Is Icahn Atlantic City's Savior or its Problem?

An Analysis of Icahn's Payout from Trump

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While Atlantic City and its workforce struggled and sacrificed, Carl Icahn extracted a high toll from Trump Entertainment.

For the past several years, Icahn has been profiting handsomely from Atlantic City's distress: using the bankruptcy process to gain control of Trump and Tropicana at steep discounts, lending at interest rates ranging from 12% to 15%, and maneuvering to retain net operating loss (NOL) carryforwards, which if used will significantly reduce the revenue New Jersey can collect from his casinos.

- Since 2010, Icahn has extracted $350.5 million out of the Trump casinos in Atlantic City and sent that money back to Icahn Enterprises in New York.
- In 2010, while Icahn was the sole lender at Trump Entertainment, the interest rate climbed to 12%, compared to a pre-bankruptcy interest rate of 6.2%. If Trump had been paying 6.2% interest instead of 12%, the company would have saved about $70 million over the past four years or about $17.7 million per year.
- If Icahn operates the Taj Mahal after the bankruptcy reorganization, he could use the Taj's accumulated net operating losses (NOLs) to offset the casino's future income, which could result in state tax savings of between $40 million and $56 million.
- Between 2009 and 2012, Icahn was the majority lender to Tropicana Entertainment, owner of the Tropicana Atlantic City. We estimate that Icahn received cash distributions from the debt of about $97.4 million.
- According to the bankruptcy plan, Icahn values Trump Entertainment between $140 and $190 million if the Taj Mahal remains open. If the Taj closes, the valuation is between $110 and $155 million.

For more, read on.

Between December 2009 and April 2010, Icahn purchased all of the Trump Entertainment Inc.'s (TER) debt for about $449 million. We estimate that approximately $350.5 million has been returned to Icahn from Trump thus far:

Trump Entertainment	Amount (millions)
Pre- July 2010 principal payments	$3.1
Bankruptcy payout	$125.0
Bankruptcy settlement	$15.0
Payback of principal 7/10-7/14	$60.9
Estimated interest payments 7/10-7/14	$146.5
Total	$350.5

Additionally, Icahn holds or will hold pursuant to the Trump bankruptcy plan, Trump holdings that could continue to generate income. According to a valuation analysis prepared by Houlihan Lokey that is summarized in the Disclosure Statement filed along with the Chapter 11 bankruptcy plan, the current value of Trump Entertainment is between $110 and $190 million.[1] Additionally, to the extent the Taj Mahal remains open and returns to profitability, the state and federal Net Operating Loss Carryforwards (NOLs) could be worth anywhere between $58 and $139 million.[2]

Source	Estimated Value (millions)
Valuation (per Houilihan Lokey)	$110- $190
Federal Net Operating Loss Carryforwards	$18 .0- $83.0
State (NJ) Net Operating Loss Carryforwards	$40.0 - $56.0

Trump

Icahn's Purchase of Trump Debt: 2009 and 2010

In December 2009, Icahn bought 51% of the Trump $485.06 million first mortgage for 92.5 cents on the dollar.[3] This means he paid $228.83 million. Icahn bought the second half of the loan at 92.5 cents on the dollar in April 2010 (for an additional $219.30m). He claims to have done it at that time in order to "pocket a $10 million interest payment."[4] In total he paid about $449 million. At the time of his purchase of the mortgage, the loan carried an interest rate of Libor +5.2% (which included 2% default interest) with a minimum Libor rate of 3.0%,[5] so the casino was paying interest at an 8.2% rate at Dec. 31, 2009.[6]

How Much Money has Icahn received from Trump Entertainment?

Icahn received payments related to the Trump investment from a number of sources including: interest payments, principal repayments, bankruptcy payments and legal settlement payments:

- Before Trump exited bankruptcy in July 2010, Icahn received at least $3.09 million in principal payments.[7]

- As part of the bankruptcy, Icahn received $125 million in cash and debt of $356.38 million (the amended terms of which imposed a fixed interest rate of 12%).[8]
- As part of the bankruptcy settlement, the New Owners paid Icahn $15 million to settle previous claims.[9]
- Between July 2010 and July 2014, Trump paid back $61.24 million of the principal of the loan.[10]
- We estimate that between July 2010 and July 2014, Icahn was paid $146.52 million in interest payments.[11]

The Effect of the Increased Interest Rate on Trump Finances

After emerging from bankruptcy in 2010, the only large debt the company had was the $356 million 12% term loans. The interest rate on the loan was almost twice what it had been under the pre-default interest rate of 6.2% (LIBOR + 3.2% with a 3% floor)[12] and twice as high as Borgata co-owner Boyd Gaming's average interest rate of 6% in 2010.[13]

If Trump had been paying interest at the pre-bankruptcy rate of 6.2% these last 4 years rather than the 12% imposed by Icahn, the company would have paid Icahn-approximately $70.82 million in interest payments rather than $146.52 million. *The company would have saved about $70 million over the past four years or about $17.7 million per year.*

Conclusion

In recent months Icahn has sought to portray himself as the savior of Atlantic City, standing at the ready to invest an additional $100 million into the Trump if only the city would further reduce its property bill, the state would chip in with millions of dollars in new subsidies, and the workers would agree to sacrifice their health insurance and pension plan.

