the joint motion at a hearing held on June 30 and July 2, 1987. After hearing testimony and the arguments of counsel, the Commission determined that the proposed operation of the Taj Mahal, together with two of the three existing Trump-affiliated casinos, would not constitute economic concentration. The Commission, at that time, noted that: 1) its decision was premised upon its understanding that the Taj Mahal is being constructed as a 120,000 square foot casino and that the contemplated number of rooms in that facility will fully support that casino floor square footage; and 2) its decision was predicated upon the existing record and the understanding that the Commission reserves the right to review the economic concentration issue as concerns the Taj

Mahal in the event of a change in circumstances within the industry. At the time that it rendered its ruling, the Commission emphasized that it was satisfied, based upon the testimony presented, that The Trump Organization had been made fully aware of the obligations pertaining to the Uptown Urban Renewal Tract and that Resorts, through its new ownership, is ready to take all appropriate measures to comply with those contractual obligations.⁹

The closing on the transaction contemplated by the purchase and sale agreement occurred on July 21, 1987. Also on July 21, 1987, Mr. Trump was elected Chairman of Resorts Board of Directors, Robert S. Trump was elected Vice-Chairman and Harvey I. Freeman was elected as a Director thereof.¹⁰

9 The Commission further noted at the hearing that it would issue a written opinion with respect to its rulings as concerns PRN 096701 and the joint motion. That written opinion was rendered on October 20, 1987. See Commission Opinion In The Matter Of The Sale Of Certain Shares Of Class B Common Stock Of Resorts International, Inc. By The Estate Of James M. Crosby, Charles E. Murphy, Jr. And Members Of The Family Of James M. Crosby To Donald J. Trump PRN No. 096701 (October 20, 1987).

10 As concerns the constitution of Resorts' Board of Directors, the purchase and sale agreement provided that "at the closing, three designees of the purchaser [Trump] who shall be qualified under applicable law shall have been elected to the Board of Directors of the company [Resorts], which shall consist of no more than (6) directors." At or about the time of the closing, Henry B. Murphy, Charles E. Murphy, Jr. and William H. Crosby resigned as members of Resorts' Board of Directors. In addition to Donald Trump, Robert S. Trump and Harvey I. Freeman, Resorts' Board of Directors presently consists of three independent, outside members. Those individuals are George A. Bariscillo, Jr., William Druz and Mitchell Sviridoff.

Subsequent thereto, on September 1, 1987, THC was formed. As noted earlier, THC is a New Jersey corporation of which Donald J. Trump owns 100% of the issued and outstanding stock. THC, on October 20, 1987, entered into a Comprehensive Services Agreement with Resorts by which THC is to provide wide-ranging services, including financial direction, consultation, planning, construction management, real estate development and management and operation services, to Resorts and its subsidiaries, including the management of the casino hotel operations of RIH and the Taj Mahal, when completed. The Comprehensive Services Agreement is for an initial term of ten years and is retroactive to July 21, 1987. In consideration of the services to be rendered to Resorts, which services include the use of the Trump name and mark as per a license agreement, THC under the service agreement, will receive: (1) an annual fee equal to 1 3/4% of Resorts' adjusted gross revenues; (2) 15% of Resorts' adjusted net income; and (3) 3% of the construction cost of the Taj Mahal (less those costs paid by Resorts prior to July 21, 1987).

On October 8, 1987, Resorts, RIH, RIHFI, Donald J. Trump and THC filed a petition with the Commission. That petition, PRN 281707, sought: approval for proposed financings by subsidiaries of Resorts, one then to be formed and the other being RIHFI, to secure a total of \$550,000,000 for the purpose of the construction of the Taj Mahal; approval of the Comprehensive Services Agreement; approval for the consolidation of the hotel and related operations of RICH and the Taj Mahal, and operation of the consolidated facility as an integrated

complex with one casino room; and a declaration that such consolidation does not result in economic concentration.¹¹ On November 10, 1987, the Division filed its Answer to said petition.

On November 13, 1987, the Commission convened a hearing regarding the Petition and the various reliefs requested therein. The evidential portion of the hearing spanned seven days and included the presentation by the parties of several witnesses, including Mr. Trump, and documentary exhibits. On December 16, 1987, the Commission rendered its decision with regard to the Petition. By unanimous vote, the Commission approved both the consolidation of the hotel and related operations of RICH with the Taj Mahal and the conversion of the existing RICH casino into convention and exhibition space, determining that such consolidation does not result in the economic concentration prohibited by the Act. By a vote of 4-1, and subject to certain conditions, the Commission issued a declaratory ruling approving the Comprehensive Services Agreement between Resorts, The Trump Organization and THC.

Throughout the course of the hearing, Resorts maintained that the business plan enumerated in the petition (i.e., consolidation of RICH with the Taj Mahal, conversion of the casino room of RICH to convention and exhibition space, and

11 The corporation, for the purposes of securing financing in connection with the Taj Mahal project, was formed in the State of Delaware on November 5, 1987 and was named Taj Mahal Financing, Inc.

execution of the Comprehensive Services Agreement between it and THC would: (1) best assure the profitability of Resorts; (2) best promote the company's financial stability and integrity; (3) enhance Resorts' access to the financial markets; and (4) foster the successful completion and operation of the Taj Mahal, an event so vital to the company's future. The proofs adduced at the hearing demonstrate that the management fees payable to THC for the first five years of the agreement will approximate \$108 million and the construction fee will approximate \$16.5 million.

The Commission evaluated the Comprehensive Services Agreement, inter alia, in terms of its reasonableness pursuant to N.J.S.A. 5:12-104(b), with particular emphasis on the issues of financial responsibility and stability. As the Commission itself articulated in its charge:

...The Commission must be convinced that the casino licensee was financially responsible in negotiating and entering into this agreement and that the company will remain financially stable if the agreement is put into effect.

In this context, we must examine the care and prudence exercised by the entity in managing, preserving and enhancing corporate assets. The legitimacy of the services agreement also must be viewed within the context of a casino licensee confronted with a precarious financial situation. Plainly, a fiscal responsibility issue would arise if Resorts were expending substantial funds for the services agreement without adequate compensation. (Transcript of Commission meeting of December 16, 1987 ["T"] at pp. 1416-17)

As its Opinion makes clear, the Commission analyzed the processes that culminated in the ratification of the Comprehensive Services Agreement by Resorts' Committee of Independent Directors which led to the execution thereof. The Commission stated:

...It is readily apparent from the record that it was primarily Donald Trump's perceived ability to raise the financing necessary to complete the Taj Mahal and his construction expertise that ultimately convinced Resorts' outside board to ratify the agreement. The management component, although not altogether insignificant, was never viewed with the same sense of urgency. Indeed, as the record demonstrates, the independent directors were satisfied with the performance of Resorts' management.

The important goal, as we've heard repeatedly, was to finish the Taj Mahal and the single person who would accomplish that was Donald Trump. The outside directors were expressly advised by Resorts' management that Resorts currently lacked the resources to complete the Taj Mahal and that the future success of the company hinged directly upon the success of that project.

Mr. Davis, [president and chief executive officer of Resorts] also told them that the enhanced management in the person of Donald Trump was vital upon the opening of the Taj Mahal. Thus when Donald Trump insisted on including a management agreement as part of the total package, the independent directors were hard pressed to say otherwise. (T. at pp. 1419-20)

The propriety of the Comprehensive Services Agreement ultimately rested on a determination by the Commission as to whether the approval by Resorts of the agreement in its entirety was a financially responsible decision. Addressing this issue,

and after reviewing the record proofs, the Commission, by Chairman Read, determined that:

...[T]he undisputed testimony is that there was a compelling need to obtain assistance for financing, completing and managing the Taj Mahal, and that the single person available who was capable and willing to take on such enormous responsibilities was Donald Trump. Under these unique circumstances, it may have been imprudent and counterproductive not to enter the deal. (T. at pp. 1422-23)

Of course, recognizing the desirability of the services agreement is not by itself tantamount to an approval of its compensation features. However, with regard thereto, Chairman Read stated:

The fact that Mr. Trump has exacted a large fee for his services should not be the determinative factor upon review, provided Resorts is to receive fair value in return. The comprehensive services to be provided are certainly essential for the continued prosperity of Resorts. This fact, combined with Mr. Trump's ability to perform those services, insured a fair and equitable return.

