STATE OF NEW JERSEY
CASINO CONTROL COMMISSION

IN RE: CONTINUATION OF THE
FINANCIAL STABILITY HEARING OF TRUMP'S:
CASTLE ASSOCIATES LIMITED PARTNERSHIP

Wednesday, August 14, 1991
Atlantic City Commission Office
Tennessee & Boardwalk
Atlantic City, NJ 08401
1:30 p.m.

VOLUME VIII

BEFORE:

STEVEN P. PERSKIE, CHAIRMAN
VALERIE H. ARMSTRONG, VICE CHAIR
W. DAVID WATERS, COMMISSIONER
JAMES R. HURLEY, COMMISSIONER

PRESENT FOR THE CASINO CONTROL COMMISSION:

BARBARA GALLO, ADMINISTRATIVE ANALYST
THOMAS FLYNN, PUBLIC INFORMATION OFFICER

ON BEHALF OF THE COMMISSION STAFF:

JOHN R. ZIMMERMAN, DEPUTY DIRECTOR, LEGAL DIVISION

ON BEHALF OF THE DIVISION STAFF:

MARY JO FLAHERTY, DEPUTY ATTORNEY GENERAL
ROBERT W. LATIMER, ADMINISTRATOR OF INVESTIGATIONS

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BY: JOHN D. SCHUPPER, ESQ.
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CHAIRMAN PERSKIE: All right, we will reconvene the session this afternoon. Again, the record will reflect that the entire Commission is present save for Commissioner Dodd.

I don't know that we anticipate having any special specific votes this afternoon, but I will make the usual disclaimer that in the event that there is a vote, the outcome of which would possibly be affected by the absence of the Commissioner, that we will hold any determination on that issue until the full Commission is present.

The item on the agenda this afternoon is the continuation in the hearings regarding the financial stability in this instance of Trump's Castle Associates Limited Partnership.

Why don't we have all of the participants--oh, sorry.

MR. RIBIS: I went to get my lawyer.

CHAIRMAN PERSKIE: You won't tell him this, I hope, but I didn't even know--there he is.

MR. RIBIS: He is on Fusco time.

CHAIRMAN PERSKIE: I understand.

MR. FUSCO: Sorry.

CHAIRMAN PERSKIE: No problem.

We were just getting ready to enter
appearances when we noticed that we couldn't do that.
So now arguably we can do that.

MR. FUSCO: Joseph Fusco for Ribis,
Graham & Curtin for the licensee, Trump's Castle
Associates, and Mr. Pickus, senior vice president
general counsel for Castle as well.

MR. SCHUPPER: John Schupper from
Lowenstein, Sandler, Kohl, Fisher & Boylan for the
Steering Committee.

CHAIRMAN PERSKIE: Sorry, your last
name?

MR. SCHUPPER: Schupper,
S-C-H-U-P-P-E-R.

CHAIRMAN PERSKIE: For the Division?

MS. FLAHERTY: Mary Jo Flaherty for
the Division of Gaming Enforcement.

CHAIRMAN PERSKIE: There were no
interventions. That covers the ground then.

Let's talk about documents first.

When last we formally met, I believe it was July 31,
we received a good number of documents which have been
received and marked into evidence. At that time there
was a discussion on the record with respect to a
concern that the Commission had with respect to the
document A-68D and the applicant was directed to
submit additional documentation not later than noon on August 2 with respect to those matters.

The record will reflect that on August 2 before noon the Commission received two documents which have been premarked as A-68E and A-68F. A-68E is a revised version of A-68D and was submitted in supersession of 68D. A-68F is an executed memorandum agreement among Midlantic National Bank, Trump's Castle Associates, Donald J. Trump and the Steering Committee representatives. Those documents again have been received. I understand that they are contemplated now to be offered in evidence?

MR. FUSCO: That is correct.

MS. FLAHERTY: No objection from the Division.

CHAIRMAN PERSKIE: And from the Steering Committee I assume no objection.

MR. SCHUPPER: No objection.

CHAIRMAN PERSKIE: A-68E and F will be received and marked into evidence in this proceeding (A-68E and A-68F were marked into evidence)

CHAIRMAN PERSKIE: In addition, since the 31st we have received a number of additional
documents. A-76 is a 20 page compilation of statistics as well as other data captioned Operational Statistics 1991-1993. I will leave out the story about the Hudson County election results. These are projections of what’s coming and this document likewise, Mr. Fusco, is offered by the applicant?

MR. FUSCO: That is correct, Mr. Chairman.

MS. FLAHERTY: No objection from the Division.

CHAIRMAN PERSKIE: A-76 likewise will be received and marked into evidence.

(A-76 was marked into evidence)

CHAIRMAN PERSKIE: Now, today the record should reflect that the Commission staff has engaged over the last few days in dialogue with the Division representatives and with representatives of the licensee and the Steering Committee. As a result of that dialogue two additional documents have been received this afternoon and have been premarked as A-68G and A-68H.

A-68G is a two page letter addressed to me from Mr. Fusco under today’s date and which in substance is a notice of and amendment to the S-4 registration statement filed previously with the
Securities and Exchange Commission. As we all contemplate, there will be at least one required amendment to the registration statement prior to its effective date in the ordinary course of the review by the SEC which is not—which amendments will not—which amendments are contemplated not to affect any significant or material change in the business terms of the transaction that is therein described.

The document A-68G, however, proposes a change which the Commission considers to be of substantial substance and significance in the deletion of language at page 31 which is described in the letter and which is included as a part of the plan.

A-68H is a letter addressed to me from a Mr. Nutt on behalf of the Steering Committee, counsel to the Steering Committee for the first mortgage bondholders which letter, again, with respect to this letter on which letter the Commission places substantial significance and reliance. The letter constitutes an acknowledgment by the Steering Committee of the proposed modification to the plan as reflected in the letter of August 14 from Mr. Fusco and reaffirms in A-68H that with that modification the Steering Committee reaffirms or ratifies the language of its August 2 letter at A-68E by which letter the
Steering Committee undertakes to report to the
Commission its approval of and agreement to accept and
recommend to other bondholders the terms of the plan
as contained in the registration statement all as
modified by Mr. Fusco's letter of today's date.

A-68G and H are offered, Mr. Fusco?

MR. FUSCO: Correct. That is
correct, Mr. Chairman.

CHAIRMAN PERSKIE: And Mr. Schupper?

MR. SCHUPPER: No objection.

MS. FLAHERTY: No objection.

CHAIRMAN PERSKIE: Those documents
will be received and marked into evidence as A-68G and
H respectively.

(A-68G and A-68H were marked into
evidence)

CHAIRMAN PERSKIE: The Division of
Gaming Enforcement has?

MS. FLAHERTY: Mr. Chairman, we have
a report dated August 9 which we would like to move
into evidence.

CHAIRMAN PERSKIE: 8 or 9?

MS. FLAHERTY: I believe it's dated
August 9.

CHAIRMAN PERSKIE: Yes, but I
have--there is a reference here on my list of D-11 which is a supplemental report dated August 8 and I have a copy of the report dated August 9. I just want to make sure that there is only one report.

MS. FLAHERTY: There is only one report. It's dated August 9.

CHAIRMAN PERSKIE: That will be marked as D-11. The Commission's exhibit list will be modified to reflect the correct date is August 9.

Mr. Fusco, you had an opportunity to review D-11?

MR. FUSCO: Yes, Mr. Chairman. We do not object to it being admitted into evidence.

CHAIRMAN PERSKIE: Mr. Schupper?

MR. SCHUPPER: No objection.

CHAIRMAN PERSKIE: The receipt of exhibit D-11 is received and marked into evidence at this proceeding.

(D-11 was marked into evidence)

Mr. Fusco, you have had the opportunity to receive and review that report as well?

MR. FUSCO: Yes, Mr. Chairman.

CHAIRMAN PERSKIE: Any objection to its receipt?

MR. FUSCO: No, we have no objection.

MS. FLAHERTY: Yes, we reviewed the report, Mr. Chairman.

CHAIRMAN PERSKIE: Any objection?

MS. FLAHERTY: No objection.

CHAIRMAN PERSKIE: Mr. Schupper?

MR. SCHUPPER: No objection.

CHAIRMAN PERSKIE: C-16 will be the number assigned to the Commission's staff report and that report will be received and marked into evidence as C-16.

(C-16 was marked into evidence)

CHAIRMAN PERSKIE: Counsel, are there any other documents that you know of that we have received and that to which reference should be made on the record?

MS. FLAHERTY: No, Mr. Chairman.

MR. FUSCO: No, I have nothing further, Mr. Chairman.
CHAIRMAN PERSKIE: The record should reflect that all of those documents that are now received have been submitted to the Commission at the times indicated and the Commission has had the opportunity to review all of them so that they are not--the record should reflect that we are not receiving them for the first time right now.

