IN THE CIRCUIT COURT OF THE 17TH JUDICIAL CIRCUIT
IN AND FOR BROWARD COUNTY, FLORIDA

TRUMP HOTELS & CASINO RESORTS DEVELOPMENT COMPANY, LLC,	)	CIVIL DIVISION
Plaintiff,	)	
vs.	)	CASE NO. 0420291
RICHARD T. FIELDS, COASTAL DEVELOPMENT, LLC, POWER PLANT ENTERTAINMENT, LLC, NATIVE AMERICAN DEVELOPMENT, LLC, JOSEPH S. WEINBERG, and THE CORDISH COMPANY	)	
Defendants.	)	

EXPERT REPORT OF JOHN D. FINNERTY, PH.D.

I. QUALIFICATIONS

1. My name is John D. Finnerty. I am a Professor of Finance and the former Director of the Master of Science in Quantitative Finance Program in the Graduate School of Business Administration at Fordham University. I was awarded early tenure in 1991, and I received the Gladys and Henry Crown Award for Faculty Excellence in 1997. I have published thirteen books, including *Corporate Financial Management*, 3rd ed. (Prentice Hall), *Project Financing: Asset-Based Financial Engineering*, 2nd ed. (Wiley), and *Debt Management* (Harvard Business

School Press), and more than 90 articles and professional papers with respect to corporate finance, fixed income, and business and securities valuation. I am the Chair of the Trustees and the former President and Director of the Eastern Finance Association, an academic finance organization, and the former President and Director of the Fixed Income Analysts Society, an association of finance professionals based in New York City. I am also a former editor of *Financial Management*, one of the leading finance journals in the United States, a former editor of *FMA Online*, an online finance journal, and a member of the editorial board of the *Journal of Portfolio Management*. My teaching includes courses in corporate finance, investment banking, fixed income securities, and fixed income portfolio management, and I teach students how to perform credit analysis and how to assess the potential market for bonds based on their credit rating.

2. I am also a Managing Principal at Finnerty Economic Consulting, LLC (FinnEcon®), which provides financial consulting, valuation, and litigation support services to law firms, corporations, industry associations, and government agencies.

3. Prior to forming FinnEcon, I was a Managing Principal at Analysis Group, Inc., an economic consulting firm. Prior to joining Analysis Group, I was a non-audit Partner in the PricewaterhouseCoopers Financial Advisory Services Group for five years, and previously held professional positions at the investment banking firms of Morgan Stanley, Lazard Frères, McFarland Dewey & Co., and Houlihan Lokey Howard & Zukin where I worked on a variety of public and private debt and equity financings. This work included assessing the credit quality of debt issuers.

4. I received a Ph.D. in Operations Research from the Naval Postgraduate School, an M.A. in Economics from Cambridge University where I was a Marshall Scholar, and a B.A. in Mathematics from Williams College. Attached as Appendix A is a true and correct copy of my current resume, which lists all publications I have written or co-authored and includes a brief description of my trial and deposition testimony within the past four years.

5. My firm is being compensated at a rate of $650 per hour for my work on this matter, and my compensation is not contingent on my findings. Some of the analyses in this report have been performed by others working under my direction.

II. BACKGROUND AND ASSIGNMENT

6. Power Plant Entertainment, LLC ("PPE") and the Seminole Tribe of Florida (the "Tribe") entered into a development agreement, dated July 24, 2000 (the "Development Agreement"), and a financial services engagement letter agreement, dated July 27, 2000 (the "Financial Services Engagement Letter"), appointing PPE as the exclusive developer (the "Developer") and financial advisor (the "Financial Advisor") to the Tribe for two casino-hotel projects (the "Casino Projects") to be developed on the Tribe's reservations located near Hollywood, Florida (the "Hollywood Reservation") and Tampa, Florida (the "Tampa Reservation"). The Development Agreement specifies the duties and obligations of PPE as the Developer of the Casino Projects, and the Financial Services Engagement Letter specifies the duties of PPE as the Financial Advisor to the Tribe in connection with arranging the financing for the Casino Projects.

7. Trump Hotels & Casino Resorts Development Company, LLC ("THCR Development"), a wholly owned subsidiary of Trump Hotels & Casino Resorts Holdings, L.P. ("THCR Holdings"),[1] the plaintiff in this matter, has alleged that the defendants in this matter, among other allegations, conspired to defraud THCR Development out of its own proposed gaming project with the Tribe.[2] In 1996, THCR Development and THCR Management Services, LLC ("THCR Management") proposed to enter into an agreement with the Tribe to serve as the developer and manager and as the financial advisor for one or more casino projects to be located on the Tribe's reservations in Florida (the "1996 Proposed Project").[3] Despite several years of efforts to strike a deal, no final agreement was ever reached between THCR Development and the Tribe.

