How Donald Trump Bankrupted His Atlantic City Casinos, but Still Earned Millions

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ATLANTIC CITY — The Trump Plaza Casino and Hotel is now closed, its windows clouded over by sea salt. Only a faint outline of the gold letters spelling out T-R-U-M-P remains visible on the exterior of what was once this city's premier casino.

Not far away, the long-failing Trump Marina Hotel Casino was sold at a major loss five years ago and is now known as the Golden Nugget.

At the nearly deserted eastern end of the boardwalk, the Trump Taj Mahal, now under new ownership, is all that remains of the casino empire Donald J. Trump assembled here more than a quarter-century ago. Years of neglect show: The carpets are frayed and dust-coated chandeliers dangle above the few customers there to play the penny slot machines.

On the presidential campaign trail, Mr. Trump, the presumptive Republican nominee, often boasts of his success in Atlantic City, of how he outwitted the Wall Street firms that financed his casinos and rode the value of his name to riches. A central argument of his candidacy is that he would bring the same business prowess to the Oval Office, doing for America what he did for his companies.

"Atlantic City fueled a lot of growth for me," Mr. Trump said in an interview in May, summing up his 25-year history here. "The money I took out of there was incredible."

His audacious personality and opulent properties brought attention — and countless players — to Atlantic City as it sought to overtake Las Vegas as the country's gambling capital. But a close examination of regulatory reviews, court records and security filings by The New York Times leaves little doubt that Mr. Trump's casino business was a protracted failure. Though he now says his casinos were overtaken by the same tidal wave that eventually slammed this seaside city's gambling industry, in reality he was failing in Atlantic City long before Atlantic City itself was failing.

But even as his companies did poorly, Mr. Trump did well. He put up little of his own money, shifted personal debts to the casinos and collected millions of dollars in salary, bonuses and other payments. The burden of his failures fell on investors and others who had bet on his business acumen.

In three interviews with The Times since late April, Mr. Trump acknowledged in general terms that high debt and lagging revenues had plagued his casinos. He did not recall details about some issues, but did not question The Times's findings. He repeatedly emphasized that what really mattered about his time in Atlantic City was that he had made a lot of money there.

His casino companies made four trips to bankruptcy court, each time persuading bondholders to accept less money rather than be wiped out. But the companies repeatedly added more expensive debt and returned to the court for protection from lenders.

After narrowly escaping financial ruin in the early 1990s by delaying payments on his debts, Mr. Trump avoided a second potential crisis by taking his casinos public and shifting the risk to stockholders.

And he never was able to draw in enough gamblers to support all of the borrowing. During a decade when other casinos here thrived, Mr. Trump's lagged, posting huge losses year after year. Stock and bondholders lost more than $1.5 billion.

All the while, Mr. Trump received copious amounts for himself, with the help of a compliant board. In one instance, The Times found, Mr. Trump pulled more than $1 million from his failing public company, describing the transaction in securities filings in ways that may have been illegal, according to legal experts.

Mr. Trump now says that he left Atlantic City at the perfect time. The record, however, shows that he struggled to hang on to his casinos years after the city had peaked, and failed only because his investors no longer wanted him in a management role.

There are those here who fondly remember Mr. Trump's showmanship, the thousands he employed in a struggling city, and the tens of millions of dollars in tax revenue his casinos generated.

"He was a great person for the company," said Scott C. Butera, the president of Mr. Trump's company at the time of its 2004 bankruptcy. "With his oversight, his brand and marketing, he's really adept."

Many others were glad to see him go.

"He put a number of local contractors and suppliers out of business when he didn't pay them," said Steven P. Perskie, who was New Jersey's top casino regulator in the early 1990s. "So when he left Atlantic City, it wasn't, 'Sorry to see you go.' It was, 'How fast can you get the hell out of here?'"

It was April 1990, and Mr. Trump was officially opening his third gambling resort in Atlantic City, the biggest project of his career: the $1 billion Trump Taj Mahal.

"It's truly going to be an incredible place," he told reporters. "We're calling it the eighth wonder of the world."

The Taj was certainly of outsize proportions: Its 42-story tower was New Jersey's tallest building, and the casino was the world's largest.