I conclude from the record that the agreement viewed in its entirety is fair and reasonable and constitutes a prudent and fiscally responsible course of action. The agreement will advance the likelihood of completing the Taj Mahal which, as all of the witnesses recognized, is absolutely critical to the success of Resorts.

As Mr. Greenberg testified, due to the intricacies [sic] of today's marketplace, it is relatively safe to assume the Taj Mahal would not be completed absent the agreement. Under these circumstances, the practicability of the situation prompted the independent directors to negotiate as good a deal as they could without losing sight of

the overriding need for Donald Trump to rescue the operation. (T. at pp. 1424-25)

After evaluating the entire record, the Commission, as noted above, approved, subject to certain conditions, the Comprehensive Services Agreement between Resorts and THC. The Commission rejected the Division's recommendation that the operative date of the management services component of the Comprehensive Services Agreement be effective upon the opening of the Taj Mahal, the closure of the Resorts I casino and the integration of the entire complex. With regard to the Division's recommendation, Chairman Read stated that he saw "...[n]o valid regulatory purpose to be served by precluding Mr. Trump from receiving compensation for services he will be rendering prior to the completion of the Taj Mahal, such as, for example obtaining the necessary financing"; and that "...[t]he contract terms by their very nature provided sufficient incentive for Donald Trump to complete the Taj Mahal." [Emphasis added]. (T. at p. 1425).

Just three (3) business days after the December 16, 1987 rendering of the Commission's opinion regarding this matter, on December 21, 1987, The Trump Organization issued a press release. Through that document, Donald J. Trump publicly announced that he had submitted a merger proposal to the Board of Directors of Resorts, the effect of which would be that he acquire all of the outstanding shares of Resorts Class A shares of stock through a tender offer, followed by a cash merger for any untendered shares. The press release further indicated that

all shares of Resorts Class B stock not tendered pursuant to Mr. Trump's November 2, 1987 \$135 net per share tender offer for that class would be included within the proposed transaction at the same price (\$15). According to the press release, Mr. Trump advised Resorts' Board of Directors that he was proposing this action as a result of the companies continuing inability to obtain financing to complete the Taj Mahal under present conditions. The press release further provided that "[t]he combination of significant cost overruns incurred by prior management together with the condition of the financial markets since October 19, 1987, have made it impossible to obtain financing for the Taj Mahal in the public markets on any basis that would be economic...", and that, according to Mr. Trump, "...[o]nly with the financial backing of The Trump Organization will it be possible to build the Taj Mahal." The press release further reported that Mr. Trump advised Resorts' Board of Directors "...[t]hat he was making the tender offer because he would only commit all of such resources of The Trump Organization to the project if he were the 100% owner thereof" and that "construction has been substantially slowed on the project and may have to be totally suspended in the near term."

The Opinion relative to the approval of the Comprehensive Services Agreement indicates that, although the Commission recognized that there may exist disagreement or concern regarding the individual sections thereof, the Commission gave substantial deference to Resorts' judgment that the agreement would be in its best interests. The Commission thus determined

not to segregate the agreement's specific terms for critical review or possible renegotiation. Moreover, it is abundantly evident that the Comprehensive Services Agreement was presented to the Commission as a key component of an overall business plan which was designed to assure the completion of the Taj Mahal and, with it, Resorts' economic viability and the Commission was constrained to assess it in that context. Indeed, the record adduced leads to the ineluctable conclusion that the plan as proposed was the means by which Resorts' corporate objectives could be achieved. In short, the Commission approved the Comprehensive Services Agreement, with its management compensation features, as part and parcel of the only viable program presented by which the Taj Mahal could be constructed.

However, by virtue of Mr. Trump's actions, decisions, and pronouncements, as made public on December 21, 1987, it is apparent that the business plan approved by the Commission, with specific regard to the Comprehensive Services Agreement, may not assure the successful financing, construction and operation of the Taj Mahal. Rather, Mr. Trump has asserted that the financing necessary for the Taj Mahal project cannot be obtained in the public market on financially realistic terms unless he is the 100% owner of Resorts and that he will commit the resources of The Trump Organization to the Taj Mahal project only if he wholly owns Resorts. In the Division's view, this course of conduct now publicly proposed by Mr. Trump is at variance with the business plan approved by the Commission on December 10, 1987.

Thus, Resorts and THC are operating pursuant to a management agreement approved by the Commission (and retroactive to July 21, 1987) which has as its paramount objective the completion of the Taj Mahal. Mr. Trump, however, shortly after the Commission's approval of the agreement, essentially represented that this objective may not be achieved, despite that agreement, unless he wholly owns Resorts. Therefore, a primary predicate supporting the Commission's ruling regarding approval of the Comprehensive Services Agreement - that the agreement will cause completion of the Taj Mahal - may no longer be viable. Consequently, since the critical facts and circumstances upon which the Commission based its rulings may no longer be operative, the Division on December 24, 1987 filed with the Commission a Notice of Motion and Supporting Affidavit seeking a Rehearing reference the Commission's December 19, 1987 approval of the Comprehensive Services Agreement. See "Exhibit G". In those filed papers, based upon the above, the Division respectfully submitted that a Rehearing of this matter is most necessary to determine Resorts' continuing financial responsibility and stability in awarding to THC management service compensation prior to the completion and opening of the Taj Mahal.

Shortly after the filing of its Notice of Motion for a Rehearing and Supporting Affidavit (December 24, 1987), as described above, the Division obtained additional facts as concerns this matter. In view of those facts, the Division on January 8, 1987 filed a Supplemental Affidavit with respect to

its Notice of Motion as previously filed. Those facts, as described below, are evidenced by: 1) a December 23, 1987 press release on behalf of The Trump Organization; 2) a December 23, 1987 letter from Mr. Trump to Resorts' Board of Directors; and 3) a December 24, 1987 press release on behalf of The Trump Organization.

Through The Trump Organization's December 23, 1987 press release, Mr. Trump announced that his offer proposing a merger between Resorts and a newly formed company to be owned by Mr. Trump, which was verbally presented to Resorts' Board of Directors on December 21, 1987, had been delivered to the Board of Directors via a formal written offer. Mr. Trump's offer was essentially a proposal designed to implement his business plan which would result in his wholly owning Resorts. That formal written offer was accomplished through a December 23, 1987 letter from Mr. Trump to the Board of Directors. Both the December 23, 1987 letter and press release reflect that the proposed transaction leading to Mr. Trump's sole ownership of Resorts would be completed in two steps, the first of which would involve a tender offer for any and all outstanding shares of Resorts A Stock at a price of \$15 per share and the second of which would involve a merger pursuant to which all non-tendering shares of A Stock, as well as any shares of Resorts B Stock not tendered pursuant to Mr. Trump's then pending tender offer, would be cancelled and converted into the right to receive \$15 in cash. Both the December 23, 1987 press release and letter of Mr. Trump further reflect that Resorts' Board of Directors had

appointed a Special Committee consisting of the outside directors of the Company to consider the proposal. The December 24, 1987 press release, issued at the behest of The Trump Organization, clarified that Mr. Trump's written proposal to take Resorts private is subject to the review of the Special Committee of Resorts' Board of Directors, which has retained an independent financial advisor and counsel to assist in its deliberations.

Mr. Trump's December 23, 1987 letter to Resorts' Board of Directors, in particular, provides additional and supplemental factual evidence which serve to demonstrate that a primary predicate supporting the Commission's ruling regarding approval of the Comprehensive Services Agreement--that the agreement will cause completion of the Taj Mahal--may no longer be viable. Mr. Trump, through his letter, states that "[a]s a result of the events occurring on and after October 19, 1987, we are presently unable to finance the Taj Mahal through the sale of public debt securities on any reasonable economic basis" and, "[c]onsequently, we believe there is no choice but to seriously curtail construction on the Taj Mahal." According to the letter, however, various financial institutions have indicated to Mr. Trump "...that financing could be made available for the Taj Mahal if [he] were to put [his] name, and the financial backing of The Trump Organization, behind the project." The letter, however, states that for several reasons Mr. Trump is unwilling to extend his full support and backing to and for the Taj Mahal project if there are public stockholders of Resorts.