Conveniently left out of this narrative are the many ways Icahn has already profited from Atlantic City's distress: buying the bankrupt casino's debt at a steep discount, doubling the interest rate, using the bankruptcy process to gain control of its assets, and maneuvering to retain accumulated net operating losses (NOLs), which, if used, will significantly reduce the revenue New Jersey can collect from his casinos. Not mentioned is the fact that Icahn has already extracted $350.5 million from Trump. In addition, as a lender to Tropicana Entertainment, owner of the Tropicana Atlantic City, Icahn extracted nearly $100 million from Tropicana between 2010 and 2014 (see Appendix A).

The question isn't really will Icahn save Atlantic City. The question is: from what, or from whom, does Atlantic City need to be saved? A close look at the recent history at the Trump reveals that there is one person, more than any other, who bears primary responsibility for the crisis we are currently facing.

Appendix A: Tropicana

Trump Entertainment is not Icahn's only interest in Atlantic City. Icahn is the majority owner of Tropicana Entertainment, which owns and operates the Tropicana Atlantic City. In the early years of Icahn's ownership at Tropicana Entertainment, Icahn also was the majority lender.

In 2008 Tropicana Entertainment Holdings (TEH) filed for bankruptcy protection. The following year, Tropicana Entertainment Inc. (TEI) was formed, pursuant to TEH's bankruptcy reorganization plan, to acquire assets from TEH and certain of TEH's subsidiaries and other properties-- including Tropicana AC .[14] Icahn purchased Tropicana with $200 million credit bid having previously purchased Tropicana's debt for about 27 cents on the dollar, paying about $54 million, in July 2009.[15] Subsequent to the reorganization, entities controlled by Icahn became the owner of approximately 47.5% of TEI's common stock.[16]

To facilitate its reorganization, TEI entered into several credit agreements (the Exit Facility) with a lender group of which Icahn-affiliated entities were the majority.[17] Icahn affiliated entities thus had big stakes in both the borrower (TEI) and the lender group.

The Exit Facility was issued at a 7% discount and included a 15% annual interest rate and other fees. TEI recorded $32.4 million in annual interest on the Exit Facility in 2011, an effective interest rate of about 22%.[18] Between the end of 2009 and March 2012, we estimate that the Icahn entities received cash distributions from the Exit Facility of about $97.4 million, exceeding the amount of the term loan supplied by Icahn by approximately $26 million. *This resulted in an estimated internal rate of return (IRR) on the loan of about 18.77%*.[19]

The Exit Facility also obligated TEI to issue Penny Warrants on the common stock to the Icahn-led lender group. On March 9, 2010, the Icahn-affiliated entities that participated in the Exit Facility exercised their warrants, which raised Icahn's ownership of TEI's equity to 49.1%.[20] The estimated 18.77% internal rate of return excludes unrealized returns on the Penny Warrants issued to Icahn.

As of the year ended December 31, 2013, Icahn Enterprises owned approximately 67.9% of TEI's common stock.[21] Tropicana Atlantic City contributed about 32% of TEI's total revenue and 8% of total EBITDA in 2013. Through the first six month of 2014, revenues increased about 14.8% YoY.

[1]Disclosure Statement for Debtors' Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code. Case 14-12103-KG, Doc 406, Filed November 3, 2014. Page 105, Exhibit 2. These ranges exclude the value of the proposed term loans. The low end of the range assumes a Taj closure; the high end assumes the casino will continue to operate, will receive the tax savings and other subsidies it is seeking from Atlantic City and the state of New Jersey, and will enter in to a new $100 million term loan.

[2]Debtors' Motion for Entry of Interim and Final Orders, Pursuant to Sections 105(a), 362 and 541 of the Bankruptcy Code, Establishing Notification Procedures for Dispositions of or Claims of Worthless Stock Deductions with respect to Common Stock . Case 14-12103-KG, Filed September 9, 2014, p.4.

[3]TER 10-K filed March 2010, p. 69. http://www.sec.gov/Archives/edgar/data/943320/000119312510061858/d10k.htm. Grant, Peter, "Icahn leaps into Trump Casino Battle." Wall Street Journal, Dec. 14, 2009.

[4]"Icahn Now Owns Entire Mortgage on Trump Casinos." New York Times Dealbook. April 2, 2010.

[5]Trump 2007 Credit Agreement (Dec. 27, 2007), pp. 1, 8. http://www.sec.gov/Archives/edgar/data/943320/000090951807001088/mv12-27ex10_1.txt

[6]Trump 10-K, 2010, p. 60. http://www.sec.gov/Archives/edgar/data/943320/000119312510061858/d10k.htm#rom10231_8

[7]Assumes 51% of the principal repayment during 4Q2009 and 100% of the principal payments during 1Q2010 and 2Q2010. 4Q2009 repayment is calculated as full year repayment stated in the Trump 10-K 2010, p.43 (http://goo.gl/4Crmfi) less the repayment through 3Q2009 stated in the Trump 10-Q for the period ended September 30, 2009, p.5 (http://goo.gl/J95HAU). Repayment for 1Q2010 and 2Q2010 is stated in the Trump 10-Q for the period ended June 30, 2010, p.5 (http://goo.gl/KQ9Gtd).