Okay, with that documentary base, Mr. Fusco, it's my understanding that the licensee has certain testimony to present in support of its application. I should indicate so that the record is clear, and as the parties have already been apprised, it is the Commission's intention to receive evidence this afternoon in support of the application and any other evidence that the Division may wish to adduce or that--well, that the Division may wish to adduce. We will then recess today to evaluate the testimony that we have heard against the analysis that we already have with regard to the documents that have been submitted and we will prepare what hopefully will be the final opinion with respect to the present state of the financial stability of the applicant, and it is my expectation that that opinion and decision should be prepared and ready by our next meeting which will be next Wednesday, one week from today.
Wagner - Direct by Fusco

Mr. Fusco, you may proceed.

MR. FUSCO: The licensee calls Roger Wagner. Mr. Chairman, we will make reference to exhibit A-67 and A-76 in his testimony.

CHAIRMAN PERSKIE: Hold up a second while he is getting sworn in for which purpose, Mr. Wagner, I would ask that you stand. Which are they?

MR. FUSCO: 76, which are the forecasts.

ROGER P. WAGNER, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. FUSCO:

CHAIRMAN PERSKIE: Imagine that, the document was where it belonged. We are off to a rolling start.

MR. FUSCO: At the Commission’s pleasure, Mr. Chairman.

BY MR. FUSCO:

Q Mr. Wagner, you previously testified on April 29 in these proceedings; is that not correct?

A Yes, sir.

Q And you are the president and chief operating officer of Trump’s Castle?

A That’s correct.
Wagner - Direct by Fusco

Q. And have been in that position since the early part of this year, January, correct?

A. Yes.

Q. You earlier testified during April as to certain management and marketing policies. Could you give the Commission a status report on your management group and your marketing plan as it now stands?

A. We gave the Commission and the Division our business plan with narrative on strategies and tactics. I am happy to report that with some timing issues that plan is still in place, all the strategies and tactics are being followed and we are working towards completion of all of them to a successful conclusion.

With respect to management, I reported on our senior management group back in April. All of those folks are in place, duly licensed and just three weeks ago we hired on Bucky Howard who previously opened Trump’s Castle. He has come on as executive vice president of casino operations and player development. He fills that final piece of the puzzle for the operating market segment which we are looking forward to being able to bring into Trump’s Castle.

Other than the senior management
Wagner - Direct by Fusco

group there has been no significant change other than 
a new hotel manager which we brought over from 
Harrah's and a new food and beverage director which we 
brought in from the Hershey in Philadelphia who was 
previously with the New York Hilton. Everybody else 
is basically in place as was on April 29.

Q In addition to your now stabilized 
management group, your marketing plan, Mr. Wagner, you 
described it in earlier testimony. Could you give the 
Commission a comment on what the status is there?

A We have deemphasized Mr. Trump's name as 
we said we were going to do and have really--we are 
going back to the future, if you will, and returning 
to the Castle imagery and theme. Trump's Castle, the 
Castle will have banners hung it in. Different Castle 
type imagery has been ordered and have been placed in 
the lobby in a very classy, almost museum type 
fashion. We are developing slot theming around Castle 
type imagery and moving toward setting ourselves apart 
from the boardwalk as a distinct resort kind of 
facility. Through recent focus groups we have 
conducted with customers we have made significant 
gains since the previous focus groups that were 
conducted by past management by the same focus group 
company. The perception of Trump's Castle is a warm,
Wagner - Direct by Fusco

friendly kind of a place that you can now win money in, slots are looser, table odds are better, we have wider aisles, more seats, the kind of things customers have been asking Trump's Castle to do. We have fulfilled those requests and that part of the plan is working very well and I think our numbers from June on have supported that we went in the right direction.

We have made very capital improvements that we discussed earlier this year, finishing the casino pub, improving the buffet and doing all the reconfiguration in the casino to the extent that we could by May 31 or Memorial Day. We did not quite finish the casino reconfiguration. We terminated any activities past that date for the summer so as not to experience disruption. Quite frankly, the disruption that we experienced in late April and all of May was far greater than I thought we would have and we don't want to go through that, especially in the summer. The remaining tweaking that we have to do in reconfiguration we will do in smaller steps from Labor Day through Christmas.

Q You have a more timely and player specific coin incentive program for your slot players. Did your focus group focus on the reaction of players to that program?
Wagner - Direct by Fusco

A Yes. One of the things that I encountered when I came to Trump's Castle that slowed me down more than I anticipated was the backlog in technology. While Trump's Castle has state of the art computer equipment, it actually had stoneages kind of software. So it's taken me approximately four months longer to get the software in place to drive a customer specific player rating system.

On July 1 we kicked off what we call the Castle Gold card to replace the Trump Card and it is a specific database driven cash back program and the effects of that have been phenomenal. Not only customer acceptance to it has been great, has proven the focus group, but consistency, we are now driving in the slot revenue. The day-in and day-out base of loyal customers gives me a great feeling of comfort, especially after such a short period of time.

Q Have you focused on service levels to the patrons?

A Service levels are the hardest thing to change. That is really a 36 month project that we have in place. Actually the hardest part of service enhancement I intended to kick off after September 15 when we took the temporary employees out of the picture, we will concentrate on putting resources
Wagner - Direct by Fusco
towards human resource development in the fall and
that's ongoing. With the turnover in this industry
you just keep doing that like doing the dishes
everyday.

Q You made reference to the word
consistency. Is consistency important to the program
that you have as a manager at the Castle?

A That's the most important thing we can put
into place. Trump's Castle has gone through a number
of management changes over the past few years and
every manager has a different idea unfortunately and
consistency was not there. It's our desire to have
something go. Whether it doesn't work today or not is
not my goal. It's going to be long range driven.

Q The current forecasts that are contained
in exhibit A-67, those forecasts, Mr. Wagner, are
dated July 30, 1991 and they contemplate the
implementation of the reorganization plan set forth in
the registration statement; is that not so?

A That's correct.

Q And you've had an opportunity to
participate in their preparation, correct?

A Yes.

Q The forecasts discuss, among other things,
total cash and accounts payable during the license
Wagner - Direct by Fusco

period between now and May of 1993. Could you indicate to the Commission what is the current cash position today at the Castle?

A Okay, as of 10:00 this morning it was $10,648,000.

Q Now, do you have a graph or a chart that talks about cash position?

CHAIRMAN PERSKIE: That includes house cash?

THE WITNESS: That includes house cash.

A I have provided a couple of graphs on cash. On page three of Exhibit 76 is a projection based on the forecast on July 31 where we will be weekly if we meet our projections. The red line is the actual, having only several weeks since that projection was put in. We are tracking slightly ahead of the plan for the first two weeks and the books on the business given the fact we are subject to a hold percentage, of course, will indicate that we will overachieve that cash.

CHAIRMAN PERSKIE: Excuse me just one second, let me so that we are clear, there are a number of references in A-76 which are the operational statistics to what is called 1991 projection. There
are a number of different projections. There is the '91 projection and then there are certain projections that are identified by numbers 44K, 30K, 26K, et cetera. The reference to 1991 projection is that--

THE WITNESS: On a cash balance is based on the latest July 31 26.3 million dollars GOP for this year.

CHAIRMAN PERSKIE: So that--and that is essentially what is in A-67?

THE WITNESS: That's correct.

CHAIRMAN PERSKIE: The same projection.

THE WITNESS: Right.

CHAIRMAN PERSKIE: That's the 26, that's the one that is designed to bring it out to 26?

THE WITNESS: That's right, and if that projection comes true on 12/31 of this weekly chart it shows us about 14.7 million dollars in cash. Obviously the cash dips there right after 10/31 when we make the 2.2 million dollar property tax payment November 1 and you can see the dip for that week. December is projected to lose approximately $400,000 on the gross operating line and, therefore, a slight decline in cash to finance that loss.
BY MR. FUSCO:

Q So page three is a week-by-week graph of the cash balances through the end of this year, is that correct, Mr. Wagner?

A Yes.

Q Page one, the chart, two pages ahead of that, that’s cash and projects through the end of June 1993, essentially the license period; is that not so?

A That’s right.

Q What balance will the Castle experience on December 31, 1992? What will be the cash balance then?

A That will be at 14.7 million.

Q I’m sorry, ’92?

A Oh, ’92, at the end?

Q Yes.

A Of the second quarter--one year later, December 31, 1992, a year after--we will have 27.9 million at the end of the second year, December 31.

Q And six months later, June 30, 1993, what’s the projected cash position?