Significantly, as one of the reasons for adopting this posture, Mr. Trump states in his letter, that "...I believe that private ownership of the Company is the only alternative if the company intends to complete the construction of and open the Taj Mahal" [emphasis added]. Clearly, these facts serve to substantiate the Division's assertion, as set forth in its December 24, 1987 Affidavit in support of its Notice of Motion for a Rehearing, that the critical facts and circumstances upon which the Commission based its rulings may no longer be operative. Indeed, in view of Mr. Trump's December 23, 1987 letter to Resorts' Board of Directors, it is more readily apparent that the business options available to Resorts may not be solely as previously presented, analyzed and ruled upon, but rather, may be limited to the not previously presented alternative of private ownership.

In view of these additional facts, as noted previously, on January 8, 1988, the Division filed with the Commission a Supplemental Affidavit to its Notice of Motion for a Rehearing, itself filed with the Commission on December 24, 1987. See "Exhibit H". The Division, in its Supplemental Affidavit, apprised the Commission of the above facts and contended that they serve to substantiate the Division's prior conclusion that a Rehearing of this matter is necessary to determine Resorts' continuing financial responsibility and stability in awarding to THC management service compensation prior to completion and opening of the Taj Mahal. On January 11, 1988, counsel on behalf of Resorts, RIH, RIHF, THC and Donald J. Trump filed a

letter response to the Division's Notice of Motion for Rehearing and supporting documents. Therein, the respondents argued that the Commission should deny the Division's motion for a Rehearing. Although the Commission scheduled for argument the Division's Notice of Motion for Rehearing for the public meeting of January 20, 1988, the proceeding has been adjourned, to January 27, 1988, at the request of the Respondents and without prejudice to the merits of the Division's motion.

On January 11, 1988, yet additional facts developed which in the Division's view fully support the position expounded in its Notice of Motion for a Rehearing and related filings. On that date, Resorts' Special Committee of Independent Directors forwarded a letter to Donald J. Trump in response to Mr. Trump's December 23, 1987 proposal for a merger between Resorts and a new company to be formed by him. See "Exhibit I". In that letter, the Independent Directors advised Mr. Trump that they determined not to recommend approval of the merger proposal to the companies entire Board of Directors. Therein, the Independent Directors expressed the view that the management "agreement was meant, in large part, as compensation for getting the Taj Mahal built" and they pointed out that the companies' stockholders have "stepped up" to this cost but have not yet reaped the benefits of the agreement. The Independent Directors described Mr. Trump's \$15 per share of A stock offer as "grossly inadequate", noting that the stockholders should pay for the Taj Mahal problem once, either through the management agreement or through a merger at a price that fully reflects the

project's basic economics. The Independent Directors' letter further informed Mr. Trump that, although still interested in learning more about the possibility of obtaining financing with Mr. Trump's support as envisioned by the management agreement, he should contact their financial advisor, David Schulte of Chilmark Partners, in the event he wishes to pursue a substantially revised merger proposal or other alternatives. Thus, as the correspondence makes abundantly clear, Resorts' Independent Board approved THC's lucrative Comprehensive Services Agreement essentially because of its belief that Donald Trump could and would complete the Taj Mahal casino/hotel project.

On January 12, 1988, following this development, a related press release was issued by The Trump Organization. See "Exhibit J". After noting that the Special Committee of Independent Directors determined not to recommend approval of the proposal to the entire Board of Directors, this press release announced that Donald J. Trump had decided to withdraw his \$15 per share merger proposal. Through the press release, Mr. Trump noted that he had previously stated that he would be willing to finance the completion of the Taj Mahal only if he owned 100% of the company and that, since he presently owned approximately 11% of the Company, he is unwilling to provide the financing to complete the Taj Mahal. The press release further states that it is likely that construction on the Taj Mahal project will be halted in the near future.

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The facts that have developed since the Commission's December 16, 1987 decision regarding the Comprehensive Services Agreement indicate that the plan the Commission approved, of which the agreement was an essential component, may not assure the completion and operation of the Taj Mahal. Of course, the business plan presented to the Commission was designed to cause the successful construction and operation of the Taj Mahal. Therefore, any rehearing of the Commission's decision must necessarily address all of the relevant facts and circumstances that have arisen since December 16 and their ramifications with regard to the Commission's ruling. More particularly, the Commission, having heard extensive testimony that Resorts' most important goal was to finish the Taj Mahal, determined that the approval by Resorts of the agreement in its entirety was a financially responsible decision. Indeed, the Commission concluded that it may have been imprudent and counterproductive if Resorts had chosen to reject the agreement. Now, however, it appears that, irrespective of the agreement, the Taj Mahal may not be completed. Consequently, at the rehearing, the parties must address whether the program approved by the Commission will, in fact, achieve the corporate objective of building and operating the Taj Mahal. In that context, if the plan is no longer considered viable, the parties must produce proofs and the Commission ought to assess whether it is financially prudent and responsible for Resorts to pay management compensation fees to THC, particularly prior to the completion of the Taj Mahal.

In the Division's view, the rehearing should explore the particular factual events, and the time and setting within which they occurred, which culminated in the announcement by Mr. Trump of his business plan to take Resorts private just three business days after the Commission's approval of a different strategy, namely the management agreement, which itself was represented as ultimately necessary to assure the construction and opening of the Taj Mahal. In short, the essential matter to be considered at the rehearing is whether Mr. Trump's own statements and actions subsequent to December 16, 1987 are tantamount to rendering nugatory all of the reasons cited by the parties in support of their request for approval of the agreement, or whether some reconciliation of those accounts is at all possible.

While we have described the matters to be litigated at a rehearing, additional and significant issues pertinent to the Taj Mahal are appropriate for consideration at a renewal hearing, the setting during which the Commission assesses continued compliance with the licensing criteria enumerated in the Act. These issues necessarily transcend the limited scope of the rehearing since they address, in large measure, Resorts' future operations. Thus, the renewal proceeding should properly focus on, among other things, the current status of the companies' business affairs and how it is intended that the Taj Mahal be completed. This matter is most relevant given the recent rejection, by the Special Committee of Resorts' Board of Directors, of Mr. Trump's previously-announced merger and tender

offer, which has been represented as the sole means by which the financing required to complete the Taj Mahal could be obtained. In this regard, Mr. Trump has stated that private ownership of the Company is the only alternative if the Company intends to complete the construction of and open the Taj Mahal and that, although various financial institutions have indicated to him that financing could be made available for the Taj Mahal if he were to put his name and the financial backing of The Trump Organization behind the project, he is unwilling to extend his full support and backing if there are public stockholders.

In view of these pronouncements of Mr. Trump and the rejection by the Special Committee of Mr. Trump's merger proposal, Resorts may be said to have in place no operative plan to achieve completion of the Taj Mahal. This follows from the fact that the financing necessary to achieve that goal cannot now apparently be realized utilizing the management agreement as a vehicle and because the alternative to that method, Mr. Trump's private ownership of the company, was rejected by Resorts' Special Committee of the Board of Directors.

Accordingly, at the license renewal proceeding, both the licensee and Mr. Trump should be prepared to demonstrate the efforts made to secure financing for the project and, most importantly, how they now intend to secure the financing necessary to complete and open the Taj Mahal in light of the apparent failure to privatize. If, at the time of the license renewal proceeding, Mr. Trump remains of the view that his private ownership of the company is the only method available to

that end, he should be prepared to explain precisely what resources of The Trump Organization need to be committed in order to achieve the necessary financing and, of no less importance, the medium or means through which the committal of those resources is necessary. In responding to this area, Mr. Trump should further be prepared to demonstrate why no alternative means, such as the committal of a first mortgage on Resorts' holdings or Mr. Trump's involvement with the Company as its principal shareholder, Chairman of the Board and affiliation through the provision of management services, are not now apparently adequate to achieve the financing necessary to complete the Taj Mahal, and equally significant, why the latter was thought at one time to be.