[8]Trump 10-Q, for quarter ending June 30, 2010, p 12. "As discussed in Note 1, on the Consummation Date, the lenders under the 2007 Credit Agreement received, in full and final satisfaction of their claims, (i) $125,000 in cash from the proceeds of the Rights Offering and (ii) the new Term Loans in the total principal amount of approximately $356,375 on terms approved by the Bankruptcy Court as set forth in the Amended and Restated Credit Agreement." http://www.sec.gov/Archives/edgar/data/943320/000119312510188754/d10q.htm. Trump 10-K, 2011 (year ending 12/31/2010), p. 12. "the Reorganized Debtors paid $15 million to Icahn Partners, which satisfied any and all obligations of the Reorganized Debtors under the 2007 Credit Agreement to reimburse, advance or indemnify costs, fees, and expenses (including professional fees) incurred by the First Lien Lenders. Upon such payment, the First Lien Lenders released and discharged the Debtors and the Reorganized Debtors from and against any and all liabilities or obligations incurred by such parties;" 12% interest – p.16

[9]Based on reduction of principal of the Amended and Restated Credit Agreement between the beginning of 3Q2010 and the end of 2Q2014. Trump 10-Q for the period ended September 30, 2010, p.11 (http://goo.gl/hsz5up); Trump Plaza quarterly NJ DGE filing for the period ended June 30, 2014, p. 2 (http://goo.gl/FrUjiy).

[10]Based on reduction of principal of the Amended and Restated Credit Agreement between the beginning of 3Q2010 and the end of 2Q2014 as noted in the TEI 10-Q's for those periods.

[11]Based on the total debt at the end of each time period as reported in either the 10-Ks (for 2010, and 2011) or the NJ DGE quarterly reports (where we summed the debt from Trump Plaza and Trump Taj Mahal).

[12]TER 10K for the year ended December 31, 2010, page 56.

[13]BYD 10K for year ended December 31, 2010, page 47. Boyd reported average interest expense of 6% on Borgata's bank facility and senior secured notes.

[14]TEI 10-K for the year ended December 31, 2010, p. F-9-10. http://goo.gl/nfrp6u

[15]"Tropicana Casino's new owners plan modest approach to expansion." Associated Press. July 27, 2009. http://www.nj.com/news/index.ssf/2009/07/owners_of_the_tropicana_plan_t.html

[16]TEI 10-K for the year ended December 31, 2010, p. F-10.

[17]Icahn held approximately 55% of the term loan. Schedule 2.01 Lenders and Commitments in TPCA filing 10-12G/A filed on January 25, 2010, p. 477.

[18]TEI 10-K for the year ended December 31, 2011, p. 38.

[19]1Q2010 included outflow of 54.96% of $130m for drawdown of the term loan, inflows of 100% of $1.5m for revolver fees and administrative fees and 54.96% $1.3m for cash interest expense (10-Q for 1Q2010, pp. 16, 41); 2Q2010 included inflow of 54.96% of $5m for cash interest expense (10-Q for 2Q2010, p.40); 3Q2010 included inflow of 54.96% of $5m for cash interest expense (10-Q for 3Q2010, p.57); 4Q2010 included inflow of 54.96% of $5m for cash interest expense -- $16.3 million for the year less $11.3 million thru 3Q2011(10-K Dec. 31, 2010, p. 51); 1Q2011 included inflows of 54.96% of $1.3m for the scheduled annual repayment of the term loan and 54.96% of $4.9m for cash interest expense (10-Q for 1Q2011, pp.18, 37); 2Q2011

included inflow of 54.96% of $4.9m for cash interest expense (10-Q for 2Q2011, p. 35); 3Q2011 included inflow of 54.96% of $5.0m for cash interest expense -- $14.8m thru 3Q less $9.8 thru 2Q (10-Q for 3Q2011, p. 30); 4Q2011 included inflows of 54.96% of $4.8m for cash interest expense -- $19.6m for the year less $14.8 thru 3Q -- and $25m principal repayment on the Exit Facility (10-K for Dec. 31, 2011, pp. 41, F-31); 1Q2012 included inflows of 54.96% of $3.3m for cash interest expense, $1.3m annual repayment, and 54.96% of $107.7m to repay all outstanding amounts on the Exit Facility (10-Q for 1Q2012, pp. 12, 22-23); IRR calculation assumes no outflows related to drawdown of the revolver.

[20]TEI 10-K for the year ended December 31, 2009, p. 8. http://goo.gl/4WT3n0

[21]TEI 10-K for the year ended December 31, 2013, p. 5. http://goo.gl/kkYQPE