8. I have been asked by Moskowitz, Mandell, Salim & Simowitz, P.A., counsel for Coastal Development, LLC, a defendant in this matter, to: 1) analyze the financial condition and recent financial performance of Trump Hotels & Casino Resorts Holdings, L.P. ("THCR Holdings")

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[1] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part I, Item 1.

[2] Complaint, dated December 30, 2004.

[3] Draft agreement between THCR Development and the Tribe, dated August 1996 (Bates numbers THCRD-009604-THCRD-009652); Draft Management Agreement by and between THCR Management Services, LLC and the Seminole Tribe of Florida, dated as of October 1996 (Bates numbers THCRD-002928-THCRD-002962); and Memorandum from Peter M. Laughlin to Jim Shore, dated November 1, 1996 (Bates numbers THCRD-008974-THCRD-008981).

as of July 24, 2000 and 2) assess the creditworthiness and financial capability of THCR Holdings to a) meet the obligations as developer and manager as set forth in the 1996 Proposed Project, assuming the 1996 Proposed Project had been consummated, and b) serve as the Developer for the Casino Projects, and in particular, to assume the duties and obligations of the Developer under the Development Agreement and those of the Financial Advisor under the Financial Services Engagement Letter.

III. SUMMARY OF CONCLUSIONS

9. As set forth in more detail in this report, I have reached the following conclusions:

- THCR Holdings had excessive leverage, was in very weak financial condition, and had an extremely limited financial capacity to raise funds or to guarantee debt or project completion as of July 24, 2000.
- The Z-score for THCR Holdings as of June 30, 2000 is only 0.351, which is far below the critical bankruptcy cut-off of 1.81. It had been below this critical cut-off for each of the years 1996 through 1999, which suggests a high likelihood of bankruptcy within the foreseeable future. The declining Z-scores for THCR Holdings between year-end 1998 and June 30, 2000 indicate an increasing likelihood of bankruptcy between 1998 and 2000. THCR Holdings's persistently low and declining Z-scores signal a very high risk of bankruptcy within two years as of June 30, 2000, which would discourage any lender from lending to THCR Holdings or any of its subsidiaries.
- THCR Development was financially incapable of serving as the developer and manager in 1996 Proposed Project because of the weakened financial condition of its parent, THCR Holdings. THCR Development would have been unable to provide a project guarantee commitment or project lending commitment satisfactory to knowledgeable third party lenders to the 1996 Proposed Project without significant outside credit support, such as a guarantee from a sufficiently creditworthy entity.
- THCR Development was also financially incapable of serving as the financial advisor to the Casino Projects as of July 24, 2000 because of the weakened financial condition of its parent, THCR Holdings. THCR Development would have been unable to fully meet its

development commitments or provide a project lending commitment satisfactory to knowledgeable third party lenders to the Casino Projects without significant outside credit support, such as a guarantee from a sufficiently creditworthy entity.

10. My opinions are based on the materials I have reviewed to date, which are listed in Appendix B, and the market prices for the specified financial instruments as of the dates indicated in the body of the report. I respectfully reserve the right to update my opinions and amend my report should more information become available prior to trial or if so requested by counsel.

IV. TRUMP HOTELS & CASINO RESORTS

11. Trump Hotels & Casino Resorts, Inc. ("THCR") was the sole general partner of THCR Holdings as of July 24, 2000.[4] THCR served as the exclusive vehicle through which Donald J. Trump engaged in gaming activities.[5] The partnership agreement governing THCR Holdings required THCR to conduct all its business activities through THCR Holdings or subsidiaries of THCR Holdings. THCR Holdings owned and operated three casino-hotel properties in Atlantic City, New Jersey and a riverboat casino located at Buffington Harbor on Lake Michigan near Gary, Indiana. The three Atlantic City casino-hotels are the Trump Plaza Hotel and Casino and the Trump Taj Mahal Casino Resort, each located on The Boardwalk, and the Trump Marina Hotel Casino, located in the Marina District of Atlantic City.[6] As a result of these gaming operations, THCR claimed to be "one of the largest casino entertainment companies in the United States."[7]
12. Exhibit 1 shows the corporate structure of THCR Holdings and its related casino entities. THCR Holdings is a subsidiary of THCR, which was publicly traded on the New York Stock Exchange under the ticker symbol DJT.[8] THCR Holdings held full ownership of each of its

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[4] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part I, Item 1.
[5] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part I, Item 1.
[6] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part I, Item 1.
[7] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part I, Item 1.
[8] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2000, Part I, Item 1.

subsidiaries, which included each of the Trump Atlantic City properties, the Indiana Riverboat, as well as THCR Funding, THCR Management, and THCR Development.