These issues notwithstanding, it is likely that Resorts' future business plans for the Taj Mahal may not be fully developed, much less finalized, by the time of the renewal hearing and therefore all our inquiries may not be susceptible to definitive, comprehensive and specific responses at this time. Apparently, the incremental regulatory relief afforded Mr. Trump all along the way, including approval of his purchase of Resorts B stock and control of the company, closure of the Resorts I casino facility and integration within the Taj Mahal complex and the lucrative comprehensive services agreement, has proven insufficient to get the job done. What exactly it will take to complete the Taj Mahal may not be immediately evident and appears to be an evolving business strategy heavily reliant upon the delicate process of negotiation. In fact, it is our

understanding that discussions involving privatization are ongoing as are solicitations designed to secure financing. Obviously, we cannot extract answers which the applicant may not now possess, and to the extent any of our issues require same, we would suggest they be deferred since any matter relative to the Taj Mahal will be, most assuredly, the subject of continuous regulatory review and oversight. While this in no way lessens the burden to produce proofs necessary to evaluate the applicant's credentials, in the event those proofs do not include a concrete plan capable of meaningful consideration at time of renewal, the Division will file a separate report with the Commission once the plan is sufficiently crystallized to allow for such consideration as well as any related or collateral matters. Of course, in the event a reasonable period of time has elapsed without presentation of any viable plan, the Division will request from the Commission any necessary action as may be appropriate.

B. The Taj Mahal Construction Project

During the license renewal year, the Division has monitored construction activities with respect to the Taj Mahal. As part of its investigation, the Division has sought to determine the basis for the increase in budget, from approximately \$518,124,153 to approximately \$938,471,000, with respect to that project. The Division's investigation has revealed that the primary factors resulting in the new budget appear to emanate from: 1) the increase in construction costs of previously budgeted items; 2) a determination by The Trump Organization

that Resorts original budget was incomplete; and 3) a determination by The Trump Organization that changes to the construction and design plan were required. The findings of the Division's investigation are more specifically described below.

As noted, Resorts International, Inc. of New Jersey ("RINJ") is the wholly-owned subsidiary of Resorts responsible for the construction of the Taj Mahal facility. The budget which RINJ is currently utilizing projects the costs of the facility to be \$518,124,153 (excluding land, capitalized interest, taxes and insurance costs). These costs include only those costs associated with the construction of the facility and the cost of furniture, fixtures and equipment.

On a monthly basis, RINJ prepares a computerized report, which summarizes the costs related to construction and furniture, fixture and equipment which are allocated by area, i.e. tower, low rise, garage, fees, steel pier arena, etc. The report also includes the name of the contractor, type of work performed, contract amount, the total amount paid to each contractor (from the date of the contract or purchase order to date), and the cost to complete. The most recent such report made available to the Division by the licensee, current to November 30, 1987, is attached hereto as Exhibit D.

In August 1987, representatives of The Trump Organization and Resorts made up a new budget which projects the costs associated with the Taj Mahal to be \$938,471,000. This new budget not only includes the cost of constructing the facility and the cost of furniture, fixtures and equipment, but includes

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other items as pre-opening costs, off-site improvements, additional expenses associated with financing and construction supervision, amounts owed to Resorts for interest and taxes, and working capital. A copy of this budget is attached hereto as "Exhibit E".¹²

On October 21, 1987, representatives of the Division conducted a personal interview of Robert S. Trump, Vice-President of The Trump Organization and Vice-Chairman of Resorts. The purpose of the interview was to determine the reasons for the increase in the costs related to the construction and opening of the Taj Mahal. Mr. Trump, during the course of that interview, provided the following information:

12 On December 31, 1987, Pat Christensen, the Office Manager of RINJ, advised the Division that this new budget is not being used by RINJ as yet, since the company has not exceeded the old budget. She also advised the Division that her office does not have the figures on the new budget and that, perhaps for 1988, she will be given the new figures to revise the old budget. According to Matthew B. Kearney, RII-Vice President of Finance, the company is in the process of updating the old budget, which should be completed in February, 1988. Mr. Kearney further informed the Division that the updated budget will approximate \$933,000,000, which consists of the following: construction costs (\$650,000,000); off-site improvements (\$10,000,000); construction fee (\$15,000,000, payable to THC); land (\$38,000,000); capitalized interest (\$133,000,000); capitalized property taxes (\$16,000,000); pre-opening costs (\$33,000,000); and working capital (\$38,000,000).

1. Resorts original budget was incomplete in that it omitted major items such as: costs to complete unfinished areas (20,000 square feet of casino space, the 42nd floor of the tower which houses the super suites, the nine remaining restaurants in the low rise, the health club, and 1,000 additional parking spaces); pre-opening expenses; interest costs associated with funding and property taxes; and working capital;
2. Additional costs were added for changes made in architectural design, demolition of the old steel pier, upgrading furniture, fixtures and equipment for the tower, low rise construction and site work planning; and that
3. Resorts had no real plan or direction which caused the timing of the project to be extended, thereby increasing construction costs of previously budgeted items.

In comparing the old budget to the new budget, the Division noted that the new budget reflects an increase of \$124,795,479 for construction costs, of which \$43,697,557 was due to increases made in previously budgeted items. The balance of the increase is for costs relating to the completion of warehoused areas (\$69,726,943), miscellaneous items totalling \$800,000 (that is work to be done at the Best of Life facility, relocation of water lines and changes to the boardwalk) and

13 Although Resorts had planned to complete the above mentioned items at a later date, Robert Trump explained that The Trump Organization was of the view that, to initially attract patrons and to ensure their return, it was necessary to fully complete these areas prior to opening.

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construction-related contingency costs (\$10,570,879) not previously included in the old budget.

Other items in the new budget that were not in the old budget are as follows: Pre-opening costs, which include estimated costs for casino operations (\$4,089,173), hotel operations (\$2,063,312), the executive office (\$3,328,244), finance-administration (\$3,468,276), surveillance (\$273,978), staff services (\$3,188,278), support services (\$8,560,544), project coordination (\$1,525,159), utility costs (\$488,000), special programs (\$3,512,000) and unallocatable costs (\$2,931,772), totaled \$33,428,736. Off-site improvements, which include costs for intercept parking lot (\$4,950,000), roadway improvements (\$2,500,000) and signage (\$2,500,000), totaled \$9,950,000. Additional expenses relating to legal fees and interest expense on financing (\$43,625,785), taxes (\$7,700,000) and construction supervision (\$15,000,000, payable to THC) totaled \$66,325,785. Working capital is estimated to be \$37,500,000. The new budget also accounted for amounts owed by RINJ to Resorts totalling \$141,471,000 for interest and property taxes and land cost of \$38,000,000. It should be noted that, although the land cost is listed in the new budget, it was apparently not added in when figuring the total cost of the project. See "Exhibit E".

The Division has attached to this letter report as "Exhibit F" a chart it has comprised which compares costs expended by Resorts in connection with the Taj Mahal project as of November 30, 1987, and anticipated future costs based on the new budget

figures. That chart indicates that: \$479,305,138 has been committed to the project in the form of contracts and purchase orders; \$315,756,434 has actually been paid to contractors from the start of construction (September 1983 to November 30, 1987); \$317,694,862 is to be committed to the project under the new budget; and that the cost to complete the project (under the new budget) is \$481,243,566.¹⁴

Given the substantial difference in the two budgets relative to the construction of the Taj Mahal, and Mr. Trump's public comments that the project under the initial budget was the subject of cost overruns, the licensee and THC, at the renewal hearing, should be prepared to explain the basis for its old budget for the Taj Mahal facility, the basis for the new budget as prepared by The Trump Organization and the company, and the current relationship, in terms of present and future applicability, of each. In this regard, the licensee should explain precisely how the new budget was devised and how the costs projected within the new budget were determined. As part and parcel of the requisite showing, the parties should identify

14 It should be noted that according to Matthew B. Kearny, RII-Vice President of Finance, as of November 30, 1987, RINJ has additionally committed \$127,100,000 to the project for land (\$38,000,000), accrued construction fees (\$2,000,000, payable to THC), capitalized interest (\$75,300,000), real estate property taxes (\$9,900,000), insurance (\$900,000) and pre-opening expenses (\$1,000,000). These expenses are not included within the paid-to-date figure as cited (\$315,756,434).

any cost overruns and explain with particularity the reasons therefor.

