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Trump gives bankruptcy new twist

2004-11-28 / Bloomberg / By Ann Wooler

Donald J. Trump bemoans the fact that even these days "there is a somewhat negative connotation" to that old word, bankruptcy.

The sunny billionaire complained about that ridiculous negativity when I called him up this week. I wanted to ask whether his casino company's latest trip to the, um, "B" court carries any lessons for his young acolytes. I mean the ones who so openly idolize him on his television show, "The Apprentice."

Oh yes, he said. "A lot of very positive lessons can be learned," he told me. We'll get to those.

First, it's worth recalling that a company's bankruptcy carries a somewhat negative

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connotation because it means the business is headed toward failure. Failure has a somewhat negative connotation.

When a company fails or reorganizes, investors and suppliers and other creditors lose money. Losing money has a somewhat negative connotation. It also has a somewhat negative effect on those who lose money.

Trump this week has been busily spinning into good news the new Chapter 11 reorganization plan for his perpetually troubled Trump Hotels and Casino Resorts Inc., which owns three Atlantic City casinos and a riverboat casino in Gary, Indiana.

"I don't think it's a failure; it's a success," Trump said of the reorganization in a telephone interview with the Associated Press. "It's really just a technical thing."

Best case scenario

In fact, the plan, which requires approval by a bankruptcy judge, would vastly improve a really bad situation. In that way, it is a success.

"It's the best case scenario for all involved," says John Maxwell, a casino debt analyst in New York for Merrill Lynch & Co.

Yes, bondholders would get a haircut, as the saying goes. Whether they can expect a trim or a scalping depends on the expert asked and on whether the company will finally take off.

Regardless, Trump cannot ignore what pushed the casinos into bankruptcy court for the second time in 14 years. They have been losing millions upon millions of dollars, year after year, while drowning in debt.

"People have lost substantial amounts," says Jay Westbrook, a bankruptcy expert and law professor at the University of Texas.

Company stock worth US\$34 in 1996 is now trading at about 75 cents. If Trump is the business genius his so-called reality show says he is, how did things get so bad at this company?

The answer is fitting for a spinner like Trump. His business plan counted on overblown confidence that the Trump name and the casinos' opulence would lure more of Atlantic City's gold seekers than they did, says Marc Beilinson, a Los Angeles lawyer who has handled several Las Vegas casino bankruptcies.

"His revenues have not been sufficient to

pay back the debt, which far exceeds the debt that any other casino in Atlantic City" carries, says Beilinson.

Time to fire the team leader? Not in Trump's real world.

The plan he negotiated with bondholders says he would stay on as chairman and chief executive. He would still be the company's largest single stockholder, although his share would drop from 56 percent to 27 percent.

Bondholders won't lose absolutely everything, although most of them hold first-dibs bonds and shouldn't lose anything. According to Maxwell's calculations, they'd get 93.2 cents on the dollar in cash, in reduced-interest rate bonds and in equity, which could grow or drop in value.

And the shareholders, well, they often lose it all in these sorts of situations anyway. Trump's shareholders wouldn't walk away empty-handed. Their stake would shrink from 44 percent of the company to less than 1 percent, and they'd get a chance to exercise options to increase it to 8.3 percent.

The best part for the company is that the plan would cut its US\$1.8 billion in debt by US\$400 million and reduce debt payments

by almost US\$100 million a year. Trump himself must toss in US\$55 million, while Morgan Stanley and UBS Inc. would establish a US\$500 million credit line for the company to upgrade the properties.

"It makes the company stronger overnight," Trump said in our interview.

His number one lesson for would-be apprentices?

"The advantages of properly using the bankruptcy code are tremendous," Trump said.

(Perhaps "Apprentice" viewers will see Team Apex show up in Trump's boardroom with a Chapter 11 plan, having lost most of the money allotted for that week's venture. Would Trump declare it a success?)

American success story

In Trump's reality, a failing company does not a failing businessman make. As he's been saying in interviews all week, the casino company represents less than 1 percent of his holdings.

Indeed, Forbes magazine in September put Trump's wealth at US\$2.6 billion. His other ventures, which include some of the most audacious development projects in

Manhattan, are run in privately held companies separate from the casino business.

"He's taken a lot of risks over time," says Beilinson. Anyone who does that "is going to lose on one or two." It's just that the losses are in his one publicly traded company.

The Web site of NBC, which airs "The Apprentice," describes Trump as "the very definition of the American success story."

Will the bankruptcy filing, with its somewhat negative connotation, hurt the show? It's drawing about 15 million viewers weekly this season and saw 1 million people apply for the 18 contestant slots, according to Jim Dowd, spokesman for NBC Entertainment.

"We have not seen any correlation between Mr. Trump's personal business ventures and the image/legitimacy of 'The Apprentice,'" Dowd said by e-mail.

It would be naive, after all, to assume a reflection of reality in reality TV.

But in the real world, how do we calculate business success?

"The measure of a businessman is how much money he makes for the people who

trust him and invest with him," says Lynn LoPucki, bankruptcy expert and law professor at the University of California at Los Angeles.

"By that standard," says LoPucki. "Mr. Trump hasn't done very well."

Ann Wooler is a columnist for Bloomberg News.

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