In a remarkably short time, Mr. Trump had become a commanding figure in Atlantic City, with his casinos accounting for nearly a third of its gambling revenues and employing more than 8,000 people.

Trump Plaza came first. In the early 1980s, Mr. Trump gained control of a prime spot on the boardwalk. Unable to get financing to build a casino, he forged a partnership with Harrah's Entertainment, a national gambling operator.

Harrah's agreed to provide Mr. Trump, who did not put any additional money into the deal, with $220 million in financing to build the project, to pay him a $24 million construction management fee and to give him half the profits.

The 39-story Harrah's at Trump Plaza opened in 1984.

From the start, the partners were at odds over its marketing and whose name should be paramount.

"It wasn't a well-designed partnership," said Philip G. Satre, the retired chairman of Harrah's. "We were a big company with an institutional approach to running a business, and he was a real estate entrepreneur who kind of shot from the hip."

Then Mr. Trump bought Hilton's nearly completed casino in the marina district for $320 million, calling it Trump Castle. His company issued $352 million in bonds to finish construction and open the casino, and tacked on an additional $32 million. That casino opened in 1985 and competed directly against his partner's first casino, Harrah's Marina.

The following year, Harrah's scuttled its partnership with Mr. Trump and sold him its stake in Trump Plaza for more than $220 million.

Next Mr. Trump went after the biggest casino of all, the Taj Mahal, which Resorts International, builder of Atlantic City's first casino, was erecting. After buying a controlling interest in Resorts from the estate of its founder, Mr. Trump battled the talk show host Merv Griffin for control of the company.

In the end, Mr. Griffin got the company, while Mr. Trump won the still-unfinished Taj Mahal.

Even before the Taj opened, the New Jersey Casino Control Commission was concerned about the casino's viability given its rapidly escalating costs and considered revoking its operating license. Regulators closely monitored the financial performance of the Trump casinos and the developer's empire.

Mr. Trump told the commission in 1988 that he could rein in expenses, because conventional lenders were lining up to give him money at low interest rates. He said he abhorred junk bonds, which were then popular, because they carried a bigger risk of default and thus came with higher interest rates.

Within months, he reversed course, issuing $675 million worth of junk bonds, with a 14 percent interest rate, to finish construction and get the Taj open. In recent interviews, Mr. Trump has said that with each financing he routinely took money out of the casinos to invest in Manhattan real estate. Total debt on the Taj exceeded $820 million.

Less than two weeks before the casino opened, Marvin B. Roffman, a casino analyst at Janney Montgomery Scott, an investment firm based in Philadelphia, told The Wall Street Journal that the Taj would need to reap $1.3 million a day just to make its interest payments, a sum no casino had ever achieved.

"The market just isn't there," Mr. Roffman told The Journal.

Mr. Trump retaliated, demanding that Janney Montgomery Scott fire Mr. Roffman. It did.

"It was doomed way before the start," said W. Bucky Howard, who was promoted by Mr. Trump to president of the Taj five days after it opened, in a recent interview. "I told him it was going to fail. The Taj was underfunded."

Almost immediately, Mr. Trump had trouble making the debt payments on the Taj and his other casinos. It was also clear that the Taj was cannibalizing the Castle and the Plaza, whose combined gambling revenues dropped by $58 million the year it opened.

After more than tripling as new casinos opened through the 1980s, gambling revenues in Atlantic City flattened in 1990, rising by just 1.35 percent, as gamblers grew more cautious in light of a national recession. All were hurt, recalled Mr. Perskie, the casino regulator, but none were in the catastrophic financial shape of Mr. Trump's.

At the same time, Mr. Trump's real estate empire in Manhattan, where the recession cut property values, was also failing.

In an August 1990 report, New Jersey regulators noted the "sheer volume of debt" on Mr. Trump's holdings: $3.4 billion, including $1.3 billion on the casinos and $832.5 million in loans personally guaranteed by Mr. Trump. Regulators warned then that "the possibility of a complete financial collapse of the Trump Organization was not out of the question."

The Taj Mahal missed its November debt payment. The Castle was also late.