1) Slowdown of Construction on The Taj Mahal Project

As noted previously, on December 21, 1987, The Trump Organization issued a press release which reflects that the business plan approved by the Commission on December 16, 1987, which decision approved the Comprehensive Services Agreement, would not in and of itself achieve Resorts' goal of securing financing for the Taj Mahal's completion. That press release, as is relevant here, provides that Donald J. Trump proposed a plan to Resorts' Board of Directors for him becoming the 100% owner of the company because of "...Resorts' continuing inability to obtain financing to complete the Taj Mahal under present conditions." According to the press release, Mr. Trump indicated to the Board "...that only with the financial backing of The Trump Organization will it be possible to build the Taj Mahal" and that he was making the proposal to take the company private "...because he would only commit all of such resources of The Trump Organization to the project if he were the 100% owner thereof." That press release, as is relevant here, states that "[c]onstruction has been substantially slowed on the project and may have to be totally suspended in the near term."

The Division's investigation has confirmed that construction on the Taj Mahal has been substantially reduced. More particularly, since May 1987, the average number of workers on the project ranged between 750 and 800. In mid-December 1987, Resorts slowed down the construction project which

resulted in a cut back of construction workers. As of December 31, 1987, there were 292 workers on the site.

In light of these developments, at the license renewal proceeding, THC, RIH and Mr. Trump should be prepared to apprise the Commission of the then present status of the construction of the Taj Mahal and the extent of the funds then available to continue with the project.

C. Developments Regarding The Uptown Urban Renewal Tract And Resorts Responsibilities With Respect To Development Thereon

In November 1987, in separate and unrelated proceedings, the Atlantic City Housing Authority ("Housing Authority") and Casino Reinvestment Development Authority ("CRDA"), upon petitions of Resorts and The Trump Organization, took certain respective actions which bear relation to the responsibilities of Resorts in terms of housing development within Atlantic City, and in particular, with respect to the development of housing on Atlantic City's Uptown Urban Renewal Tract. More particularly, a question has arisen as to whether or not Resorts, by virtue of a 1976 agreement between it and the Atlantic City Housing Authority, is obligated to take down certain tracts of property within Atlantic City's Uptown Urban Renewal Tract. The taking down of that land, under the agreement, would require the company to build a minimum of 1,200 housing units thereon. In addition to this question, the issue has arisen as to whether the required housing project, assuming Resorts is obligated to take down the land or elects to do so if not so obligated, would be eligible for CRDA funding if constructed as a joint venture

consisting of RIH, the Trump Plaza Hotel/Casino and the Trump's Castle Hotel/Casino. A description of the most significant actions of the Atlantic City Housing Authority and Casino Reinvestment Development Authority is set forth below, preceded by background information with respect to the Uptown Urban Renewal Tract.

i. Background

On October 22, 1976, the Atlantic City Housing Authority of the City of Atlantic City and Resorts entered into an agreement relating to the sale of certain tracts of land, by the Housing Authority to Resorts, which agreement has since been amended on several occasions. The Housing Authority agreed to sell and Resorts agreed to purchase property (totaling 56.6 acres at a cost to Resorts of \$5,600,000) consisting of Parcel No. 13B (15.96 acres) and Parcels No. 3 (15.37) acres and 13 (25.33 acres), all within the area of Atlantic City known as the Uptown Urban Renewal Tract ("URT"). The URT consists of approximately 60 acres of land bordered on the south by the Boardwalk; Virginia and Connecticut Avenue on the west and east, respectively; and Atlantic Avenue to the north.

The development of URT is governed by an Urban Renewal Plan ("Plan") adopted by the City of Atlantic City in 1965 and approved by the Department of Housing and Urban Development ("HUD"). The Plan called for the acquisition and clearance of certain land by the Housing Authority, the preparation of such land for redevelopment by private enterprise (according to the Plan), and the disposition of such land to private enterprise

for redevelopment for and in accordance with the uses specified in the Plan. The land use permitted by the Plan includes the construction of multi-family residential housing, hotels, commercial retail stores, office buildings and various types of public facilities. In June 1983, the Plan was amended to include construction of casino hotel facilities on the URT.

The agreement between the Housing Authority and Resorts required Resorts to make a \$200,000 good faith deposit to the Housing Authority to be held in an interest bearing account, to be proportionately applied toward payment of the parcels of land as conveyed. The agreement provided that the said deposit could be retained by the Housing Authority as liquidated damages in the event Resorts elected to terminate the agreement "...at any time, for any reason, by written notice to the Agency [Housing Authority]...prior to conveyance of any parcel." See paragraph 3(d) to Agreement.

The agreement provided that the property would be conveyed to Resorts in a piecemeal fashion. More particularly, under the agreement, Resorts was obligated to accept the deed conveying title to Parcel 13B and to pay for the land fifteen months after execution and delivery of the Agreement. See Section 4(e)(i) of Agreement. This section of the Agreement was amended by letter dated November 22, 1982 to permit the conveyance of and payment for Parcel 13B to occur on October 1, 1983. Resorts was further obligated under the Agreement to accept the deed and to pay the purchase price for at least twenty-five percent of the acreage remaining after the conveyance of Parcel No. 13B each year for

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four consecutive years commencing at a date beginning six months after the issuance of the Certificate of Completion by the Housing Authority for certain improvements, discussed infra; to be constructed on Parcel No. 13B. See Section 4(e)(ii) of Agreement. By agreement dated August 29, 1985, the Housing Authority and Resorts amended the agreement to provide for the completion of construction on Parcel 13B by February 3, 1988. This amendment established a liquidated damages amount of \$1,000, payable by Resorts to the Housing Authority, for each day beyond that date for which Resorts has not received a Certificate of Completion of the improvement on Parcel 13B. By this amendment, the parties further agreed to modify Section 4(e)(ii) of the agreement to permit Resorts to take down the remaining acreage as follows: 3.2662 acres on April 3, 1987 (representing the balance of the first twenty-five percent); and approximately 10.1783 acres on April 3 of each year 1988 through 1990.

As the land subject of the agreement was within the Uptown Urban Renewal Tract, the agreement specified that Resorts would construct a 1,000 unit hotel on Parcel 13B and required that Resorts observe the development and design objectives of the Urban Renewal Plan for the tract. Thereunder, no less than 1,200 dwelling units and no more than 3,500 dwelling units would be maintained on the tract.

By deed dated October 3, 1983, and at a cost of \$1,892,821, Resorts acquired title to Parcel 13B, which consists of 15.96 acres and is the site of the company's Taj Mahal facility,

presently under construction. Concurrent with the acquisition of Parcel 13B, on October 3, 1983, Resorts entered into a five-year lease agreement with the Housing Authority to lease the remaining acreage in Parcel 13 and 3. Under the lease, Resorts agreed to pay rents to the Housing Authority for use and occupancy of the property as follows: \$920,000 during years one and two; \$1,020,000 during year three; \$1,120,000 during year four; and \$1,220,000 during year five. Resorts is permitted to use the premises as an open air parking lot, for the storage of construction equipment and material, as a construction site office, etc. The Housing Authority was obligated to pay the real estate taxes due on the premises. Approximately \$220,000 of the rental fee was for certain administrative costs incurred by the Housing Authority, while the balance was to cover real estate taxes on the property assessed by the City of Atlantic City over the five year lease term.

On October 26, 1983, with the approval of the Housing Authority, Resorts and Ocean Showboat, Inc. ("Ocean") executed a lease agreement whereby Resorts agreed to lease to Ocean approximately 10 acres of the URT land owned by it. The lease term is for 99 years at an annual rent of approximately 6.3 million dollars, subject to adjustment based upon increases or decreases in the consumer price index. Ocean constructed a 500-room casino hotel on the property, completed in March 1987, which is known as the Showboat Hotel and Casino. As a result of the lease agreement, the Housing Authority on November 8, 1984 adopted a Resolution amending Section 3(d) of the Agreement to

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reflect that Resorts may not terminate the Agreement with respect to land conveyed by the Authority to it.

On January 21, 1985, Resorts purchased a portion of Parcel 13, consisting of 6.428 acres for \$727,943, which parcel it leases to Ocean. On that same date, Resorts acquired additional acreage in Parcel 13, which consisted of 19,752.20 square feet (for a sum of \$51,355) and 1,360 square feet (for a sum of \$3,536), both of which are used for roadways.

