

Catania Gaming Consultants



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Trump Bondholders Win Back Casinos With New Face, New Plan

A group of corporate bondholders backed by Donald Trump won control of three Atlantic City casinos of Trump Entertainment Resorts Inc., after a federal bankruptcy judge ruled in favor of their plan over a competing plan by Tropicana owner Carl Icahn.

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The Trump-backed plan for Trump Entertainment calls for a significant reduction of company debt and will keep the Trump name, an Atlantic City staple since the 1980s, intact. "The Trump brand is worth millions of dollars to the debtors," said Judge Judith Wizmur, who delivered the ruling on April 12. "The [company's] identification with the Trump Organization raises its profile in the gaming industry."

While Icahn's plan would have completely wiped out the company's debt, it also would have wiped out bondholders' investments. In addition, Icahn had no naming-rights deal with Trump, and might have had to rebrand all three casinos. Trump officials also argued that a takeover by Icahn would have violated the "undue economic concentration" provisions of New Jersey's gaming regulations.

While Trump called the ruling "a complete victory," the decision marks the beginning of a potentially long road ahead for Trump Entertainment,

given the current climate in Atlantic City. According to a report released in early April by the NJ Casino Control Commission, Atlantic City casinos suffered a 16.4 percent drop in profits in the fourth quarter of 2009, with Trump Plaza reporting the biggest loss: a 74.6 percent drop in gross profits from the prior year.

“Ultimately, their viability will be dependent on their ability to stabilize cash flows in Atlantic City at current levels — and possibly [on] selling Trump Marina,” said Cory Morowitz, a New Jersey casino analyst. “They really need to reinvent themselves to appeal to markets that are currently rejecting them and Atlantic City.”

Part of that reinvention will come in the form of Ivanka Trump, who will become one of the company’s main public faces in the coming months in an effort to appeal to a younger demographic. “We’re going to include her in a lot of things, marketing, advertising,” said Donald Trump. “The bondholders like both of us, but they’ve really gotten into Ivanka.”

The company’s post-bankruptcy plans also include selling off the underperforming Trump Marina, which Trump protégé Richard T. Fields expressed interest in before a deal fell through last year. As for Trump Plaza, Trump Entertainment CEO Mark Juliano has stated that the company may look for a joint venture partner but has no plans to sell, given the depressed real estate market. Trump Taj Mahal will continue to be the company’s flagship organization.

Meanwhile, Ichan has announced that he will appeal the court’s decision, stating that the judge made “fundamental errors” in her ruling. Not surprisingly, a Trump lawyer predicted that the appeal would fail. Even so, Ichan still owns the \$486 million mortgage on the casinos, meaning that he is still the company’s chief lender and won’t be disappearing from the scene any time soon.

Gary Ehrlich, VP of Catania Gaming, testified in the bankruptcy case as an expert witness on New Jersey casino law.

Cash-strapped governments eye online gaming, says KPMG

Cash strapped governments around the world may consider relaxing current online gaming rules and restrictions in order to provide a much needed boost to tax revenues according to a new KPMG report, “Online Gaming: A Gamble or a Sure Bet?”

“Governments in many parts of the world are quietly rethinking their opposition to online gambling,” says Mark Summerfield of KPMG in the UK and Global Head of Gaming. “We believe that, following the inevitable initial teething difficulties, a sustained period of re-regulation is likely that will see the market mushroom.”

“What will be unusual for this internet-driven sector is that, at least in the short term, a physical and therefore taxable presence may be required in order to secure gambling licenses within different countries. This will bring a new set of challenges for online businesses that do not have large international structures or brand recognition.”

For governments, the potential tax revenues at stake are huge. The global online gaming market is expected to grow to \$30 billion by 2012, a 42 percent increase over 2008 numbers according to H2 Gambling Capital. And since some of the biggest markets, such as the US, China, Japan, and South Korea, currently prohibit online gambling, the potential for further growth in the sector is

enormous.

The Unlawful Internet Gambling Enforcement Act (UIGEA) was passed in 2006 to prohibit internet gambling within the US, but signs indicate that several policy makers are rethinking the decision. In November 2009, the Treasury Department and Federal Reserve Board announced that enforcement of the UIGEA regulations was being delayed for six months to June 1, 2010.

Bills to regulate and tax online gaming have also since been introduced, including two by Massachusetts Congressman Barney Frank. The first mandates a one-year extension in industry compliance with the regulations of the UIGEA, while the latter outlines a full framework for licensing and regulating the industry in the United States. The bills were scheduled for a hearing by the House Financial Services Committee on April 16, but the hearing was postponed to a later date yet to be announced.