A. Public Financial Reporting Entities

13. As of July 24, 2000, THCR common stock was listed for public trading on the New York Stock Exchange. THCR had been a public company since June 7, 1995.[9] THCR, THCR Holdings, and THCR Funding, a wholly owned subsidiary of THCR Holdings, jointly filed annual and quarterly reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934. The financial statements of THCR report the financial condition and operating results of THCR, THCR Holdings, and THCR Funding on a consolidated basis.

14. THCR was a holding company for THCR Holdings. As the sole general partner of THCR Holdings, THCR "has exclusive rights, responsibilities and discretion in the management and control of THCR Holdings."[10] THCR did not have any independent business operations. Consequently, the sources of the credit strength underpinning the THCR consolidated entity all resided within operating subsidiaries of THCR Holdings.

15. THCR and THCR Holdings employed a complex borrowing structure in which a variety of different legal entities, including THCR Holdings, were used to arrange financing for various projects. As noted, THCR Development, the plaintiff in this matter, is a wholly owned subsidiary of THCR Holdings. The consolidated financial statements of THCR Holdings incorporate the operating results of the subsidiaries that own and operate the four casino-hotels that are the ultimate source of the credit support for the borrowings of the various entities that comprise THCR Holdings. In view of these legal ownership and financial arrangements, I believe it is appropriate to use the financial statements of THCR Holdings as the basis for my credit analysis of THCR Development's capability to serve as a) the developer and manager of the 1996 Proposed Project, assuming it had been consummated, or b) the Developer and the Financial Advisor for the Casino Projects.

[9] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part II, Item 5.

[10] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part I, Item 1.

B. Twenty-Nine Palms Project

16. In its 1999 Form 10-K Report, THCR reported that THCR Development had entered into a letter of intent on January 4, 2000 with the Twenty-Nine Palms Band of Mission Indians ("Twenty-Nine Palms") for the development and management of a casino (the "Twenty-Nine Palms Project") on Twenty-Nine Palms tribal land in Southern California.[11] The plans for the Twenty-Nine Palms Project called for an approximately $58 million expansion of an existing casino located near Palm Springs, California, which would include expanded gaming, hotel, and restaurant facilities.[12]
17. In its second quarter 2000 Form 10-Q Report, THCR reported that THCR Development and THCR Management, an indirect wholly owned subsidiary of THCR Holdings, signed definitive agreements with Twenty-Nine Palms on April 27, 2000 for the development and management of the Twenty-Nine Palms Project.[13] To enable Twenty-Nine Palms to complete construction of the Twenty-Nine Palms Project, THCR Management agreed to participate as a lender to the Twenty-Nine Palms Project by providing up to $15.8 million of the $58 million of the construction financing (the THCR Twenty-Nine Palms Loan).[14]
18. To fund the THCR Twenty-Nine Palms Loan, THCR Management arranged a secured loan, dated November 2, 2001, from Trust Company of the West and certain affiliates for up to $18.8 million. The THCR Twenty-Nine Palms Loan was secured by (1) a pledge of the promissory note issued to THCR Management by Twenty-Nine Palms, (2) a pledge of all accounts, general intangibles, and instruments of THCR Management, (3) a pledge of THCR's management fee, (4) a collateral assignment of the management agreement, and (5) a direct personal guaranty of Donald J. Trump.[15] THCR filed the form of guaranty with its 2001 Form 10-K Annual Report.

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[11] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 1999, Part I, Item 1.

[12] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2001, Part I, Item, 1, page 6.

[13] Trump Hotels & Casino Resorts, Inc., Form 10-Q Quarterly Report for the Quarter Ended June 30, 2000, page 11.

[14] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2001, Part I, Item 1.

[15] Loan Agreement dated as of November 2, 2001 among THCR Management Services, LLC, as Borrower, and TCW Leveraged Income Trust, L.P., TCW Leveraged Income Trust II, L.P., and TCW Leveraged Income Trust IV, L.P., as Lenders, and Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2001, Part I, Item 1.

V. THCR'S FINANCIAL CONDITION AND RECENT PERFORMANCE

19. A developer's ability to fulfil its development and project management duties and obligations to the sponsors of a project depends on the financial condition of the developer. A project developer is customarily expected to contribute a portion of the financing for a project. I understand from counsel that Merrill Lynch, which was the managing underwriter for the Casino Projects, required that PPE purchase $40 million in principal amount of the bonds.[16] A letter from the Tribe to Peter McLaughlin in response to Trump Management's October 1996 proposal noted that in order to secure the National Indian Gaming Commission's approval of the developer's proposed fees, "the manager must contribute at least some part of the capital investment."[17] The letter noted that "This [capital contribution] was required of the management company in the Mohegan deal."[18] The capital contribution can take the form of a loan or a project guarantee, or some combination of the two.[19]
20. Providing a portion of the project financing gives the outside lenders comfort that the goals of the developer are aligned with those of the outside lenders. Moreover, neither the project sponsors nor the outside lenders would want to incur the risk that the developer might go bankrupt before the project is completed because the developer's bankruptcy, or even severe financial distress (even if it is not quite acute enough to trigger the developer's bankruptcy filing), could jeopardize the project. In particular, a completion guarantee from a bankrupt entity is usually not worth very much to the project lenders or the project sponsors.
21. In any case, the financial condition of the developer is critical to determining whether the developer has the financial capacity to furnish a reliable project guarantee or a credible financing commitment. The project guarantee and financing commitment impose financial obligations on the developer, whose credit strength will determine its ability to meet these obligations.