Thus, as of December 1987, Resorts has acquired approximately 23 acres of the 56.6 URT as follows: 1) on October 3, 1983, Resorts purchased Parcel 13B consisting of 15.96 acres for \$1,892,821; 2) on January 21, 1985, Resorts purchased, in Parcel 13, 6.428 acres for \$727,943, 19,752.20 square feet for \$51,355 and an additional 1,360 square feet for a sum of \$3,536. Resorts, pursuant to the agreement as amended, did not take down the 3.2662 acres within the URT on April 3, 1987. According to Matt Kearney, Vice President/Finance, RII, this was because the Housing Authority could not convey clear title to the property because of tax liens against the property filed by the City of Atlantic City. In connection with those

tax liens, litigation was initiated between the Housing Authority, City of Atlantic City and Resorts.¹⁵

ii) Recent Actions On The Part Of The Atlantic City Housing Authority

On November 12, 1987, the Atlantic City Housing Authority passed a Resolution which appears to be of relevance to the above-described and pending tax related litigation, the completion of the Taj Mahal and Resorts responsibilities as relate to future development upon the URT. See Resolution of The Board of Commissioners of The Housing Authority And Urban Redevelopment Agency Of The City of Atlantic City Authorizing The Executive Director To Take Certain Actions Relative To Amendments of The Contract With Resorts International, Inc. of

15 The related complaint is captioned Resorts International Inc. v. Housing Authority and Urban Redevelopment Agency of the City of Atlantic City v. The City of Atlantic City, Civil No. 86-1322, United States District Court, District of New Jersey. Resorts brought this action to recover for damages it allegedly incurred when the defendant Housing Authority allegedly violated the terms of the lease by: 1) failing to pay all of the real estate taxes levied on the property for the years 1984, 1985 and the first quarter of 1986 (Count I); 2) by representing that it would not pay all future taxes to Atlantic City which exceed the amount received from Resorts as rent (Count III); and 3) by violating Resort's right to the unencumbered quiet enjoyment of the premises (Count II). On July 20, 1987, as is relevant here, Resort's motion for partial summary judgment against the Housing Authority on the claims contained in these counts of the complaint was granted by the Court as to liability. The litigation, as concerns this and related matters arising therefrom, is still active.

New Jersey For Redevelopment Of The Uptown Urban Renewal Tract,
Project No. N.J. R-115, Resolution No. 3897.

More particularly, prior to voting favorably (4-1) with regard to that Resolution, the Housing Authority took notice of several matters. First, it noted that Resorts is constructing a hotel and casino (the "Taj Mahal") on a portion of Parcel 13B of the URT pursuant to the October 22, 1976 agreement. Second, it noted that the Housing Authority, the City of Atlantic City and an affiliate of Resorts are engaged in litigation regarding certain real property taxes on the URT. Third, that RINJ has been delayed in the completion of the Taj Mahal because of the expansion of the scope of the project and construction delays. Fourth, that RINJ and/or its affiliates are contemplating mortgage financing necessary to complete the Taj Mahal and other purposes, which mortgage will cover a portion of the land and improvements located on the URT. Finally, the Housing Authority took notice that, in order to obtain mortgage financing necessary to complete the Taj Mahal, it is necessary to obtain an extension of the time to complete that project and to obtain certain other documentation and amendments to the agreement.

Through its November 12, 1987 meeting, the Housing Authority therefore resolved as follows:

1. Resorts and the Authority have agreed to amend the Agreement by deleting Section 8 of Part I of the Agreement and substituting it with the following: "Subject to this Agreement, the time within which the Redeveloper [Resorts] shall complete the construction of the Improvements [that is, the Taj Mahal project] on Parcel 13B shall be August 3, 1989";

2. The Executive Director of the Authority is hereby authorized to execute estoppel agreements, in a form acceptable to counsel for the Authority and addressed to the holder of the said mortgage, which evidence that there are no current defaults under the Agreement and that construction of the Improvements to date is in conformance with the approved Final Construction Plans;
3. The Authority hereby waives compliance with the provisions of Section 601(a) and (b) of Part II of the Agreement and acknowledges that the holder of said mortgage shall be entitled to notices pursuant to Section 603 of Part II of the Agreement and shall be deemed a holder of a mortgage authorized by the Agreement;
4. The Executive Director is hereby authorized to execute and record a Deed of Correction and/or such other documents reasonably necessary to reflect the actions taken herein and to reflect previous extensions or amendments to the Agreement; and
5. If there exists a contractual obligation under the Urban Renewal Agreement for the Redeveloper [Resorts] to take-down those portions of the Urban Renewal Tract still owned by the Authority pursuant to the Contract, the Authority hereby waives that obligation and any housing obligation that might attach thereto, and, except for the 3.72 acre tract not yet taken down, and, except that future takedowns shall cause the contractual housing obligation to attach thereto as lands are taken down. Failure to take-down pursuant to the urban renewal schedule shall incur all of the other penalties set forth in the Agreement.

On December 17, 1987, the Housing Authority met and at that time took further action with respect to its November 12, 1987 Resolution, described above. More particularly, the Housing

Authority voted favorably (4-3) to maintain a "status quo" with respect to the Resolution #3897 and to reconsider its impact at a Housing Authority meeting scheduled for January 28, 1988.

iii) Recent Actions On The Part Of The Casino Reinvestment Development Authority

On November 6, 1987, the Casino Reinvestment Development Authority ("CRDA") granted preliminary approval (5-3 vote) to a proposed \$288 million project, which is to include 1,200 residential housing units, a retail commercial center and an urban park, to be built by The Trump Organization in Atlantic City's Uptown Urban Renewal Tract between Connecticut and Maryland Avenues from Pacific Avenue to the Boardwalk.¹⁶ Trump

16 The Casino Reinvestment Development Authority is an independent authority of the State of New Jersey, created to authorize the expenditure of casino reinvestment funds, an estimated \$1.4 billion dollars over the next 25 years, and to approve eligible projects whereby casinos may satisfy their investment obligations. Each casino may invest 1.25% of their gross gaming revenues with the CRDA through the purchase of taxable or tax-free bonds issued by the CRDA, to be repaid to operating casinos with interest. In April 1986, all eleven operating casinos signed Securities Purchase Contracts with the CRDA. The interest rate is to be two-thirds of what these funds could earn on market rate bonds. The casinos have two other alternatives - either making a direct investment in projects granted prior approval by the CRDA or paying a tax of 2.5% on gross revenues starting in 1984. All payments to CRDA are made on a quarterly basis by the casinos. The Authority's revitalization programs are targeted first to Atlantic City, particularly the Inlet section, and later to other urban areas throughout New Jersey. The Division has been apprised by a CRDA official that financing for housing project which fell outside the targeted Northeast Inlet had been approved by the CRDA in connection with housing projects for the Bally and Caesars hotel casinos.

Urban Renewal Associates ("TURA"), a joint venture consisting of Resorts International Hotel, Inc.,

Trump Plaza Hotel/Casino and Trump's Castle Hotel/Casino, filed a petition with the CRDA for determination of eligibility for direct investment credit for this project on October 23, 1987. The proposed project, to be built on the URT, consists of the development of 1200 rental housing units in three separate high-rise buildings, with a low, moderate and middle income mix in each building. The plans, covering a total of 33 acres, also provide for the redevelopment of the pier/boardwalk area in front of the residential towers, 60,000 sq. ft. of commercial space, 1400 parking spaces, and an urban park on Block #108. The initial construction phase would include the first residential towers, parking and 30,000 sq. ft. of commercial space.

The November 6, 1987 CRDA action constituted the "first stage" of the review process in which the petition is reviewed and evaluated to determine if it has the potential for CRDA funding. In this case, CRDA expressed interest in the petition although it pointed out approximately twelve (12) items which need to be clarified by TURA before a public hearing can be held. According to the CRDA official, the Authority's preliminary approval was a non-binding action and, after a public hearing is held, CRDA must determine whether the project is an approved project and whether to reserve the necessary funds for such project. If final approval is obtained for TURA's proposal, CRDA would fund part of the project through

bond offerings issued by CRDA. CRDA's primary task in its evaluation of TURA's petition is a determination of funding eligibility.