Meanwhile, technology continues to drive change and growth within the industry as new social and mobile platforms emerge. More and more land-based casinos are looking to the online sector to protect and increase their market shares, and the business-to-business segment of the industry is also likely to expand.

However, as the virtual gambling market grows, the industry will need to continue to tackle the concerns that surround it. Social concerns, such as the prevention of access by minors and the potential for gambling addiction fueled by online access, must continue to be confronted and addressed by the industry. Security will also be paramount, and according to the report, a reputation for trustworthiness may prove to be the most valuable asset a company can attain in this market.

Harrah's Seeks Suitability Approval for New Business Partner

Harrah's Entertainment is seeking suitability approval from Nevada gaming regulators for its business partner, Dragonfish, a division of 888 Holdings. The Gibraltar-based online gaming company provides the software for Harrah's to manage three Internet gambling sites in the UK.

The application was filed last week by Harrah's under the state's Foreign Gaming Act, the same law under which regulators in 2007 found Hong Kong businesswoman Pansy Ho to be a suitable business partner for MGM Mirage in their shared ownership of the MGM Macau.

It is the first time Nevada regulators have been asked to investigate the suitability of an online gaming company that took wagers from American gamblers before the enactment of the Unlawful Internet Gaming Enforcement Act in 2006.

"It's a question the board and the [Nevada Gaming] Commission have never formally ruled on," said Gaming Control Board Chairman Dennis Neilander. "It's something that may need to be resolved because it's possible we'll see more of these types of relationships in the future." Still, Neilander said it was unclear how long an investigation of 888 Holdings might take.

Dragonfish provides Harrah's with the technology to manage and operate online gaming sites in the UK under the company's World Series of Poker and Caesars brands, both of which are overseen by Harrah's Montreal division, Harrah's Interactive. The websites cannot be accessed by American gamblers.

The three Harrah's Web sites were launched earlier this year. Not surprisingly, Harrah's supports legalizing Internet gaming and has backed a bill by U.S. Rep. Barney Frank, D-Mass., that would establish a framework to permit online gambling operators to accept wagers from U.S. residents.

Kentucky Tries to Recoup Online Gambling Losses

Kentucky Governor Steve Beshear recently announced a plan to recoup online gambling losses incurred by Kentucky residents using an obscure century-old law. The law allows people to recoup losses from illegal gaming, including, Beshear says, online gambling in a state where it is illegal to run a casino.

"The Internet posed a conundrum that wasn't thought of when the laws were put on the books, the idea of a virtual casino you can go to," Jennifer Brislin, a representative of Governor Beshear's office, told ABC News. "These groups shouldn't be able to hide offshore and flaunt our laws."

Brislin added that Kentucky felt compelled to enforce the law on behalf of the Kentuckians losing their money in online gaming, which she called an illegal operation. However, the lawsuit would not return gambling losses to individual citizens, but rather to the commonwealth itself.

Some legal experts and critics are calling the move a "Hail Mary" intended to gain additional revenue for the floundering state. "There is some money there and one has to wonder if the government thinks that they could profit," said Jon Fleischaker, a Kentucky attorney who works for the gambling industry. "That's what makes this a suspicious effort. It's disingenuous and a lot of people are upset."

Beshear's administration asked Kentucky Attorney General Jack Conway to review the case, but Conway's office decided not to take it on. The case is now being handled by Hurt, Crosbie & May, a private law firm based in Lexington.

"There are those of us who believe the state is going down a false path," Fleischaker said. "We are not sure this lawsuit can be brought by anyone besides the AG and it's something that is being looked into."

The lawsuit will primarily be directed against "Pocket Kings, Ltd.," an online betting business based in Dublin, Ireland, but also names an additional 139 domain names as "Unknown Defendants."

Florida May Become First State to Legalize Online Gaming

Representative Joseph Abruzzo has proposed legislation that would make the state of Florida the first to regulate online gambling. According to the representative, over one million Florida residents already play at websites operated by foreign companies. The new legislation would allow the state to license, and thereby tax and regulate, companies operating within the state.

The proposed legislation, named the Internet Poker Consumer Protection and Revenue Generation Act of 2010, would “create a framework for the state to regulate Internet poker sites that can ensure consumer protections and additional revenue to the state by authorizing, implementing, and creating a licensing and regulatory structure and system of Internet poker.”

In addition to regulating operators, the bill also proposes strict rules for online players, protecting them against fraud, addiction, and other problems often associated with online gaming. Abruzzo noted that if the legislation is successful he expects several other states to follow.

The prospects for this legislation in Florida are unclear, but its national implications are significant regardless of its ultimate fate.