By December 1990, when Mr. Trump needed to make an $18.4 million interest payment, his father, Fred C. Trump, sent a lawyer to the Castle to buy $3.3 million in chips, to provide him with an infusion of cash. The younger Mr. Trump made the payment, but the Casino Control Commission fined the Castle $65,000 for what had amounted to an illegal loan.

As all of his ventures neared collapse, Mr. Trump's lenders insisted that he submit a business plan, appoint a chief financial officer for the Trump Organization and sell, among other things, the Trump Shuttle airline, his yacht and his stake in New York City's Plaza Hotel, which also filed for bankruptcy protection. They also put him on a $450,000-a-month budget for personal and household expenses.

Just over a year after it opened, the Taj Mahal was in bankruptcy court, followed in 1992 by both the Plaza and the Castle. In the plan that was worked out, Mr. Trump ceded to the lenders a 50 percent stake in the businesses in return for lower interest rates. The lenders agreed to defer certain principal and interest payments and hold off on personal claims against Mr. Trump for five years. But there was little or no reduction in the enormous debts that would plague his gambling empire far into the future.

Mr. Trump now says he looks back on the period as his golden era in the casino business.

“Early on, I took a lot of money out of the casinos with the financings and the things we do,” he said in a recent interview. “Atlantic City was a very good cash cow for me for a long time.”

Others were hurt.

“He helped expand Atlantic City, but he just did not put the equity into the projects he should have to keep them solvent,” said H. Steven Norton, a casino consultant and a former casino executive at Resorts International. “When he went bankrupt, he not only cost bondholders money, but he hurt a lot of small businesses that helped him construct the Taj Mahal.”

Beth Rosser of West Chester, Pa., is still bitter over what happened to her father, whose company Triad Building Specialties nearly collapsed when Mr. Trump took the Taj into bankruptcy. It took three years to recover any money owed for his work on the casino, she said, and her father received only 30 cents on the dollar.

“Trump crawled his way to the top on the back of little guys, one of them being my father,” said Ms. Rosser, who runs Triad today. “He had no regard for thousands of men and women who worked on those projects. He says he’ll make America great again, but his past shows the complete opposite of that.”

Donald Trump has said that his brushes with financial disaster in the early 1990s reminded him of a lesson his father had taught him: Do not leave yourself on the hook for loans.

“My father knew, like I knew, you don’t personally guarantee,” Mr. Trump is quoted saying in “TrumpNation: The Art of Being the Donald,” by Timothy L. O’Brien, a former reporter for The Times. “I’ve told people I didn’t follow my own advice.”

His agreements with lenders and the two casino bankruptcies in those years still left Mr. Trump personally responsible for more than $100 million in debt, and his agreements had only delayed the day of reckoning to June 30, 1995.

He dealt with that danger by first shifting much of his personal debt onto his casinos, then onto a new group: shareholders.

Step 1 came in 1993, when his company sold more junk bonds, adding another $100 million in debt to the Trump Plaza casino. More than half of the new money went to pay off Mr. Trump's unrelated personal loans.

Then, in June 1995, with the risk of being forced into bankruptcy just weeks away, Mr. Trump shifted ownership of the Plaza casino to a new, publicly traded company: Trump Hotels and Casino Resorts. In the initial public offering, 10 million shares were sold at $14. At the same time, the company also sold another $155 million in junk bonds, at a 15.5 percent interest rate.

Becoming a public company burdened Mr. Trump with the responsibility of putting shareholders' interests first. But Mr. Trump, the largest shareholder and chairman of the board, could generally meet that obligation by obtaining approval from his board of directors and disclosing financial details in securities filings. The board's three outside members were widely seen as bowing to his wishes.

A week after the initial public offering, the new company began using some of the almost $300 million it had raised to clear Mr. Trump's personal debts. During his financial pinch two years earlier, Chemical Bank had forced Mr. Trump to give up his ownership of the Trump Regency, a hotel next to the Trump Plaza. He held an option to buy it back for $60 million, which included debt on the hotel and $35.9 million that he personally owed the bank from his purchase of a Manhattan property. The new company exercised that option, in effect transferring Mr. Trump's debt to its own balance sheet.