A At the end of the licensing period assuming we meet our projections and make all the payments under the restructuring we will have 34.2 million dollars in cash.
Wagner - Direct by Fusco

Q. Now, this chart also talks in terms of accounts payable. At the same time that the cash is accumulating as you have described, what will the Castle be doing with its accounts payable?

A. Well, as I testified in April, we brought accounts payable down from 11 million dollars down to approximately 5.2 which is about the city wide average in the casinos of 60,000 square feet. Since that time we have paid payables down to 4.6 million and our projections are to have them level out at approximately 4.2. We have been juggling the inventories. I moved the warehouse facility on site off of Delilah Road where we have better control of inventories and we are able to flatten out the spikes in inventories and accounts payable.

We don't see any construction during the next three or four years so that should not change on the flattened out basis by quarter. Obviously depending on month end dates, weekends or mid week periods, that balance could bounce up or down a few hundred thousand dollars.

Q. So your forecast of this accumulation of cash is not at the expense of paying your vendors on a timely basis?

A. I can tell you the vendors wouldn't let us
Wagner - Direct by Fusco

bump them up anyway.

Q Based on the most recent cash balances for
the casino industry in Atlantic City, what is the
Castle's cash position as contrasted with the industry
average?

A On page two I provided a graph which shows
the industry current cash position and we have taken
the average, taken the Taj and the Showboat out of the
picture because they have extremely high cash balances
and we have removed the TropWorld and the Claridge
from the picture because they have extremely low
balances but credit lines to draw upon for their
working capital needs, and as you can see with our
current position the Castle is right on industry
average. Basically our facility can operate with
about five million in internal funds and five million
dollars is certainly adequate for working capital
fluctuations.

Q You have been a casino executive for 20
years, is that correct, Mr. Wagner?

A Yes.

Q Are you comfortable as a casino operator
with the cash balances that are forecast for the end
of the year and for the balance of the license period?

A Yes, I am.
Q. These forecasts, A-67 updated July 30, January to June is already an established fact. So these forecasts actually are a projection of the last six months. The first six months in the forecast of the actual performance are the numbers used, correct?

A. That's correct.

Q. What is the EBITDA, earnings before interest, taxes, depreciation and amortization forecast in A-67 for 1991?

A. The revised projections now that we use for the restructuring will bring us in at 26.3 million in gross operating profits, EBITDA as the accountants call it, as of December 31.

CHAIRMAN PERSKIE: Just before you leave that thought, do I understand, I am on that page, page three of A-67, do I understand that the figures January through June are actual?

THE WITNESS: Yes, sir.

CHAIRMAN PERSKIE: And what about July? July is $4,634,000. Obviously this was prepared and submitted before the end of July. That would be a projection?

THE WITNESS: July turns out to have improved over that forecast.

CHAIRMAN PERSKIE: That was my next
question. This was a forecast number 4,634,000?

MR. WAGNER: Yes.

CHAIRMAN PERSKIE: What was the actual?

THE WITNESS: 5.186.

CHAIRMAN PERSKIE: Essentially half a million dollars better?

THE WITNESS: Yes, sir.

CHAIRMAN PERSKIE: Some 10 percent better than the projection?

THE WITNESS: Right.

MR. FUSCO:

Q And since the Chairman raised it, we are now on the 14th of August. What's been the performance toward EBITDA so far for the month of August during the first 14 days?

A We projected 4.8 million dollars for August. Current--currently we have three and-a-half million dollars already in the can for August with three weekends of the five to go. We are really optimistic we will beat August by perhaps a million or a million and-a-half dollars.

Q So that the forecast part of A-67 albeit only the first two months that we are in the period, you have overachieved the forecast thus far?
Wagner - Direct by Fusco

A. Conservatively we will have 19 million of our 26.3. At the end of this month hopefully we will have 20 million.

Q A-44 is an exhibit in these proceedings and they are forecasts as well?

CHAIRMAN PERSKIE: Wait a moment, wait a moment.

MR. FUSCO: Well, I don't think you need to refer to them, Mr. Chairman, because we are going to be talking about the concept.

CHAIRMAN PERSKIE: If it's 44 it's under about four boxes worth of stuff.

MR. FUSCO: Believe me, I am aware of that.

BY MR. FUSCO:

Q Mr. Wagner, the exhibits speak for themselves, but A-44 is A, B and C. A-44A is an exhibit that was--is a forecast dated February 25, 1991. A-44C is a revision to that dated April 22, 1991. You testified on April 29, 1991 and you testified from those forecasts, that is correct, correct?

A Yes, sir.

Q Those forecasts, specifically A-44C, projected a 44 million dollar EBITDA for 1991; do you
recall that?

A    Yes, sir.

Q    At the time that you testified, did you believe those forecasts to be reasonable and attainable?

A    At that time I did.

Q    The new forecast which is dated July which we just talked about forecasts and EBITDA for 1991 which is appreciably lower than that, that is correct, correct?

A    Yes, sir.

Q    Considering the difference between A-44 and A-67, could you explain what caused the shortfall and could you explain to the Commissioners how that forecast ended up not being achieved?

A    Yes. Well, I think there were several errors in assumptions on my part partially driven by the fact that we had great success in the first 90 days with cost cuts and there was a lot of revenue in the marketing pipe that still came out even though we were able to put the brakes on the costs. With the success in the first 90 days we were real happy about the projections. I only had 18 days to work with the projections when I first got to the Castle. The facility after being at the Claridge excited me to no
Wagner - Direct by Fusco

end and I really thought that we would be able to
bring table games revenue around much more quickly.
The strategies and the tactics that we put in place
are valid and as I testified earlier will continue to
drive our company over I believe the next two to three
years with little tweaking, obviously tactics change
from time to time.

I underestimated the technology in
the place. What I hoped to have on line by April 1 is
just now on line and being still refined.

I also underestimated the time that
it would take to finance slot equipment that we
purchased. Given our financial situation nobody
really wanted to do business with us. To some extent
I was financing slot equipment off the Claridge and my
relationship with the slot vendors.

I also greatly underbudgeted the
disruption on the floor when we took the two hundred
some slot machines off the floor. We would have
thought that we would have seen an incline in win per
unit with the units off the floor. Instead not only
did we have a decline in gross but a decline in win
per unit because of the horrible disruption, probably
about four or five million dollars when it got
through. On the other hand, if I had to do it all
over again that way, because while we were improving
the organizational structure from a human resources
standpoint and improving the technology, we made the
product changes that we had to make which were overdue
and we are glad we did now.

CHAIRMAN PERSKIE: Excuse me, before
you proceed with your next question, do you have 44
there?

MR. FUSCO: Yes.

CHAIRMAN PERSKIE: Can you give the
staff a copy of that? I'm not going to be able to
find it easily and there will be a couple of questions
in a few minutes that I would like to ask. If we have
a copy of the--all I'm interested in for this purpose
is the sheets from the last projection, the April 22
projection for 1991. Ask somebody to find it. Thank
you.

BY MR. FUSCO:

Q Did you mention, Mr. Wagner, that the fact
that among the many decisions that were made in
January, February, March, you would have reduced your
available complimentaries significantly, did that
impact on the accuracy of the way these forecasts
turned out?

A Well, we chased off a lot of customers
that were unprofitable under the old complimentary system that we thought would come back more quickly. They are now starting to return but less quickly than we thought. We also had problems attracting qualified player development executives. We were looking at people working in other casinos, but they didn't want to leave given the financial problems, the license application in front of the Commission, the Hilton looking over our back in that it is still a problem to some extent. We recently have however attracted several of our competitors' senior type of player development people and along with Bucky Howard I believe we will see improvements there. We have the cost controls and checks and balances in place to make certain that the credit abuse and those kinds of things that can happen in a highroller place don't.

Q Was that forecast which was essentially developed in February more optimistic than it has turned out as to the recession and its impact?

A Yes, it is. I think if the Commissioners will take a look at page four that's where we used the different forecast scenarios, Mr. Chairman.

CHAIRMAN PERSKIE: Page four of 67?

MR. FUSCO: A-76.

A The yellow line there is the projection we
Wagner - Direct by Fusco

have to keep for gross operating profit and we fell
far short in particularly April and May where we
experienced disruption. However, with July and August
which now are actual numbers for July and projected
actual for August, we are now starting to approach the
higher gross operating profit than we projected in the
first scenario back in April.

The second or on page five the
industry table drop which is the red line is the
actual that the industry experienced, and the green
line was a projection that the industry as a whole
anticipated for table game drop. We can see the
effect of April, May and June. The table game drop in
the industry, of the whole industry was far under the
projection and on page six you can see Castle’s table
game drop. It pretty much mirrors the industry’s
problem with the exacerbated dip in the month of May.