It should be noted that CRDA requested that the law firm of Riker, Danzig, Scherer, Hyland & Perretti ("law firm") consider certain issues concerning the described TURA petition. In a memorandum addressing those issues, the law firm noted that there is nothing in CRDA's enabling legislation, constituting Chapter 218 of the Laws of New Jersey of 1984, as amended, "...which prevents CRDA from granting credit for an otherwise eligible project even though the applicant seeking eligibility is obligated to a third party to provide such project."¹⁷ Despite such, at the request of CRDA, the law firm among other things examined whether, in fact, Resorts is obligated under its October 22, 1976 agreement with the Housing Authority, as amended, to provide housing units. The law firm concluded, in part, that the provisions of the Agreement relating to Resorts' right to terminate the agreement are ambiguous and that, although a court could construe the provisions of the agreement in favor of Resorts' right to terminate any time, it is more likely that a court would look to the original intent of the parties to resolve the ambiguity.

¹⁷ The law firm further noted that CRDA's enabling legislation, and CRDA's rules, constituting N.J.A.C. 19:65-1 et. seq., "...do not, in any way, prohibit a joint venture of casino licensees from seeking credit for a direct investment in an eligible project."

iv) Related Matters

As is obvious from the above, the events related to housing on the URT and Resorts responsibilities with regard thereto are the subject of ongoing events. In fact, it has been reported that the Housing Authority may be expected to reconsider its decision to waive any housing obligation of Resorts' in the URT. The Division has been monitoring all of those events and will continue to do so. Additionally, the Division has initiated an investigation, focusing primarily upon the original intentions of Resorts as concerns the October 22, 1976 agreement, as amended, to determine if present and emerging events and the posture of Resorts with respect to those events, are consistent with those original intentions. However, as the events related to this investigation are still emerging, the Division's investigation is continuing in nature. Upon completion of its investigation, the Division will file with the Commission a report setting forth its findings. In view of the February 1, 1988 license renewal proceeding of RIH, the Division would at this point note that its investigation has thus far discerned no facts which would cause it to interpose an objection to the said license renewal.

D. Best of Life Park, Inc.

Best of Life Park, Inc. ("BOL") is a senior citizen apartment building within the Urban Renewal Tract, on Virginia Avenue and adjacent to the parking garages and bus facilities of

the presently under construction Taj Mahal facility. In recognition of concern that has previously been voiced as to the environmental impact which the Taj Mahal will have on the BOL facility and its occupants, the Division has monitored Resorts' response to those concerns.

As noted at the time of Resorts' 1986 license renewal proceeding, Resorts has maintained an ongoing dialogue with the tenants and trustees of the BOL facility in order to arrive at a mutually agreeable resolution to the environmental problems emanating from the construction of the Taj Mahal. This has resulted in an agreement between BOL and Resorts, executed on February 18, 1987, which appears to address many of the concerns of BOL. Under the terms of that agreement, Resorts has agreed to the following: 1) to provide funds necessary to construct an interconnecting bridge between the BOL facility and the Taj Mahal; 2) to provide, at its actual energy cost, sufficient steam and chilled water to the BOL equipment in order to comfortably heat and cool that facility; 3) to, on one occasion, spray wash, caulk, repair spalls and rust spots and seal the exterior facade of the BOL building; 4) to provide BOL with landscaping, of Resorts choice, for the BOL property facing on Virginia Avenue; 5) to provide BOL with an underground irrigation system connected to BOL's water system sufficient to adequately irrigate the landscape element of the agreement; 6) to provide and erect fencing to enclose the eastern property line of the BOL property and, in conjunction with the structural elements of the Taj Mahal, to enclose the southern portion of

its property, and 7) subject to governmental approval, to deed to BOL a parcel of land approximately 8 feet in width and 160 feet long to a height of 17 feet, all subject to an easement back to Resorts for air rights above a height of 17 feet, for use in the egress and ingress of traffic to the BOL facility.

The Division will monitor Resorts' compliance with the terms of the agreement and will apprise the Commission of significant developments as they occur.

E. Resorts Sale Of Real Estate Situated In The Atlantic City Area

Resorts and/or its subsidiaries have made substantial real estate and other investments in Atlantic City and the surrounding area. In addition to owning various parcels along the Boardwalk and elsewhere in the Atlantic City area, the company owns approximately 576 acres of wetlands, including 150 dry filled acres on Great Island on Route U.S. 40; approximately 8.5 acres in the marina area; approximately 40 acres in Rum Point; and water front parcels in the inlet section. The total land holdings of Resorts in Atlantic City, as of January 1987, was approximately 900 acres.

During the course of the license renewal year, in September 1987 and under its new Chairman of the Board (Donald J. Trump), Resorts determined to more aggressively market its Atlantic City real estate holdings. Virtually all of Resorts land, with the exception of its Urban Renewal Tract and Great Island Tract are presently for sale. Although none of Resorts' Atlantic City properties have to date been sold, funds from any such sale are

intended to be utilized for construction of the Taj Mahal project.

F. Intertel

As reported in the Division's January 16, 1987 report relative to last year's license renewal proceeding of RIH, Intertel and Lectrolarm, pursuant to its investigative responsibilities, the Division requested Intertel investigative files relative to Bayshore Rebar, Inc., L. Feriozzi Concrete Company and Coastal Rebar, Inc. As the Division was advised that Intertel could not find those particular investigative files, the Division's report concluded that Intertel must address the circumstances surrounding the disappearance of the files and must initiate new internal procedures designed to assure that all Intertel investigations will be recorded in its filing system. At the January 1987 license renewal proceeding, Thomas V. McKeon, Intertel's President, testified in detail concerning the missing files and as to measures that have been initiated by Intertel to prevent the reoccurrence of such. Prior to its unanimous vote to renew Intertel's casino service industry license the Commission, by Chairman Read, stated in pertinent part as follows:

It's been most distressing to find that Intertel is before us explaining questionable business practices. While I cannot conclude from this single incident that Intertel lacks a business ability necessary to renew its casino service industry license, and while I found Mr. McKean (phonetic), to be a credible witness to handle the files in question does not reflect positively upon the company, I trust that Intertel will implement all of the procedures described by Mr. McKean, as well

as any other procedures which may be appropriate, and that we will not be faced with a similar situation in the future...See In Regard to the Matter of: Applications of Resorts International Hotel, Inc. for Renewal of its Plenary Casino License and International Intelligence, Inc. and Lectrolarm Custom Service, Inc. for Renewal of their Casino Service Industry Licenses (transcript of hearing, dated February 11, 1987, at pp. 228-229).

Subsequent to the 1987 license renewal proceeding, on May 7, 1987, the Division was furnished with an "internal file audit" report conducted by Martin B. Danziger, Esq. and pertaining to the missing files. The stated purpose for this audit was to search for the three missing files and to independently try to determine what occurred to them if they could not be located.

Mr. Danziger's search did not surface the three missing files. However, consistent with Mr. McKeon's testimony before the Commission as concerns the likely reason for the inability to locate the files, the internal audit report determined that "[t]he most probable explanation is that the files were either misplaced or lost due to the lack of adequate management controls over the records system at that time." By way of explanation, the report, in pertinent part, states that "[t]here was no charge out system for files, original files would be sent to other offices, and the lines of communication and responsibilities were not clearly defined." In conclusion, Mr. Danzinger's report provides that "Intertel has made a number of changes in their policies and procedures related to their records and information system in an attempt to avoid the

problem of lost or misplaced file[s] in the future" and that "[m]ost important of all they have established a more clearly defined management reporting system." In correspondence forwarded to Intertel on May 20, 1987, the Division recommended that a follow-up audit be conducted after an appropriate time period to ensure the effectiveness of and proper compliance with the new policies and procedures.

During the past license renewal year, the Division's investigation relative to Intertel included a review of its policies and procedures related to its record/information system and its reporting procedures with respect to investigations conducted at the behest of Resorts. The Division's investigation, as concerns Intertel's policies and procedures related to its record/information system, revealed that Intertel has in fact developed and effectuated remedial measures to prevent the loss of investigative materials in the following principal areas: 1) the handling of incoming mail; 2) removal of files from any file cabinet; 3) the removal of files from Intertel premises; and 4) the use of buck slips in the circulation of documents in-house. The Division's investigation further revealed that Intertel has no formal "management reporting system" and the use of that phraseology in the described internal audit report apparently constituted a term of art to describe a seven stage reporting procedure codified by Intertel and in reference to investigations it conducts on behalf of Resorts.