In 1996, the public company issued more stock and sold $1.1 billion in junk bonds. The money was used in part to pay off $330 million in bonds on the Plaza that had been guaranteed by a company Mr. Trump controlled, as well as almost $30 million that Mr. Trump personally owed to two banks. The company also bought the Trump Taj Mahal and Trump Castle — soon renamed the Trump Marina — shifting more of Mr. Trump's debt to shareholders.

Mr. Trump celebrated his 50th birthday that June at the Taj Mahal, with the Beach Boys onstage. A flurry of news articles said he was "back"; some even quoted Mr. Roffman, the analyst whom Mr. Trump had gotten fired, giving Mr. Trump credit for turning things around. (Mr. Roffman had won a $750,000 arbitration award from Janney Montgomery for his dismissal and settled a lawsuit against Mr. Trump for an undisclosed sum.)

But some analysts — and the stock market — saw the $525 million that the public company had paid for the Castle as too much. The stock began a long slide, falling from about $35 a share before the sale, to $12 months later. Shareholders sued, alleging that the Castle's purchase price, which included roughly $175 million in cash to Mr. Trump's private holding company, had been a "gross and unjustified" sweetheart deal for Mr. Trump. (He later settled the suit.)

Another crucial deadline came in 1998. Mr. Trump personally owed $13.5 million to Donaldson, Lufkin & Jenrette, the investment bank that had underwritten the initial public offering in 1995; under the terms of that loan, he was in danger of defaulting, because the stock price of Trump Hotels and Casino Resorts had fallen so low. A default would have made him lose control of the company. Instead, the casino company lent him the money to pay back the bankers. A shareholder sued, accusing the board of directors of breaching its fiduciary responsibility.

"T.H.C.R. is a casino and entertainment company," the lawsuit, filed in 1999, said. "It is not in the business of loaning money. The company desperately needed (and needs) cash to shore up its deteriorating financial condition." (The suit was dropped in 2000, shortly after Mr. Trump paid the company back.)

Indeed, the company posted losses of $66 million in 1996, $42 million in 1997 and $40 million in 1998. Those losses would continue.

Still, Mr. Trump made money, receiving $1 million a year for what was essentially a part-time job. In 1996, he was paid a $5 million bonus. The public company lent him $3 million to cover costs he had incurred while exploring whether to open a casino in Indiana, then forgave the loan when the stock met price targets.

The casino company leased office space in Trump Tower in Manhattan, and Mr. Trump's other businesses were paid to entertain its "high-end customers." It was later alleged in a lawsuit that at least part of the money was paid for big-name performers, including Celine Dion, Tony Bennett and Billy Joel, who had appeared at Mar-a-Lago, Mr. Trump's resort in Palm Beach, Fla. In its response, Mr. Trump's company did not challenge that allegation.

Trump casinos reported paying about $300,000 a year in "pilot costs" to transport high rollers in Mr. Trump's jet. The company never disclosed in securities filings just how much the jet was used for casino purposes.

The public company's collapse began in 1999. Just three years after spending about $60 million to buy back the former Trump Regency Hotel and pumping in millions for renovations, the company closed it. The company spent another $26 million to demolish the building, taking a $125 million write-off.

In 2000, Mr. Trump fired the chief executive and installed himself in the role, promising he would turn things around. The share price was by then hovering near $3.

"Stock price is always a concern," Mr. Trump told The Associated Press at the time. "I was focused very much on my Manhattan real estate over the last number of years. Now, I'm going to be focused much more in Atlantic City."

Though he has acknowledged mistakes in piling crippling debt on Trump Hotels and Casino Resorts, Donald Trump has steadfastly maintained that his resorts were the best-run and highest-performing casinos in Atlantic City.

"The casinos have done very well from a business standpoint," he told Playboy magazine in 2004. "People agree that they're well run, they look good and customers love them."

In reality, the revenue at Mr. Trump's casinos had consistently lagged behind their competitors' for a decade before larger forces ravaged the industry. Beginning in 1997, his share of the Atlantic City gambling market began to slip from its peak of 30 percent.

Revenues at other Atlantic City casinos rose 18 percent from 1997 through 2002; Mr. Trump's fell by 1 percent.