Q The Castle has obviously revised its
forecast. That’s what A-67 is. You revised it in
light of the reality of the first six month’s
performance. Have you--you developed though at the
same time as the forecast in February a strategic
plan, a business plan. Has that been revised, Mr.
Wagner?

A It has been tweaked, but it has not been
Wagner - Direct by Fusco

changed much at all. The time elements of it have changed a little bit and the expectations that certain things come to fruition by July, some of those things have been moved back as much as 12 months. The turn around is evidenced by Resorts and Claridge and some of the other places that have gone through this have taken 18, 24, 36 months. I think we have a real good foundation for the turn around of the Castle in place and given the time and consistency I think it is real important, we will achieve our objectives.

Q The component of the policy cost containment and expenses containment, are you abandoning that or does that stay in place?

A That is not a project, that is part of our 365 day plan.

Q And the same concept, the reduction in the hotel rates, the incentive plans, all of that is moving forward?

A We are looking at our rates all the time and our prices so that we are competitive based on our marketing objective. They may go up, they may go down.

Q You also testified in April that part of the difficulty with the 1990 results was the negative impact that the opening of the Taj Mahal had on the
Wagner - Direct by Fusco

Castle. Can you inform the Commissioners as to what you have done and what you intend to do with regard to any further impact, negative impact from the Taj Mahal operation?

A Well, we are continuing to seek out additional new markets. Obviously the line extension of Trump's name caused us to share some customers among each other and we want to make our place the casual Trump facility, the resort on the bay. We are focusing our attention on repetitive business. Our captivity at the Castle will allow us to play with odds a little better than places on the boardwalk so we can give the customer a little better deal, they tend to stick around a little longer and can rent our space for a longer period of time with the same amount of money. We will use that as a marketing ploy. We are also focusing, as you can see from our billboards and our radio advertising, on the boardwalk. We are attacking the boardwalk. That's where our biggest opportunity is in the slot market.

Q There were also forecasts by the Castle of EBITDA or gross operating profit as those terms may be almost interchangeable or precisely interchangeable, but there are forecasts as to 1989 and 1990. They related to a prior license proceeding and they were
prepared in December 1988. As it turns out the forecast--forecasted income for that period and what was achieved, it was not achieved, it was not achieved by significant margin. Could you indicate to the Commissioners, although you weren’t present, as a matter of fact, you were competing with the Castle at the time that those forecasts were operative, can you articulate the factors that contributed to the unfavorable variance from those forecasts, Mr. Wagner?

A Well, that was three presidents ago and I am sure each one of them was as optimistic as I was when I came in with their projections. I look back on some of the assumptions that they used and the industry itself in ’89 was looking towards eight percent increase in growth and, in fact, experienced a 2.6. The Castle was looking for a 13 percent growth and it kept the five point margin but only had an eight percent growth. In 1990 the Castle management had no idea that the impact of the Taj would be so devastating on the Castle as it was, I mean it was just totally off there as it was I think in the industry, every place, but the Claridge and the Sands felt it.

Q The Castle during that period also was building a new hotel tower. Was that part of the
assumptions that went into those earlier forecasts?

A Yes. The new towers have a million dollar investment. Certainly the management had expectations that it would get back some return.

CHAIRMAN PERSKIE: Excuse me, Mr. Fusco, I'm very sorry to interrupt but I'm having a problem and it's distracting me and I wonder if you or Mr. Wagner can help. I'm on page three of A-67.

MR. FUSCO: Yes, Mr. Chairman, sorry.

CHAIRMAN PERSKIE: The line where it says income from operations about halfway down.

MR. FUSCO: Yes, sir.

CHAIRMAN PERSKIE: And then there is a dotted line and a line underneath that that doesn't bear a title over it to the left but runs out to the 26 million number.

THE WITNESS: Yes. Under the Commission format depreciation is put above the line for reporting purposes, but from our format for gross operating profit or EBITDA, depreciation is added back on.

CHAIRMAN PERSKIE: So the difference there, for example, on the left between the four million dollar number and the 26 million dollar adds back to 21 million from depreciation?
Wagner - Direct by Fusco

THE WITNESS: That's correct.

CHAIRMAN PERSKIE: Sorry to interrupt. That does it.

BY MR. FUSCO:

Q You were describing or explaining how the assumptions that were the basis for the '89/'90 forecasts, some of the assumptions did not prove to be as accurate as those years lived themselves out. There was an assumption that involved switching the focus from bus patrons to car patrons or drive-in business. Could you describe how that assumption panned out?

A That never happened. It's something that I think we like to see at the Castle as much as Harrah's has done is something that is long range in my plans, but something that we can't turn off the pipe of the bus people without an alternative plan. So it's overassumed there.

Q Our current forecasts obviously contemplate what we think accurately as far as the impact of the Taj Mahal in future periods; is that not correct?

CHAIRMAN PERSKIE: Excuse me, you said Taj Mahal.

BY MR. FUSCO:

Q The impact of the Taj Mahal on the Castle
Wagner - Direct by Fusco

which was adverse in 1990 and I think it's quantifying itself so we can deal with it now in 1991 and '92, and also the switch from the bus patrons to drive-in traffic is something that has been a focus and is beginning to be accomplished, is that not so, Mr. Wagner?

A Yes. I have provided a graph on slot revenue in particular because that's where we now--as you see on graph eight, the Castle slot win is penetrating the projection in August from where we thought we would be in our original projection. Albeit we didn't make it in the first six months, we are now overachieving the slot revenue we projected for August and it looks like we will in September, October based on what's on the books. In addition, on page nine is a graph which shows slot profitability. Let me define that. Slot profitability is the net slot revenue after direct marketing expense, coin, the bus coupons, the comp food, advertising specific to buses, and the net slot profitability in comparison to 1990 lagged behind until June 2 where we started to make our move with the new slot floor and then since the middle of June we are about $500,000 a week more profitable from our slot revenue even though slot revenue isn't $500,000 better a week than it was last.
Wagner - Direct by Fusco

year. So the profitability of slot revenue has
inclined considerably.

CHAIRMAN PERSKIE: By reason
primarily of an increase in the volume or a decrease
in the cost attributable to that revenue?

THE WITNESS: Actually an increase in

Wagner - Direct by Fusco

brought 10,000 more people in for the week with about
the same revenue, but that like the stock market will
bob up and down but it has the right incline now for
us. The key now is bringing in more customers. We
found that the one thing that does correlate to
revenue is filling that parking garage and I still
don’t have oil on the top two floors. We need oil
drops on the concrete and then I will be happy. We
would be full like Harrah’s.

Q Mr. Wagner, on page 15--

CHAIRMAN PERSKIE: Sorry, what does
that mean?

MR. FUSCO: Oil on the parking lot
means you have cars parking in the spaces, you are
full.

CHAIRMAN PERSKIE: Sorry. I thought
he had some sophisticated explanation for what that
meant.

Silver & Renzi Reporting Service

MR. FUSCO: It's the lawyers who
Wagner - Direct by Fusco

BY MR. FUSCO:

Q Mr. Wagner, on page 15 does that reflect also the disruption in the casino reconfiguration during April and May?

A Yes. While our win per patron was not as low as it has historically been considering we had less people in the place, we went to our lowest during that period of time.

Q The current forecasts, A-67, take into account certain operational assumptions. Are they set forth, articulated somewhere in these documents?

A Yes. On page 13.

Q In the charts, A-76.

A 12 and 13 and 14 there is significant operational assumptions. Our reconfiguration has played a big role in putting our product in place. We are focusing on advertising and marketing, on theming the Castle, setting the Castle apart from both the other Trump properties as well as the boardwalk and really using the communicative name of our property as the Castle. In fact, in a couple of days I will be going out to see what I can steal from the Excalibur that might fit into the Castle without getting too hokey. Our advertising, we will start moving into cable television and maybe some network television as
Wagner - Direct by Fusco

our resources climb and we get our cash balance above the 15 million dollars.

Q  Now, there are 10 operational assumptions set forth there. They speak for themselves. Are there any specifically that you want to comment on, Mr. Wagner?

A  I think I pretty well hit them all with the graphs.

Q  The forecast for 1991, the 26.3 if I have it right, the million dollar EBITDA, how does that compare to 1990 performances and the forecast for 1992 which is 33 million dollars and 1993 which is 42 million dollars?

A  In comparison to last year it's just a slight improvement of a couple hundred thousand dollars, virtually flat. In 1990 from July to the end of the year it was a disaster and during the first six months of 1991 it was almost as bad, particularly January and May. Those were two horrible months which with consistency with the new slot program in place and our Gold card in place, we believe that we have four million dollars of improvement in the first quarter of 1991--or '92 over what we experienced this last half. We have been very, very conservative in our second half of 1992, almost mirroring what we
Wagner - Direct by Fusco

expected to do in the last half of 1991. '93 is when we think we will start seeing the improvements carried forward based on the consistency, everybody in place and our table games play coming back, although all of our operating assumptions never show us reaching above 85 percent efficiency in table games or above 92 percent in slots. We have a lot of capacity, opportunities at the Castle.

