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Debt-ridden casino operators told to expect pressure Lenders want to get money back, observer says

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Casino companies struggling under heavy debts can expect lenders to continue forcing them to make tough decisions about restructuring, casino analysts and insiders said during the Global Gaming Expo today.

Despite that, one casino executive whose company recently emerged from Chapter 11, said the bankruptcy process can be a good way for a struggling casino operator to return to profitability.

"You can have a viable business if you have the appropriate capital structure," Tropicana Entertainment Chief Executive Officer Scott Butera said. "Bankruptcy allows you to get a second chance. There's a huge advantage (in being able to reduce debt)."

Butera's comments came during a morning workshop on bankruptcy attended by operators, attorneys and financial advisers.

Eric Browndorf, a partner in the law firm Cooper Levenson, said the gaming industry is "painfully aware" of the current economic climate and operators are becoming less hesitant to try to restructure their debts either in bankruptcy court or out of it.

"Unemployment, foreclosures and bankruptcy filings have increased exponentially," Browndorf said. Casinos operating all over the country are experiencing restructuring and Chapter 11. With supply increasing, and demand waning, positive cash flow has been difficult to maintain."

Butera has some experience with gaming company bankruptcies. He recently guided Tropicana Entertainment through a Delaware bankruptcy court where the company was able to eliminate nearly \$3 billion in debt. Previously, he helped Donald Trump's gaming company refinance its debts, cutting nearly \$1.5 billion in debt.

The bankruptcy process has its downside, too.

Butera warned that competitors will try to take advantage of a bankrupt company by trying to peel away its customers.

Alex Calderone, a financial adviser to Greektown Casino in Detroit, said the very word "bankruptcy" has negative connotations that spooks employees, customers and vendors.

"It's not good for business," Calderone said. Market share slides 10 percent. It's a terrible thing to have to do. But oftentimes these companies have so much leverage, debt and obligations, the only logical solution is to file for bankruptcy."

Gaming regulators can add more pressure on a struggling company because a failed casino is viewed as a black eye on the entire industry, Calderone said.

Butera said the key to a successful bankruptcy involves properly preparing for the filing itself. Communicate with your employees and customers about what you're doing and get as many agreements with creditors as possible, he said.

"Plan your public relations well," Butera said. "I have found it to be a very effective tool so long as you plan ahead."

Bankruptcy isn't the only solution for struggling casino companies. Banks are advising casino companies that have large debts maturing over the next few years to refinance that debt now, Goldman Sachs debt analyst Kevin Coyne said.

Coyne said casino companies are being told to act now because there will be a mountain of corporate debts coming due in 2012.

"They're encouraging them to go out and refinance the debt before it comes due," Coyne said during an afternoon workshop on the industry's financial future.

"A lot of the previous buyers of bank debt are no longer there to absorb that supply (of corporate debt)," he added.

Andrew Zarnett, a bond analyst with Deutsche Bank, said during the afternoon panel that the cost of capital has changed significantly in the past six months for companies that want to refinance their debts.

“Banks are interested in making their money back,” Zarnett said. “Because that’s their primary goal, they will work toward that by continuing to release some unsecured debt and get an extension.”