Competition grew more intense in 2003, when the Borgata Hotel Casino and Spa opened. The $1.1 billion, 40-story resort redefined the concept of an Atlantic City luxury casino. Revenues at Trump casinos dropped another 6 percent in a little more than a year.

Had Mr. Trump's revenues grown at the rate of other Atlantic City casinos, his company could have made its interest payments and possibly registered a profit. But with sagging revenues and high costs, his casinos had too little money for renovations and improvements, which are vital for hotels to attract guests. The public company never logged a profitable year.

"There's something not right when every single one of your projects doesn't work out," said Mr. Roffman, the casino analyst.

In a recent interview, Mr. Trump attributed his declining market share in those years to the fact that his three casinos were competing with one another, a tacit acknowledgment that he overbuilt.

"That was the bad news," he said. "The good news is that I saved a lot of money in terms of dealing with costs."

The year the Borgata opened, Mr. Trump was already asking his bondholders to accept less money, in preparation for a third casino bankruptcy. Yet, at the same time, he managed to pull more money out of the company for himself, The Times found.

Since taking Trump Hotels and Casino Resorts public, Mr. Trump had been bound by a "contribution agreement" that required him to engage in the gambling businesses only through his own company and banned him from personally owning more than 5 percent of the stock in any other casino company. So when he bought 10 percent of the shares in Riviera Hotel and Casino, a company based in Las Vegas, Mr. Trump was required to grant an option to purchase the shares to his public corporation.

However, when Mr. Trump sold the Riviera shares in April 2004, the company, which was entitled to the proceeds, simply canceled the option, without explanation.

The company's description of the sale did not disclose Mr. Trump's profit or how he had sold the shares. But in its securities filings, Riviera reported that Mr. Trump had sold the shares in a privately negotiated sale for $10 a share, well above the going price. That would have generated a gain of more than $1 million.

Asked to review the transaction by The Times, James D. Cox, a professor at Duke University Law School who specializes in corporate and securities law, said such “material omissions of fact” in the filings by the Trump company could have resulted in criminal charges “if it is knowing and willful,” though such charges are rare.

“I think the biggest thing is, it understates his compensation,” Mr. Cox said.

At the time, the company was also asking its lenders for a break, and headed toward another bankruptcy.

“Basically, that sounds like a fraudulent conveyance,” said David Skeel, a bankruptcy law professor at the University of Pennsylvania Law School.

“The company is throwing away money,” Professor Skeel said. “It’s the equivalent of giving big bonuses to your executives right before you file for bankruptcy.”

But lawyers involved in the bankruptcy case said the transaction had apparently gone unnoticed.

In a recent interview, Mr. Trump said that he did not recall the transaction or why the board had canceled its option.

Months later, in November 2004, the company filed for bankruptcy protection, the third such trip for Trump casinos.

This time bondholders took a $500 million loss. Mr. Trump, who stepped down as chief executive but remained chairman of the board, agreed to invest $55 million of his own money in the company, perhaps his first cash investment. He still received $2 million a year under a “services agreement,” which included the use of his name.

Shares sometimes traded below a dollar, but Mr. Trump said the problems had been fixed.

“For the first time ever, this will be a deleveraged company,” Mr. Trump told The Las Vegas Sun in 2005.

Not everyone agreed. Mr. Trump’s longtime investment bankers at Donaldson, Lufkin & Jenrette had backed out of a deal with Mr. Trump to invest in the company shortly before the bankruptcy was filed. Suing for $26 million in fees, the bankers said in court papers that the casinos would be back in bankruptcy court within five years because Mr. Trump’s revenue projections were too rosy and the company was still carrying too much debt.

“The Trump name does not connote high-quality amenities and first-class service in the casino industry,” lawyers for the investment bank said. “Rather,” the Trump name is associated with “the failure to pay one’s debts, a company that has lost money every year, and properties in need of significant deferred maintenance and lagging behind their competitors.” (The dispute was later settled.)

‘They will see how great it will become’ — 2009

When Donald Trump has been pressed on his casinos’ performance during his presidential campaign, he has repeatedly said he left Atlantic City at the right time.