CHAIRMAN PERSKIE: Excuse me, what was the '90 actual?

MR. FUSCO: 26.6, am I right? 26 flat.

CHAIRMAN PERSKIE: So essentially your projection at A-67 at 26.3 is for all practical purposes you are saying you are not going to do any worse than you did last year?

THE WITNESS: That's correct. As I also said, we have almost 17 million of the 26 already through today and anticipate having 20 of that by the end of this month or close to it.

BY MR. FUSCO:

Q Mr. Wagner, in preparing for these proceedings, you had an occasion to review the reports prepared by the Division and the Commission; is that not so?
Wagner - Direct by Fusco

A   That's right.

Q   And in the Division report at page 19 it indicates that if the Castle is able to achieve operating income levels similar to its 1990 and first six months 1991 results, it should be able to meet its obligations. What factors lead you to believe that you can achieve operating income levels similar to 1990 and the first six months of 1991?

A   Well, there are three. Basically July and August are giving us a great feel of comfort because we are overachieving the projections. We have reason to believe we can maintain that trend through the rest of the year. We forecasted very conservatively in December a loss and we know that January and May without the disruption that we experienced last year and with the cost containment in place should be worth at least three to four million dollars at a minimum. So we are very comfortable we will achieve those numbers.

Q   The Division also states in its report on page 20 that the Castle's cash position excluding casino funds was 2.7 million dollars on August 2. Therefore, it must generate 7.3 million in cash during the last five months of 1991 if it is to satisfy its cash liquidity reserve by the end of this year. Is
that goal an attainable one in your opinion?

A I think 2.7, and they calculate that
different, different accountants, 3.1 was my
calculation of bottoming out of cash from our cage,
but 7.3 million in that neighborhood we will need to
generate and we should generate close to five of that
this month.

Q Do you agree that if the Castle can meet
the cash reserve it appears that through the license
period it will be able to fund its reduced cash debt
service and other requirements?

A Yes.

Q Now, the Commission on I'm not sure if it
was June 26 or July 31, but indicated that if no
additional line of credit facility is needed describe
why no additional line of credit facility is needed
and describe alternative contingent cash resources
that are available to the Castle. There is a feature
in the reorganization plan, Mr. Wagner. How does that
feature relate to the need of the Castle for an
outside line of credit?

A Under the restructuring proposal we in
effect build in three in-house credit lines of cash, a
liquidity reserve of 10 million dollars above our five
million dollar house fund requirement, an additional
six month projected capital expenditures reserve and an additional six month CRDA expected reserve which will be in the neighborhood of three and-a-half million to five million dollars total above the 10.
In effect, we have three credit lines from which to dip into for operating needs which include paying the interest, if necessary, and the maximum interest pay in 1992 is 9.6 million dollars.

Q  You also had occasion to review the Commission staff report from its Division of Financial Evaluation, did you not, Mr. Wagner?

A  Yes.

Q  And contained in there is a break even scenario and at that page, I believe it's 23, the conclusion is that based on its minimum cash requirements the Castle would be able to withstand up to a 21.5 percent average decline in its forecasted EBDIT and thus appearing to have some financial flexibility with respect to stability from its projected EBDIT. Do you agree with the statement that on the basis of the break even scenario the Castle could withstand a 21.5 average decline and still meet your obligations?

A  Yes. This gives us considerable flexibility. As you can see 1.8 million dollars would
be required in EBDIT for the last six months of '91 under their sensitivity analysis here, break even analysis. We are going to do 11 million in July and August. So we will have exceeded that by 9.2. We have, as I said, 17.8 million already, through the month to date or year to date as of today and expect to have 19 to 20 million by the end of this month.

Q   In your opinion after considering the first half of 1991 operating results and the restructuring plan as detailed in the registration statement, are the financial projections which are contained in exhibit A-67 in your opinion reasonable and attainable through May 16, 1993?

A   They are, and after reading Resorts' financial results this morning we achieved their second quarter GOP very early in time in our turn around so I am really comfortable after we did that.

Q   In your further opinion after considering the forecasts and the operating results and the financial impacts that restructuring will have, does the Castle have financial stability and adequate financial resources in your opinion for the operation of its casino through May 1993?

A   Adequate, not inadequate.

Q   Adequate, yes, exactly.
Wagner - Cross by Flaherty

MR. FUSCO: Mr. Chairman, that's the direct.

CHAIRMAN PERSKIE: We have some questions I think up here, but let's get the Division to go first.

CROSS-EXAMINATION

BY MS. FLAHERTY:

Q Mr. Wagner, I believe that you said the current cash balance of the Castle is approximately $10,648,000?

A As of this morning.

Q How much of that figure includes house cash?

A Approximately five million.

Q And is the 10 million plus figure net of outstanding checks?

A Yes, it is.

Q Does it include funds in transit?

A Yes.

Q Is the restricted $500,000 progressive fund included in the amount?

A Yes, it is.

CHAIRMAN PERSKIE: Sorry, what's that?

MS. FLAHERTY: The $500,000 jackpot.
Wagner - Cross by Flaherty

CHAIRMAN PERSKIE: The in-house progressive?

THE WITNESS: Yes.

MS. FLAHERTY:

Q Now, over this weekend, August 10 and 11, did the Castle play lucky?
A Yes, we did.

Q And were the hold percentages approximately in the 30 percent range?
A Yes, they were.

Q Are those hold percentages typical?
A No.

Q Can they be expected to continue?
A I hope so, but they won't.

Q Did those unusual hold percentages enable the Castle to meet its forecast so far this month?
A Yes, they did.

CHAIRMAN PERSKIE: Sorry, the hold percentage on what?

MS. FLAHERTY: These were the hold percentages in the casino on Saturday and Sunday.

THE WITNESS: On table games.

CHAIRMAN PERSKIE: And the table games as a whole were what, the hold?
Wagner - Cross by Flaherty

MS. FLAHERTY: 32 percent on the 10th
and 38 percent on the 11th.

CHAIRMAN PERSKIE: Overall for the
table games?

THE WITNESS: Yes. We changed dice.

CHAIRMAN PERSKIE: The transcript is
not going to pick up the laughter.

Do you have any, seriously, I mean
other than the luck of the game, is there any
explanation for why the table hold is that high?

THE WITNESS: We are balancing out.

To address Mary Jo's remarks, several people who have
been beating our brains out for the last 60 days, we
got lucky. They came in and we play with these big
folks. It did not effect the cash situation though
because about $1,600,000 of it was credit which only
about $600,000 is redeemed. So we will see a million
dollar boost in September.

CHAIRMAN PERSKIE: From collecting?

THE WITNESS: From collecting, all
from credit though.

MS. FLAHERTY:

Q Mr. Wagner, with regard to the cash
position currently, do you anticipate in your future
any significant deposits, receipts or expenses that
Wagner - Cross by Flaherty

would dramatically affect your cash position?

A No. I think we pretty much have all those covered. Obviously someone could come in and beat us like we beat them. Somebody could hit that slot jackpot and get cash for that. We have pretty well cleaned up litigation and balance sheets are really clean on that side of it.

Q Are you depending on any significant amounts coming in?

A No.

Q Now, is Castle's potential liability under its four largest progressive jackpots approximately 1.8 million dollars?

A Yes.

Q Now is Castle's cash which includes its $500,000 reserve the only source of funds to pay those jackpots?

A That's correct.

Q If Castle's largest jackpot, which is about a million dollars, was hit, what funds would you utilize to pay that prize, your cash?

A Our investment funds, yes.

Q Now, based on our review as of August 2, Castle's available cash declined to 2.7 million and you have stated that that might be 3.1 with some
additional funds available?

A Yes.

Q What steps, if any, did Castle implement to ensure that it could meet this progressive jackpot exposure in light of your low cash figure on that date?

A Well, in addition to the three million, 2.7 or 3.1 which was the lowest one day fluctuation, we had five million dollars in house funds available to us which are adequate to take most of our spikes, not a million dollar spike maybe on a slot hit, but to pay most of the day-to-day needs.

Q On August 2 when you had that low cash balance, was that of concern to you in terms of the operation of the facility?

A No. We totally anticipated that spike coming as a result of paying the tax. Several other tax hits came about as well, unemployment or one of those taxes hit along with the 2.2 million dollars of city property taxes. We projected that would be the lowest balance during the whole period.