The Division's investigation as to the aforementioned seven stage procedure disclosed that an Intertel investigation commences upon the request of an Resorts official and usually concerns a prospective employee or vendor. The investigation proceeds until stage seven, which consists of Intertel's preparation of a brief memorandum to the requesting Resorts official either interposing an objection to the hiring of the subject of the investigation, or indicating that Intertel has no such objection. The Resorts official, however, does not receive any description of the derogatory information uncovered by Intertel unless Resorts requests that Intertel reconsider its objection. At that point, Intertel will review with Resorts' management the general nature or characteristics of the derogatory information but, in recognition of individual privacy rights and to avoid prospective litigation related to the dissemination of the negative information, Intertel will not disclose the specifics of its investigation nor the criminal record of any subject to management. Although the Division has no objection to this procedure, a deficiency arises as there are instances when evident derogatory information discovered by Intertel will not result in its objection to the hiring of a prospective employee or vendor. In such cases, it is apparent that Resorts management is not provided with a description of the derogatory information. Rather, as noted above, Intertel merely provides Resorts with a no objection memorandum.

In the Division's view, in order to best insure integrity in casino operations, the casino licensee and not Intertel must

ultimately determine whether any negative information is of a nature not sufficient to preclude a decision to hire. In order to do so, however, Intertel must at a minimum affirmatively advise Resorts/RIH management of the general nature and characteristics of the derogatory information it has uncovered in those instances where it voices no objection to the hiring of a prospective employee or vendor. As similar information is disclosed to management in those instances where management requests that Intertel reconsider its objection to the hiring of an individual or vendor, there would appear to be no legitimate reason for Intertel not to do so in such instances.

In view of the above, the Division would not interpose an objection to the renewal of Intertel's casino service industry license subject to the following conditions:

- 1) that, at its license renewal proceeding, Intertel present for Commission and Division review a procedure designed to insure that Resorts/RIH management will be apprised as to negative information disclosed by Intertel's investigation of prospective employees or vendors in those instances where Intertel voices no objection to their being hired or, alternatively, demonstrate by clear and convincing evidence that the adoption of such a procedure would not be practical;

- 2) that during the course of the 1988 license renewal year, as was previously recommended to Intertel by the Division, that an audit following up the May 7, 1987 "Intertel file audit", which was conducted by Martin B. Danziger, Esq., be performed to ensure the effectiveness of and proper compliance with the new policies and procedures adopted by Intertel, as described.

G. Joseph Palma, Former Patron Of The Resorts International Hotel And Casino

On February 6, 1987, the Hartford Accident and Indemnity Company ("HAIC") filed suit against RIH, Joseph Palma, Deborah Palma, et al., in the United States District Court for the Middle District of Pennsylvania. Joseph Palma, a former customer of RIH's casino hotel facility, pled guilty to embezzling \$1.6 million from his employer, Old Forge Bank, Old Forge, Pennsylvania. HAIC, surety and underwriter of Old Forge Banker's Blanket Bond, settled an insurance claim for \$1,731,000 with Old Forge Bank.

HAIC, in its suit, alleged that during the period commencing on or about March 20, 1983 and continuing to on or about November 12, 1983, Mr. Palma placed on deposit with Resorts at its casino cage an aggregate cash sum of not less than \$4,326,240 and lost to Resorts, as a result of his gambling activity, not less than \$1,538,240. HAIC alleged that Resorts encouraged Palma to gamble by transporting him in helicopters and limousines to and from his residence and by providing he and his wife, Deborah Palma, lodging, meals, liquor and entertainment on a complimentary basis. HAIC, in its complaint, contends that Resorts should have investigated and reported to Old Forge Bank Palma's gambling because of his physical appearance, mannerism, speech and the amount of and frequency of his gambling. HAIC, through this pending litigation, is seeking judgment in the amount of \$1,581,240, plus interest and costs, as to each of two counts of the complaint.

The Division's Audit Section investigated Joseph Palma's gambling activity at RIH. The Division's investigation disclosed that Mr. Palma was a front money player at Resorts for an 8 month period between March 1983 and November 1983. Mr. Palma made substantial cash deposits during this period and no cash equivalents or other negotiable instruments were transacted by Mr. Palma with Resorts. Further, there is no record that he ever requested a credit line. The Audit Sections' investigation noted no violations in establishing the related customer deposit account, accepting the deposits, or processing the customer withdrawals. See N.J.A.C. 19:45-1.24.

The Division also initiated an investigation into Joseph Palma's gambling activities at Resorts, in order to ascertain if Resorts knew or had reason to believe that Palma's funds used to gamble were obtained illegally. The Division's investigation revealed that Mr. Palma was comped substantially by RIH employees, in an amount of \$88,839. As part of its investigation, the Division has interviewed several of the employees who were involved in the issuance of complimentaries to Mr. Palma. The Division's investigation confirmed that Mr. Palma was a cash player and has thus far failed to reveal evidence which would indicate that Resorts knew or had sufficient reason to believe that Palma obtained his gambling funds illegally. The Division will continue to monitor the status of the HAIC complaint and report to the Commission on any significant developments, as appropriate.

H. Conditions Of Licensure

In February 1987, RIH's casino license was renewed subject to certain conditions. Those conditions of licensure include several conditions regarding Resorts' practices and procedures in the Bahamas. During its overall investigation of RIH's application for relicensure, the Division has monitored the activities of Resorts and, at this juncture, the Division has not discerned evidence of noncompliance by Resorts or RIH with respect to these conditions of licensure.

However, the Division would note that, on April 1, 1987, RIH filed a petition with the Commission through which it sought modification of its license condition 34. See In The Matter Of The Application Of Resorts International Hotel, Inc. For Modification of Licensing Condition No. 34 And For Approval Of Amended Audit Committee Procedures, PRN 091705. RIH's license condition 34 requires "that the payment in the Bahamas of business expenses of \$50,000 or more shall be reported to the Commission and Division semi-annually together with required documentation in support of such fees pursuant to guidelines and procedures adopted by the audit committee of RIH." That license condition was first imposed upon RIH at the time of its 1985 license renewal, which proceeding focused upon certain payments made by Resorts to Bahamian law firms which had been channeled to the Bahamian Prime Minister through Everette Bannister, at the time a paid consultant to Resorts and a close friend and confidant of the Prime Minister.

In support of its petition seeking modification of license condition 34, through which RIH sought to limit its reporting to the Commission and Division of only those Bahamian business expenses in excess of \$50,000 that are "unusual and nonrecurring", RIH contended that the proposed modifications would reduce the amount of time expended by its personnel and that the modification would continue to require the reporting of unusual and nonrecurring business expenses. The Division, in its Answer to the petition filed with the Commission on May 19, 1987, urged the Commission to deny the relief sought arguing, among other things, that there exists a need for scrutiny of the materials submitted in compliance with the license condition. After hearing argument as to the relief sought by RIH, the Commission resolved to deny a modification of this condition of licensure.

I. Shareholder's Lawsuits

Appendix Number 63 to RII's BEDF filing describes a number of lawsuits that Resorts and/or its agents are presently engaged in. The Division, during the course of the license renewal year, has monitored the more significant litigation and will continue to do so.

It is evident, however, that additional and significant litigation has only recently been initiated as concerns the licensee and affiliated persons. The Division has determined that approximately eleven lawsuits have been filed with the Court of Chancery of the State of Delaware, New Castle County, by which various shareholders of Resorts seek relief related to

events which occurred during the license renewal year. These lawsuits, among other things, challenge: 1) the consolidation of RICH with the Taj Mahal, when completed; 2) the comprehensive services agreement; and 3) Mr. Trump's business plan, as announced on December 21, 1987, to take the company private. The Division will monitor the status of these lawsuits and report to the Commission on significant developments, as appropriate.

VI. CONCLUSION

In light of the issues as identified in this and the Division's operational report, the Division will state its position with regard to the casino license application of THC, and the license renewal applications of RIH, Lectrolarm and Intertel, at the conclusion of the license renewal proceeding.

Very truly yours,

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