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[16] Capital Trust Agency, $290 Million Revenue Bonds, offering circular, April 22, 2002, page 16.
[17] Memorandum from Seminole Tribe of Florida to Peter McLaughlin, Esq., dated October 15, 1996, pages 2,6 (Bates number GT09/01/05TF1-0309).
[18] Memorandum from Seminole Tribe of Florida to Peter McLaughlin, Esq., dated October 15, 1996, page 6 (Bates number GT09/01/05TF1-0313).
[19] Memorandum from Seminole Tribe of Florida to Peter McLaughlin, Esq., dated October 15, 1996, page 6 (Bates number GT09/01/05TF1-0313).

A. Leverage of THCR Holdings

22. Exhibit 2 provides a comparative set of balance sheets for THCR Holdings for the fiscal years ending December 31, 1996 through 2000 and also for the quarter ending June 30, 2000. I selected this date because it is the most recent quarter-end immediately prior to July 24, 2000. THCR Holdings's cash and cash equivalents, total current assets, and total assets all declined throughout the five-year period. Recurring losses had reduced THCR Holdings's total partners' capital to just \$167.213 million by June 30, 2000 from \$560.695 million at December 31, 1996.
23. THCR Holdings was highly leveraged throughout the five-year period. Moreover, THCR Holdings's leverage increased steadily throughout the five-year period. At June 30, 2000, THCR Holdings had long-term debt of \$1.833 billion (net of current maturities) but total partners' capital of only \$167.213 million, which amounts to a debt-to-equity ratio of 10.96, which is extremely high for a nonfinancial company.

B. THCR Holdings's Working Capital

24. A company's working capital, which is the difference between its current assets and its current liabilities, is an important measure of the company's liquidity. The greater a company's working capital, the greater its ability to meet its financial obligations. Negative working capital, on the other hand, is potentially troublesome because in that case, the company's current liabilities, which are scheduled to come due within one year, exceed its current assets, which will be available within the year to meet those current liabilities. Sharply declining working capital is also a sign of deteriorating liquidity. Financially healthy companies maintain a substantial and relatively stable excess of current assets over current liabilities.
25. THCR Holdings's working capital deteriorated steadily throughout the five-year period 1996-2000 because current assets steadily decreased and current liabilities steadily increased. (See Exhibit 2.) Working capital became negative by nearly \$27.528 million at June 30, 2000, and it continued to be negative by \$31.697 million at year-end 2000.

C. THCR Holdings's Debt Maturity Schedule

26. Exhibit 2 also provides a schedule showing the long-term debt THCR Holdings had outstanding as of each fiscal year-end from 1996 through 2000 and also as of June 30, 2000. Normally a company's debt maturities are spread more or less evenly over an extended period, which typically corresponds roughly to the maturity of its assets. Companies try to avoid excessive bunching of their liabilities because debt must be repaid or financed as it matures. Highly concentrated debt repayment, particularly if the bunching occurs within the next few years, exposes the company to the risk that it might not be able to repay or refinance all of its maturing debt. This risk is even greater when the company's debt is rated below single-B because the non-investment-grade debt market might not be receptive to new financing when the company needs to refinance.

27. THCR Holdings's long-term debt maturities were severely bunched in 2005 and 2006. Of the $1.833 billion of long-term debt outstanding at June 30, 2000, $0.286 billion was scheduled to mature in 2003, $0.244 billion was scheduled to mature in 2005, and $1.297 billion was scheduled to mature in 2006. Thus, virtually all THCR Holdings's debt was scheduled to mature within about six years of June 30, 2000, and more than 80% of that amount was concentrated in just two years, 2005 and 2006. This severe bunching of its debt maturities exposed THCR Holdings to significant refinancing risk because THCR Holdings's operating cash flow would not be sufficient to enable THCR Holdings to retire this debt.

D. Recurring Losses

28. Exhibit 3 provides a comparative set of income statements for THCR Holdings for fiscal years 1996 through 2000 and also for the latest 12 months ending June 30, 2000. THCR Holdings lost more than $62 million each year between 1996 and 1999. For the period 1996 through 2000, THCR's cumulative loss amounted to $489.685 million.