Q So you anticipated that that balance would occur?

A Yes.

Q Could you have delayed paying vendors to
keep the balance higher?

A We could have. That would have been an alternative method of financing. We didn’t see it as a need in August.

Q So you didn’t consider doing it?

A No.

Q Does the Castle have any particular bank accounts now which it would seek to retain an amount against which it wouldn’t want to go any lower?

A Zero.

Q Based on the current debt structure prior to the reorganization, would Castle have been able to satisfy its debt service obligations in ’91?

A No.

Q And you did not make those payments that were due under those obligations; is that correct?

A That’s correct.

Q And why was that determined?

A We determined that shortly after our license hearings and we started seeing the disruption from the casino floor. I conferred with Mr. Ribis and indicated I thought we were going to probably have some problems. He conferred with Mr. Trump. He started talking with the bondholder representatives at that point. We understood at that point the
Wagner - Cross by Flaherty

restructuring was the only long-term viable way to take the Castle out of this six month booby trap we were in and get it on a long-term footing.

Q During the summer months would it be your opinion an Atlantic City casino should build its cash reserve in the summer?

A Yes.

Q And has the Castle been able to do that so far this summer?

A We have had some one time unusual expenses to pay. We generated approximately five and-a-half million dollars in--between June 15 and July 31 which we paid a significant portion for restructuring expenses, paid a million dollars to Midlantic Bank and a deposit for that restructuring agreement and paid payables down to an additional $750,000 and paid out litigation settlements that we had deferred from early in the year that we had scheduled to make in July of about $750,000.

Q In terms of the restructuring expenses I believe the Castle paid Midlantic a one million dollar fee to reduce and restructure the construction and credit line loans; is that correct?

A I believe so.

Q And if the plan is confirmed, it's our
Wagner - Cross by Flaherty

understanding if the plan is confirmed by July of '92
that that fee would be returned to the Castle?

A Yes, that’s my understanding.

Q And do your projections include the return
of that amount?

A Yes, they did.

CHAIRMAN PERSKIE: Excuse me, that’s
going to be a return or a credit against the
obligations to Midlantic?

THE WITNESS: Actual cash returned.

BY MS. FLAHERTY:

Q Now, the Castle is forecasting increases
in its cash balance, but is it correct that Castle’s
performance has only really improved over the last two
month period?

A It’s exceeding the projections now and
approaching the original projections in slots. As of
the last month and July was very encouraging, the up
trend there. The consistency is starting to come
about.

Q Has Castle’s management made any attempts
to secure a credit line?

A No.

Q Would a credit line provide management
with flexibility?
Wagner - Cross by Flaherty

A. To some extent if we did not have the cash balance above our house funds. Having worked with very small house funds at the Claridge and a small credit line, two and-a-half million dollars, three million dollars is probably adequate.

Q. With the funds available to the Castle in its cash accounts, is it positioned to take advantage of market conditions?

A. Yes, I believe so. I have recently raised the limits to certain phases again based on summer and our ability now to be consistent with customers to the extent we want to.

Q. Is Castle in the position to compete with casinos that have large cash deposits or other available credit?

A. With our competitive limits, yes.

Q. During the remainder of 1991, does Castle have any major cash outlays?

A. Only the tax payment on November 1 which is 2.2 million.

Q. And you are also responsible for interest payments on the Midlantic loans?

A. We will pay them in kind.

Q. The interest on the Midlantic loans?

A. On Midlantic loans they will be current,
Wagner - Cross by Flaherty

they are current now.

Q  But that will be a cash outlay?

A  About six million dollars.

MR. RIBIS:  $500,000 a month.

CHAIRMAN PERSKIE:  Flags would help.

THE WITNESS:  $500,000 a month.

CHAIRMAN PERSKIE:  Before you leave that thought, do you have a cash commitment to the CRDA between now and December?

THE WITNESS:  We have some credits left, a small amount. No cash, all credit. We donated most of ours for credit.

BY MS. FLAHERTY:

Q  Now, for 1992 would the same hold true, you will have major cash requirements to the Midlantic loans, real estate payments, payroll, those would be your major expenses?

A  Yes.

Q  Do Castle's forecasts provide management with sufficient funds for capital improvements?

A  We have a certain amount of capital improvements in each year of the restructuring adequate we believe, four and-a-half or five million next year and then escalates to nine million in the final years, doesn't allow us to build a new tower,
Wagner - Cross by Flaherty

but allows us to keep everything up-to-date, slot
equipment. We change now about one-third of our
equipment a year.

Q. So in your view management will not need
additional funds for capital expenditures to remain
competitive?

A. No.

Q. In 1990 and for the first six months of
'91 revenues declined. Can you briefly state the
reasons why you found that to be the case when you
arrived at the Castle?

A. Revenues were declining at the Castle
through 1990 after the Taj opened. That was further
exacerbated in 1991 when we terminated certain
unprofitable marketing functions such as junkets. We
were fueling a lot of revenue which was bringing no
money to the bottom line. So we cut the expenses
related to that. We also cut the revenue.

Q. Now, you have addressed the steps that
management is taking to reverse those trends in your
direct. How do those steps differ from the tactics
that were implemented by other casino competitors such
as Claridge or Resorts?

A. We are setting our tactics and our
strategies specifically for the Castle. We are taking
advantage of our physical facility, our geographical
location and we are going to carve out our own
identity. I think we are at this point achieving
that. We are looking to carve out that 7.28 percent
of the market that resort facility on the marina will
appeal towards and we are trying to differentiate
ourselves from the Marina, Harrah's Marina. We find
them hard to penetrate right now. They won't be our
dinner, hopefully they will be our lunch.

Q Will it take longer to improve yourselves
to be realizing table games than it has in the slot
area?

A Yes. We have seen declined drops
throughout the city. Several hundred million dollars
this year in decline. Some of that again is the
result of our competitors. It's also not fueling
expensive programs and pulling in more customers
specific instead of a program phanatic, if you will.

Q Now, from a review of the forecast it's
anticipated that noncasino revenue will follow the
trend of increased casino revenue even though the
number of patrons is not expected to increase. Why is
that?

A We believe there will be no more serious
building of additional hotel related facilities in the
next couple years during the license period and that the price increases in the city will probably increase with inflation.

Q Castle is predicting in its forecast that the industry win will grow by five percent in '92. Given the results in '90/'91, can you state why that forecast is reasonable in your view?

A This is the first year that we have the Taj to look at for a full year to prepare a base. We also, knock on wood, won't have a war to face in the first quarter of 1992.

Q Castle market shares declined since the opening of the Taj Mahal; is that correct?

A Yes.

Q But in 1992 and 1993 management expects Castle's market share to increase I guess by .2 percent each year?

A Very marginal increase. We believe that our strategies are working and we will slowly penetrate our market on the boardwalk and bring patrons into the Castle that weren't at the Castle prior.

Q What casinos do you anticipate would lose market share to make up for your gain in market share? Or do you view that as so marginal that it's...
not really an issue?

A All 11 of our competitors to some extent and if we are successful all 11 of them will feel a small loss.

Q In view of the Castle's low cash position, won't other casinos be better positioned to compete and obtain customers given their greater cash resources as compared to the Castle?

A If they go off half cocked they might, yes.

Q Now, have Castle's forecasts for the past two years, especially the last six months, been reliable?

A I think we testified to the erroneous assumptions that I made for the projections this year, although I think over the three years the Castle has an opportunity to meet the long range goals set forth. The projections of the previous three presidents I can't speak for.

Q Now Castle is expecting the negative growth rates in both table win and slot win to be reversed in '92; is that correct?

A Yes.

Q And you are anticipating significant prospective growth rates in the next two year period,
correct?

A  Reasonable, yes.

Q  Now, have Castle’s negative trends been halted so far in ’91?

A  We have started to arrest the negative trend in slots. As was indicated we beat last year’s in July, achieved it in June, we will exceed it again in August. We are even meeting and exceeding projections in August in slots. So I believe we have arrested that problem. We are hopeful we will arrest the decline in the table game win before the end of the year.

Q  In your view is a 10 million dollar amount an adequate cash reserve for Castle?

A  Yes.

Q  When do you anticipate the Castle would reach that reserve?

A  If we meet projections, slightly after the end of the year. We are projecting to be 14.7 million on December 31. Assuming five million in house funds we are slightly short.

Q  Did Castle’s forecasts contain any contingency funds?

A  No.

Q  Mr. Wagner, could you look at table two in
Wagner - By Chairman Perskie

Exhibit 76. Now, you stated that the Trop and
Claridge have been deleted from the comparison. In
light of the funds that are available to the Bally,
and it is Bally's and Bally's Grand, why have they
been included in the average?