“Atlantic City is a disaster, and I did great in Atlantic City,” he said during a Republican Party debate last September, according to a transcript. “I knew when to get out. My timing was great. And I got a lot of credit for it.”

That would suggest Mr. Trump willingly left sometime around 2006, the year that revenues peaked in Atlantic City and that Pennsylvania allowed its first casino to open, a development that marked the start of a rapid downward spiral in the city. The drop-off was exacerbated by the recession that began in 2008.

But in early 2009, as Trump casinos lurched toward bankruptcy for the fourth time, Mr. Trump was still trying to hang on. At loggerheads with board members who had been selected by bondholders after the 2004 bankruptcy, he offered to buy all or a part of the casino company bearing his name. He was rebuffed, and he quit the board soon after.

Testifying in bankruptcy court in Camden, N.J., Mr. Trump argued that the company could not use his name, since shortly before filing the bankruptcy it had stopped paying him the $166,000 a month he received under the services agreement. He testified that his brand was worth $3 billion. He also testified that he was personally negotiating the settlement of a lawsuit in Florida that would yield more than $100 million for the company.

And contradicting what he had said after the prior bankruptcy, he testified that the company’s debt load was still too high.

“This time, the debt is being cut by a lot, and the company is really poised,” he said.

There were odd moments on the stand. Mr. Trump, for example, vastly understated his role, saying he “became very much less involved with the company” during years when he was actually chairman of the board and chief executive, and “was on the board in a very minority position” during years when he had been chairman.

As in previous cases, others warned that Mr. Trump’s promises should not be trusted. This time it was Carl C. Icahn, the activist investor who had a major stake in the company. (The two men now describe themselves as friends and Mr. Icahn supports Mr. Trump’s candidacy.)

Mr. Icahn’s team argued that the remaining debt was still unsupportable, that the Trump name was replaceable, and that a windfall from the Florida lawsuit was wishful thinking. Under Mr. Trump, the company had a long history of making rosy revenue projections and never meeting them, Mr. Icahn’s lawyer argued.

But a judge approved the Trump plan and noted that Mr. Trump and his supporters had established “that the Trump brand is worth millions of dollars” to the casinos.

This time, bondholders gave up about $1.3 billion in exchange for control of the company. For the first time, Mr. Trump had no official role at the company he had founded, and he owned no more than 10 percent.

In a recent interview, Mr. Trump acknowledged that he left Atlantic City when he did because he failed in his effort to buy back the casinos. But he said the timing worked out well for him, in the end.

“In 2009 they were worth a hell of a lot more than they are now,” he said. “Sometimes you’re better off lucky than good.”

Trump Marina was soon sold for $38 million, less than 10 percent of what the company paid Mr. Trump for it in 1996. The Plaza was shuttered. The Florida lawsuit that Mr. Trump had valued at more than $100 million produced nothing for the company. Mr. Trump and his daughter Ivanka sued the company, saying their brand was being tarnished by the ramshackle appearance of the Taj Mahal.

Mr. Trump continued to earn money from the casinos. In 2011, the casinos reported leasing a Trump helicopter for $390,000 and spending $236,000 for “Trump labeled merchandise,” including $197,000 for Trump Ice bottled water.

In retrospect, David Hanlon, a veteran casino executive who ran Merv Griffin’s Atlantic City operations at the time of the Resorts battle, said, Mr. Trump succeeded in repeatedly convincing investors, bankers and Wall Street that “his name had real value.”

“They were so in love with him that they came back a second, third and fourth time,” Mr. Hanlon said. “They let him strip out assets. It was awful to watch. It was astonishing. I have to give Trump credit for using his celebrity time and time again.”

In 2014, the casino company filed for bankruptcy protection for the fifth time. The chief executive cited the debt level after the 2009 bankruptcy as the primary reason.

For a time, Mr. Trump lent a glamorous sheen to the faded resort city. But some of his former investors no longer see the value.

“People underestimated Donald Trump’s ability to pillage the company,” said Sebastian Pignatello, a private investor who at one time held stock in the Trump casinos worth more than $500,000. “He drove these companies into bankruptcy by his mismanagement, the debt and his pillaging.”