E. Inability of THCR Holdings's Operating Income to Cover Its Interest Expense

29. THCR Holdings's annual operating income consistently fell at least $55 million below what was needed to pay its annual interest expense. For the latest 12 months ended June 30, 2000, THCR Holdings's operating income of $11.839 million fell more than $210 million short of what was needed to pay its interest expense. Even excluding the effect of the charges for the closing of Trump's World Fair, THCR Holdings's operating income fell nearly $87 million

short of what was needed to cover its interest expense.[20] The result, as shown in Exhibit 4, was decreasing balances of cash and cash equivalents, which could be needed to pay future interest expense, as I discuss later in the report. The cash and cash equivalents available at June 30, 2000, amounting to $106.7 million, would be able to cover less than six months interest expense, and in light of THCR Holdings's limited financial resources, cannot properly be viewed as excess cash.

VI. CREDIT ANALYSIS OF THCR HOLDINGS AS OF JUNE 30, 2000

30. THCR Development's ability to serve as a) the developer and manager of the 1996 Proposed Project or b) the Developer and Financial Advisor for the Casino Projects would depend on, among other factors, the financial capacity of THCR Holdings or one of its creditworthy subsidiaries to furnish the project guarantee and project loan commitments customarily expected of a casino project developer. This section examines the creditworthiness of THCR Holdings as of July 24, 2000, the date the Development Agreement and the Financial Services Engagement Letter were signed.

A. THCR Holdings's Debt Ratings

31. Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P") are the two oldest debt rating agencies. Their ratings fall into two general categories, investment-grade and speculative-grade, as shown in Exhibit 5. Investment-grade ratings extend from Aaa/AAA (Moody's/S&P's highest) to Baa/BBB (Moody's/S&P's lowest investment-grade).[21] Speculative-grade ratings extend from Ba/BB (Moody's/S&P's highest speculative-grade) to C/D (Moody's/S&P's lowest). A credit rating below B signifies very low creditworthiness (i.e., very high credit risk), and a credit rating of C signifies the lowest debt rating for bonds not yet in default.
32. Exhibit 6 provides a debt ratings history for the THCR Holdings entities. As of July 24, 2000, THCR Holdings (the "Issuer" in Exhibit 5) was split-rated. It was rated C by Moody's and CC

[20] Calculated as income from operations amounting to $11.839 million plus cost of closing Trump World's Fair amounting to $123.959 minus interest expense amounting to $222.780 million.
[21] Moody's attaches the modifiers 1 (relatively highest) to 3 (relatively lowest) to its ratings below Aaa, and S&P attaches modifiers + (relatively highest) and – (relatively lowest) to its ratings below AAA.

by S&P. THCR Holdings's senior secured debt was rated Ca by Moody's but was not rated by S&P. The higher senior secured debt rating reflects the stronger collateral backing THCR Holdings's senior secured debt. It is evident in Exhibit 6 that THCR Holdings's debt ratings had steadily deteriorated since mid-1995.

33. As of July 24, 2000, THCR Holdings had four public debt issues outstanding with credit ratings, which are listed in Exhibit 7. The Trump Castle Funding 11 ¾% Mortgage Notes due 2003 (the "11 ¾% Mortgage Notes") were rated Caa1 by Moody's, and the Trump AC Funding 11 ¼% First Mortgage Notes due 2006 (the "11 ¼% First Mortgage Notes") were rated Caa by Moody's and B- by S&P. The THCR Holdings 15 ½% Senior Secured Notes due 2005 (the "15 ½% Senior Secured Notes") and the Trump Castle Funding Pay-in-Kind 13 7/8% Notes due 2005 were both rated Ca by Moody's, and the 15 ½% Senior Secured Notes were also rated CCC+ by S&P.

34. Exhibits 8 and 9 highlight the significance of a debt's credit rating. Debt rated (Moody's/S&P) Ba/BB or B/B generally enjoys a much broader and more stable market than debt rated below B/B. The market for debt rated below B/B is much less liquid than the market for debt rated B/B or higher, and it can experience periods of zero new issue demand by investors. The number and dollar volume of new debt issues rated below B/B are much less than the number and dollar volume of new issues rated B/B or higher. Consequently, an issuer whose debt is rated below B/B faces significantly greater refinancing risk than higher-rated issuers and also faces a greater risk that it will not be able to sell a new debt issue to raise funds for capital investments or other corporate purposes whenever it wants to.