A We were under the understanding that Trop
and Claridge while their balances are extremely low in
cash of credit lines they can tap into for capital
needs. Perhaps Bally's can draw from their parent, I
don't know where. The other properties probably can
draw from their parents as well. I don't think
Harrah's or any of those folks have ever done it.

MS. FLAHERTY: I don't think I have
any further questions.

CHAIRMAN PERSKIE: Thank you.

Mr. Schupper?

MR. SCHUPPER: I have no questions.

EXAMINATION

BY CHAIRMAN PERSKIE:

Q Mr. Wagner, you have in front of you A-67
which is the current projection. Do you have the
copies of the old exhibit A-44?

A I believe Mr. Fusco has them.

MR. FUSCO: Excuse me.

CHAIRMAN PERSKIE: Very impressive.
MR. FUSCO: It almost made it all the way over.

BY CHAIRMAN PERSKIE:

Q I want to focus on a comparative basis.

Do you find the 1991 sheet in A-44?

A Yes.

Q That's the one that shows--

A 22.791.

Q But then it doesn't have a line underneath it. I got confused about the other one. So if you add back the 21 and-a-half million dollar depreciation, it would bring us out to about 44 million?

A That's right.

Q What I want to do is compare that for a minute or some of the items in it with the present version of it which is page three of A-67.

A Yes.

Q Starting at the top if I understand in term of net revenues you are projecting now about 224 as against an original projection of 251 million?

A Yes, sir.

Q But that reflects virtually no change in promotional allowances so that the reduction there is almost entirely from reduced gross volume; is that
right?

A   Yes.

Q   The--you testified as to a change in comps policy. That’s not reflected in these dollars?

A   We have flattened the comps out from what we experienced during the first six months. We were comping at a pace on the promotional allowances about 12 and-a-half percent of revenue and we think we have to maintain that. We can’t go much lower. We went a little lower than that in March and it hurt us a little bit.

Q   So that most of that revenue reduction then is from basically fewer customers?

A   Yes.

Q   Now, on the expense side you show an original projection operating expense of 229 million and now about 220. So you have got about a nine, 10 million dollar reduction in operating cost. Where is most of that reduction to be found? What is it that has been cut to affect that?

A   Some of that is a marketing expense and in cost of goods. I can’t give you all of the line item categories. I would have to defer to Mr. Venier.

Q   For example, I notice the largest single item is in selling, general, administrative, 73.9 to
Wagner - By Chairman Perskie

66.3, savings of about seven and-a-half or so million dollars.

Q Put that under general administrative? Is that the eight percent you are talking about?

A One of those two lines, cost of goods or selling in general.

Q What I was getting at is to what extent does that reflect a general staff reduction? Do you have any idea with any specificity at this point where you were in April and where you are today with respect to staffing levels?

A We are currently running at approximately 3,000 full-time equivalent people. It fluctuates week to week a little bit, but we peaked out at 24 hours at 3,073 and declining back down. We are saving approximately eight hundred to $900,000 a month over last year in payroll.

Q $800,000 is--

A About a million one, million two in the payroll savings. We had originally projected nine million in payroll savings. So we are overachieving that.

Q What--do you have any idea what that
Foss - Direct by Fusco

translates to into numbers of people?

A It's about 300 less people.

Q About 10 percent then?

A Yes.

Q And the nonoperating expenses, roughly about three million dollar savings there. Most of that by the time you net it out in interest I guess.

CHAIRMAN PERSKIE: Vice Chair?

VICE CHAIR ARMSTRONG: No.

CHAIRMAN PERSKIE: Commissioner Waters?

COMMISSIONER WATERS: No.

CHAIRMAN PERSKIE: Commissioner Hurley?

Ms. Flaherty, anything further?

MS. FLAHERTY: No.

CHAIRMAN PERSKIE: You may step down, Mr. Wagner. Thank you.

MR. FUSCO: The licensee would call Warren Foss to the stand.

WARREN M. F O S S, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. FUSCO:

Q Mr. Foss, you previously testified before
Foss - Direct by Fusco

the Commission in these proceedings on June 17; is that correct?

A  That is correct.

Q  And you and your firm are financial advisors to the Bondholder Steering Committee?

A  We are.

Q  And the Steering Committee holds what percentage of the face value of the Castle bonds?

A  Approximately 33 percent of the value of the bonds.

Q  And who, meaning what entities, are members of the Steering Committee?

A  Putnam Mutual Fund Company up in Boston, Maryland Chasset Management, Shearson Asset Management, Bearing America, a money management firm up in Boston, and Pacholder Associates out of Cincinnati.

Q  The registration statement--

CHAIRMAN PERSKIE: Excuse me, Mr. Fusco, one moment, 33 percent of the value, any idea of an approximate--

THE WITNESS: About 95 million out of approximately 290 million accounting value as of the latest statements.

CHAIRMAN PERSKIE: And what about the
number of holders, what percentage approximately?

THE WITNESS: Sorry, I don't have a ready answer to that question because inside each of the accounts they usually break the bonds down to a very large number of accounts and I just don't, I didn't bring that information readily. It's a lot larger than five. It's a fairly substantial number.

BY MR. FUSCO:

Q The registration statement that was filed setting forth the reorganization plan filed with the SEC and the Casino Control Commission on July 31, you are familiar with that; is that not correct?

A I sure am.

Q And it states that the Steering Committee's recommendation and acceptance of the plan, there is an exhibit that's been introduced into evidence here as A-68D which was provided on August 2. Are you familiar with that and it bears your signature, sir?

A Yes.

Q And this afternoon we have admitted exhibits A-68G and A-68H. Are you familiar with those, sir?

A Yes, I am.

Q And A-68H is from counsel, Mr. Nutt, from
the Steering Committee reaffirming the acceptance by
the Steering Committee of the plan and that it would
recommend it to the other bondholders. Do you confer
and confirm and agree with Mr. Nutt's letter?

A Yes, I do.

Q Have you been in contact, Mr. Foss, with,
other than your Steering Committee members, other
bondholders?

A Extensively since literally going back to
last December when we first got involved we have had
conference calls with all bondholders, we have had
faxes out, press releases, we have had mailings or
press releases, we have had personal conversations
with most of the bondholders that we know of,
virtually all of the bondholders we know of.

Q And how many, if you know, institutional
holders are there that you have identified?

A There are approximately 30, 31
institutional holders that account for roughly 80
percent of the bonds.

Q And the remaining 20 percent are what you
call retail holders, sir?

A It appears that way. There may be one or
two institutions that we are unaware of, but it
appears that most of that happens to be retail and
Poss - Direct by Fusco

also consistent with what I believe was the selling practice when they were sold.

CHAIRMAN PERSKIE: Eight percent is the face value?

THE WITNESS: A little less than 20 percent face value retail is what it appears to be.

BY MR. FUSCO:

Q  And the regular contact you talk of is regular contact with the institutions among the 31 holders that exist?

A  And specifically those inside the institutions that deal with the Trump's Castle matter.

Q  You described that back in December you have had since then and going forwarded contact.

A  Yes.

Q  There was an outline of principal terms that is dated June 15 that is an exhibit in these proceedings and that was revised and superseded by an outline of principal terms dated June 25 I believe and that was followed by, of course, the registration statement filed on July 31. Did the filing of those documents and the disclosure of those terms contained in the documents effect your ability to communicate with persons other than members of the committee?

A  Yes. There has been public disclosures.
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We have I think fairly extensively talked with the group of bondholders to explain what has been going on, explain the terms of the deal, explain to them developments again of a public nature, not of a private nature, and I have had up through late yesterday afternoon those conversations. They have been ongoing and frequent in nature.

Q But since the filing of the registration statement which has a great deal of detail in it, you are now able to discuss in significant detail the reorganization plan as contemplated?

A That is correct, and we have done so.

Q It is anticipated and you have had experience in this regard, Mr. Foss, that the registration statement will be declared effective at some point by the SEC; is that correct?

A That is correct.

Q And you are aware that the Commission has indicated that--well, also upon it being declared effective a solicitation period will commence for bondholder acceptance, correct?

A That is correct.

Q And the Commission has indicated that within 20 days of the commencement of that period that the licensee provide evidence of the acceptance by
Foss - Direct by Fusco

bondholders, adequate number of bondholders to approve the plan. You are aware of that requirement, correct?

A    Absolutely.

Q    Have you thus far received an expression of support from the bondholders in your contact with them?

A    Yes, we have.

Q    In your opinion what is the requisite number of bondholders that must accept the plan for it to be approved?

A    The number is a majority of those voting and there is also another requirement that it be two-thirds in principal amount.

Q    Of those voting?

A    It's two-thirds in principal amount and 51 percent of those voting.