B. Credit Analysis of THCR Holdings

35. Exhibit 10 performs a credit analysis of THCR Holdings as of June 30, 2000. It provides the values of seven key credit statistics that S&P calculates to measure the credit quality of the issuers of the debt that it rates.[22] It shows that THCR Holdings was unable to cover its interest expense out of its EBIT (earnings before interest and taxes). EBIT covered between 60% and 70% of annual interest expense between fiscal 1996 and June 30, 2000, and EBIT coverage was at the low end of this range for the 12 months ended June 30, 2000. Exhibit 10 also shows how THCR Holdings's credit statistics deteriorated, especially as its leverage increased, between

[22] S&P Ratings Performance 2000 and Standard & Poor's, Corporate Ratings Criteria 2006.

fiscal year-end 1996 and June 30, 2000. By June 30, 2000, THCR Holdings's leverage ratio, calculated as the ratio of its total debt to its total debt plus equity, had increased to 92.51%.

36. Exhibit 11 provides a set of comparative credit statistics, based on Standard & Poor's data, for debt rated between AAA and CCC. THCR Holdings's credit statistics are generally consistent with the credit statistics for CCC-rated debt, although its funds-from-operations-to-total-debt ratio is lower, and its ratio of total debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) is higher than the averages for CCC-rated debt.

37. THCR Holdings's weak speculative-grade credit standing, as evidenced by its Ca Moody's issuer rating and CCC+ S&P issuer rating as well as by its poor credit statistics, would diminish its attractiveness as a developer of a project for at least two reasons. Weaker financial condition increases the risk that the developer will not be able to fulfil its contractual obligations, and in the extreme case, might go bankrupt before the project is completed. Second, the weaker the developer's financial condition, the more limited will be the developer's ability to provide debt financing or completion guarantees for the project.

C. Comparative Credit Analysis of Major Gaming Companies

38. A financially stronger company serving as the developer would expose the Casino Projects and the Tribe to less financial risk. Exhibit 12 provides a comparative credit analysis of major gaming companies as of December 31, 1999. As of year-end 1999, THCR Holdings was the only one of these companies that was barely covering its interest expense out of EBITDA. According to the measures of relative credit quality in Exhibit 12, THCR Holdings was the financially weakest company by a significant margin. For example, the next weakest company had more than two times the EBITDA interest coverage, and THCR Holdings's ratio of total debt to total debt plus equity was the highest and its total-debt-to-EBITDA ratio was the third highest among major gaming companies. As indicated in Exhibit 10, THCR Holdings's leverage increased, and its financial condition worsened, between fiscal year-end 1999 and June 30, 2000.

39. THCR Holdings's weak financial condition as of July 24, 2000 resulted in THCR Development having, at most, a very limited financial capacity to serve as a) the developer and manager of the 1996 Proposed Project or b) the Developer and Financial Advisor for the Casino Projects.

D. Market Price and Yield to Maturity of THCR Holdings's Public Debt

40. The market price of a company's debt will decrease if its creditworthiness deteriorates after the debt is issued. Exhibit 13 shows the market prices of the 11 ¼% First Mortgage Notes and the 11 ¾% Mortgage Notes between June 15, 1997 and December 31, 2000. Both debt issues were trading significantly below their par value as of July 24, 2000. The price of the 11 ¼% First Mortgage Notes exhibits pronounced downward trends beginning in mid-1998 and again in mid-1999. By July 24, 2000, they were trading at less than 70% of their par value.
41. THCR Holdings's Form 10-Q Report for the quarter ended June 30, 2000 disclosed that during May 2000, THCR Enterprises, LLC repurchased $30,500,000 of TCHR Holdings's 15 ½% Senior Secured Notes for $16,030,000 plus accrued interest.[23] The average purchase price was 52.56% of par value. Debt trading at such a steep discount to its face amount, especially when it has such a high coupon rate of interest, is a sign of extreme financial weakness.[24]
42. The yield at which debt trades in the market reflects the compensation that bond investors require for bearing the default risk inherent in holding the debt. The greater the degree of default risk, the higher the yield investors require as compensation for bearing the default risk. Exhibit 14 shows the yield of the 11 ¼% First Mortgage Notes and the 11 ¾% Mortgage Notes between June 15, 1997 and December 31, 2000. The yields of both debt issues increase steadily throughout the period as compared to the yield of the 6.625% U.S. Treasury notes due 2007, which entail no default risk because they are backed by the U.S. Treasury. Exhibit 14 also compares the THCR Holdings debt yields to the Moody's Baa bond yield, which reflects the compensation investors in Baa-rated investment-grade bonds require. The difference in yield between a corporate bond and a Treasury bond of like maturity is referred to as the corporate bond's 'credit spread' by bond market participants.[25] The widening credit spreads for the 11 ¼% First Mortgage Notes and for the 11 ¾% Mortgage Notes reflect the steadily worsening financial condition, and consequently increasing default risk, of THCR Holdings. By July 24, 2000, the yield of the 11 ¼% First Mortgage Notes was nearly 20% (having

[23] Trump Hotels & Casino Resorts, Inc., Form 10-Q Quarterly Report for the Quarter Ended June 30, 2000, page 10.
[24] Edward I. Altman and Edith Hotchkiss, Corporate Financial Distress, 3rd ed., Wiley Finance, Hoboken, NJ, 2006, page 147.
[25] Frank J. Fabozzi, "The Structure of Interest Rates," in Frank J. Fabozzi, ed., The Handbook of Fixed Income Securities, 7th ed., McGraw-Hill, New York, NY, 2005, page 136.

exceeded that level as recently as March 2000), and the yield of the 11 ¾% Mortgage Notes exceeded 20%. Such high yields are indicative of financial distress.[26]

E. THCR Holdings's Internal Cash Generation and Cash Utilization

43. THCR Holdings's weak EBIT and EBITDA interest coverages, which are evident in Exhibit 10, suggest that THCR Holdings could not cover its interest expense out of EBIT but had to use part of its depreciation and amortization expense to pay its interest. A successful business will usually reinvest its depreciation and amortization in fixed assets, for example to upgrade casinos to enhance their appeal to customers, whereas a distressed business will tend to underinvest because it has to use at least part of its depreciation and amortization cash flow to pay its interest expense.
44. Exhibit 15 provides a comparative capital expenditure analysis for the major gaming companies. Between 1997 and 1999, the other three major gaming companies doing business in Atlantic City spent an average of 144% of their depreciation and amortization cash flow on capital expenditures. During the same period, the nine companies in the S&P Supercomposite Casino & Gaming Index spent on average 171% of their depreciation and amortization cash flow on capital expenditures. THCR Holdings spent an annual average of only 58% of its depreciation and amortization cash flow on capital expenditures. This low rate of capital expenditure would be of concern to a casino project sponsor considering engaging a developer with the low rate of capital expenditure because it would imply that the developer lacked sufficient financial resources to invest adequately in its own business and therefore would be less likely to have resources available to support the casino project. THCR Holdings's ratio of capital expenditures to depreciation and amortization was among the smallest of any company in Exhibit 15 in both 1998 and 1999 as well as for the three-year period.
45. Exhibit 16 shows that dedicating all of its EBITDA, including all its depreciation and amortization, barely enabled THCR Holdings to cover its annual interest expense between 1996 and 1998, but was insufficient to cover THCR Holdings's interest expense fully either in 1999 or in the 12 months ended June 30, 2000. THCR Holdings could not cover both interest and capital expenditures out of its EBITDA; as noted, its capital expenditures were only about half

[26] Edward I. Altman and Edith Hotchkiss, Corporate Financial Distress, 3rd ed., Wiley Finance, Hoboken, NJ, 2006, page 147.

its depreciation and amortization. THCR Holdings's relatively low rate of replacement capital investment is another sign of financial weakness.[27]

46. The indenture for the 11 ¼% First Mortgage Notes contains a debt incurrence test that requires a consolidated coverage ratio of at least 2.25 after November 1, 1998 in order for Trump Atlantic City Associates ("Trump AC") to issue any additional debt.[28] The consolidated coverage ratio is the ratio of consolidated EBITDA to consolidated fixed charges.[29] I do not have separate financial statements for Trump AC. However, I note that if this test were applied to THCR Holdings for fiscal year 1996 through the 12 months ending June 30, 2000, THCR Holdings would not have been able to incur any additional indebtedness. In fact, its coverage ratio was less than half the value required to incur additional indebtedness. (See Exhibit 16.)

F. Projected Cash Flow Analysis for THCR Holdings

47. THCR's annual EBIT and annual EBITDA were relatively stable during the period 1997 through 1999. (See Exhibit 16.) Exhibit 17 measures the cash flow impact of assuming that (1) THCR's annual EBIT and its annual depreciation and amortization expense in each case equals the respective average annual amount for 1998 and 1999 for each year between 2001 and 2006, (2) annual capital expenditure equals annual depreciation and amortization expense each year between 2001 and 2006, and (3) THCR Holdings makes all scheduled principal repayments on its outstanding debt on schedule. The exhibit quantifies the amount of the cash shortfall each year. Over the six and one-half year period, THCR Holdings's cumulative cash shortfall would amount to $2.374 billion. This cash shortfall is significantly larger than the $95.425 million in cash and cash equivalents available as of December 31, 2000.[30]

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[27] When THCR filed for bankruptcy in November 2004, it announced that one of the purposes for its financial reorganization was to reduce its debt and increase the amount of cash available for reinvestment in its casinos.
[28] Trump Atlantic City Associates and Trump Atlantic City Funding, Inc., indenture for $1,200,000,000 11 ¼% First Mortgage Notes due 2006, section 5.11 (Limitation on Incurrence of Additional Indebtedness). The indentures for the 11 ¼% first mortgage notes issued by Trump Atlantic City Funding II, Inc. and Trump Atlantic City Funding III, Inc. have the same covenant restriction.
[29] Consolidated fixed charges include interest expense, including capitalized interest and interest attributable to capitalized lease obligations; one-third of consolidated rental expense; and subsidiary preferred stock dividend expense. Trump Atlantic City Associates and Trump Atlantic City Funding, Inc., indenture for $1,200,000,000 11 ¼% First Mortgage Notes due 2006, section 5.11 (Limitation on Incurrence of Additional Indebtedness) and section 1.1 (Definitions).
[30] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2000.