Q    In your opinion, at the time that the Commission has indicated that we must present evidence in that regard, will the requisite number of bondholders have accepted the plan?

A    Yes, I believe they will have.

MR. FUSCO: Mr. Chairman, that's what I have for Mr. Nutt--

CHAIRMAN PERSKIE: Thank you.

MR. FUSCO: --for Mr. Foss I mean.
CROSS-EXAMINATION

BY MS. FLAHERTY:

Q    Mr. Foss, were the forecasts that were

provided to the bondholders for review and

consideration substantially similar to the forecasts

that have been marked as A-76 in this proceeding?

A    You will have to familiarize me with A-76,

I'm sorry.

Q    I'm sorry, 67.

A    The exhibit, that book that was just put

in today?

CHAIRMAN PERSKIE: No.

MS. FLAHERTY: 67, sorry, the

forecasts.

CHAIRMAN PERSKIE: The record will

reflect the witness has been given a copy of A-67

which is the forecast sheet that was filed in July.

A    Yes, I am aware of this, sorry. Repeat

the question.

Q    Were the forecasts which were provided to

the bondholders substantially similar to the forecasts

that have been marked as A-67?

A    Well, these forecasts have obviously been

made public and I believe a number of bondholders have

gotten ahold of them through the hearing. We did not
Foss - Cross by Flaherty

attempt to make these forecasts. Certainly we received them before they were made public, public information to a bondholder group. The Steering Committee was privileged to have this information and I think, you know, considered it in its evaluation.

CHAIRMAN PERSKIE: Well, that’s I gather the thrust of the question. Is the information that the Bondholder Steering Committee got and that as far as you know the other bondholders have gotten consistent with that document that you have in front of you?

THE WITNESS: A-67?

CHAIRMAN PERSKIE: Yes.

THE WITNESS: Yes, sir, I believe that’s correct.

BY MS. FLAHERTY:

Q Referring to A-67 what, if any, events could trigger a sale of the Castle property by bondholders as reflected in the forecast?

A There are two sets of circumstances broadly speaking that could trigger a sale, a failure to meet EBITDA target, an EBITDA target observation date, it’s a slight lag from the reporting date, and the second is the nonpayment of interest which will give raise to I believe it’s called the managing
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partner event which will also give rise to the ability
of the bondholder corporation to sell. I only want to
say I don't think those specifically relate only to
A-67. Those are the general conditions that would
cause it, yes.

Q For the record what is the first EBITDA
target date?

A The first EBITDA target date is September
30, 1992. That's the first end of the accounting
period. Obviously there is a period in which you make
the numbers known. It takes I think 45 days.

Q Can you describe the manner in which the
five million dollar cage cash and the 10 million
dollar liquidity reserve balances contained in the
plan were derived?

A Yes. It did not strike us as being
realistic that there would be working capital
availability from banks over the near term and as we
looked at it we felt that if we were participating in
a restructuring of the facility that it would be
important that the facility be restructured and we did
not want to create what we felt would be under those
circumstances a set of conditions that was
unachievable to be successful in the reorganization
and subsequently we came to a judgment as to the
amount of incremental cash that would be required.

That's how we did it.

Q With regard to the liquidity reserve, can those funds be used to pay debt or must the fund be maintained by the Castle as cash accounts?

A There is a very complicated mechanism and, quite frankly, I will trip up a little bit on it, but I will speak generally in terms of how it works. There is a sweep mechanism that operates that maintains minimum levels of cash pre and the existence of any working capital line to the extent they are successful in negotiating one and sweep events are defined as, broadly speaking, as cash amounts over the 15 target plus certain reserve items and those amounts would be used to retire debt, but you sweep down to a certain level. Does that answer your question, ma'am?

Q With regard to the 15 million dollars, can the Castle use any of those funds to pay debt?

A My recollection of the sweep amounts is we sweep down to approximately 15 million plus those reserves that I am stating and in the event there is a working capital line then some amount of those cash funds would be available for I guess what you call a sweep, but you then have the liquidity mechanism of
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working capital line that would be available to deal
you adequate measures of liquidity to the Castle.

MS. FLAHERTY: Thank you, Mr. Foss.

That’s all I have, Mr. Chairman.

CHAIRMAN PERSKIE: Mr. Schupper?

MR. SCHUPPER: I have no questions.

EXAMINATION

BY CHAIRMAN PERSKIE:

Q  The documents to which Mr. Fusco made
reference, specifically the ones that were filed
today, 68G and H or 68H actually is the one Mr. Nutt
executed and the ones that were filed the other day,
specifically 68E and F which were the executed
recommendation and acceptance and the memorandum with
Midlantic and TCA and the Steering Committee--

A  Those were dated about August 2 or July
31, whatever it was?

Q  Yes, August 1 or August 2.

A  Fine.

Q  All of those documents, essentially the
documents that we have before us in whatever their
form that purport to be actions taken by the Steering
Committee, some of them bear your signature, some Mr.
Nutt’s. I take it each of those documents prior to
its execution by whoever signed it was reviewed with
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the Steering Committee, the contents were discussed and evaluated and those who signed them and purported to exercise authority to represent the views of the Steering Committee were authorized to do so?

A Absolutely.

CHAIRMAN PERSKIE: Vice Chair?

VICE CHAIR ARMSTRONG: No.

CHAIRMAN PERSKIE: Commissioner Waters?

Commissioner Hurley?

Anybody else?

Thank you. You may step down.

MR. FUSCO: Mr. Chairman, that’s what we have.

CHAIRMAN PERSKIE: The applicant rests at this point?

MR. FUSCO: Yes.

CHAIRMAN PERSKIE: All right. Mr. Schupper, do you have anything that you wish to present?

MR. SCHUPPER: No.

CHAIRMAN PERSKIE: Does the Division desire to be heard?

MS. FLAHERTY: No, Mr. Chairman.

CHAIRMAN PERSKIE: We will afford the
parties, if they choose, the opportunity for any closing statements. Closing is perhaps a wrong word in this context. I don't know that we will ever all live long enough to have all of this closed, but let's call it a closing presentation for this particular aspect of this particular hearing. In any event if beyond that which has already been presented anyone wishes to make any closing presentation we will hear that now.

Mr. Schupper?

MR. SCHUPPER: No, sir.

MS. FLAHERTY: Mr. Chairman, I would just note that the Division's concern with regard to this matter is primarily for the next several months with respect to the cash position of the Castle until it proceeds to bankruptcy court. In light of that concern we have recommended a condition in our report to which the licensee has indicated that it agrees and we would request that that condition be imposed by the Commission and we would also note for the record that we concur with the conditions that have been recommended by Commission staff and ask the Commission to impose those as well. Thank you.

CHAIRMAN PERSKIE: Thank you.

Mr. Fusco, on that point in addition
to whatever else you may wish to address yourself to, you had the chance to review the recommended conditions suggested by the Division as well as the several conditions recommended by Mr. Trzaka’s staff?

MR. FUSCO: Yes, we have, and Ms. Flaherty accurately indicates that the Castle agrees and does not object to the imposition of that condition set forth on page 21 of the Division’s report D-11, nor do we object to the conditions set forth in the Commission report C-16, and other than that we have--do not seek to make a closing statement.

CHAIRMAN PERSKIE: Okay. Is there anything else then to which our attention needs to be addressed at this point?

MS. FLAHERTY: No, Mr. Chairman.

MR. FUSCO: No.

CHAIRMAN PERSKIE: We will then as previously indicated recess. I will indicate for the record that the Commission is satisfied this statement isn’t as simple as it ought to be or as simple as it may appear, the Commission is satisfied that all of the information in a prima facie acceptable form that we need to make our decision has been submitted and is before us. We will analyze that, of course, in the context of the testimony as has been presented today.
and as indicated we expect to be able to reach a
conclusion by next week.

I should indicate, as I have to the
parties in unofficial conversations I guess, that the
Commission is mindful of the fact that everybody, the
Division, the applicant, the bondholders committee,
and all of their representatives have been required,
without apology from the Commission, required to do
what they have had to do under tight time lines and
under a great deal of pressure and that's as it is.
We recognize that a lot of work and a lot of effort
went into what has gone on so far and we express
appreciation for the quantity and quality of the
effort that has gone into it. As I have said, we will
evaluate it substantively and hope to be ready by next
week.

All right, we will be in recess.

(At which time the meeting was
concluded at 3:15 p.m.)
CERTIFICATE

I, CAROLYN GERBER, a Certified Shorthand Reporter and a Notary Public of the State of New Jersey, do hereby certify the foregoing to be a true and accurate transcript of my original stenographic notes taken at the time and place hereinbefore set forth.

Carolyne Gerber

CAROLYN GERBER, CSR