G. Conclusions from the Credit Analysis of THCR Holdings

48. The conclusion that emerges from the credit analysis of THCR Holdings is that THCR Holdings had extremely limited financial capacity to fund additional projects or to provide financial guarantees as of July 24, 2000. THCR Holdings was excessively leveraged, and its credit ratios had steadily deteriorated, at least since 1996.

49. S&P came to similar conclusions in 1999 and 2000. For example, S&P noted in a July 12, 1999 report on THCR Holdings that its ratings of THCR Holdings debt and THCR Funding debt reflect "thin debt service protection measures" and THCR Holdings's "relatively weak competitive position in the northern Indiana market."[31] A follow-up report on February 11, 2000 noted that the management of THCR Holdings had attempted to refinance debt at various entities but had been unsuccessful and that "debt at Holdings, the parent of Trump Atlantic City and Trump Marina, is unable to be fully supported by cash flow from the Indiana riverboat" and that "cash has been upstreamed from Trump Atlantic City to help meet Holdings' debt service requirements."[32] It explained that THCR Holdings's financial flexibility was limited because THCR Holdings did not have a bank facility and did not generate much free cash flow after maintenance capital expenditures and that its "outlook reflects the consolidated company's limited liquidity and financial flexibility."[33]

50. A report prepared by Nelson Malley & Thorne, certified public accountants, who reviewed seven casino gaming development proposals for the City of Detroit and the Detroit City Council, including one submitted by the Trump entities, concluded that "Trump's financial condition, however, is very weak...The company's ability to continue to operate under its present capital structure is questionable. Trump is significantly overleveraged."[34]

51. Finally, THCR Holdings's Form 10-Q Report for the quarter ended June 30, 2000 acknowledges that THCR Holdings's ability to repay its long-term debt was dependent on the ability of its main subsidiaries to generate adequate cash from operations but warned that its cash flow from operations might not be sufficient to enable it to repay its debt obligations and

[31] Standard & Poor's, Trump Hotels & Casino Resorts Holdings, L.P., Summary Analysis, July 12, 1999, page 1.
[32] Standard & Poor's, Trump Hotels & Casino Resorts Holdings, L.P., Summary Analysis, February 11, 2000, page 1.
[33] Standard & Poor's, Trump Hotels & Casino Resorts Holdings, L.P., Summary Analysis, February 11, 2000, pages 1-2.
[34] Nelson Malley & Thorne, "Financial Review and Analysis of Seven Casino Gaming Development Phase II Proposals," November 19, 1997, page 5.

that capital market conditions might not be conducive to refinancing its debt or raising fresh capital.[35]

VII. Z-SCORE ANALYSIS OF THCR HOLDINGS AS OF JUNE 30, 2000

52. Altman's Z-score model is one of several corporate credit scoring models that were in use in July 2000 and that are still in use today.[36] Corporate credit scoring models are used to assess the credit strength of a corporation, and in particular, to measure the likelihood that a corporation might go bankrupt within a specified time horizon. Using only factors available from the income statement and balance sheet in the public annual report for any company, the model can be used to predict the likelihood of bankruptcy within one or two years.[37] The Z-score model was developed by Edward Altman, who applied a statistical technique known as discriminant analysis to a matching sample of bankrupt and non-bankrupt companies.[38] Altman found that companies having a Z-Score falling below 1.81 were highly distressed and had a significant likelihood of going bankrupt within one or two years.[39] In other words, he found that a Z-score of 1.81 discriminated best between companies that were likely to go bankrupt within one or two years and those that were not likely to go bankrupt during that period.
53. Exhibit 18 provides a Z-Score analysis for THCR Holdings for 1996 through 2000. The Z-scores for THCR Holdings in Exhibit 18 are far below the critical bankruptcy cut-off of 1.81 for each of the years 1996 through 2000, which suggests a high likelihood of bankruptcy within the foreseeable future. Also, the declining Z-scores between year-end 1998 and June 30, 2000 indicate an increasing likelihood of bankruptcy between 1998 and 2000. THCR Holdings's Z-score for the 12 months ending June 30, 2000 is only 0.351, which is only about one-fifth the critical bankruptcy cut-off.[40] The persistently low and declining Z-scores evident in Exhibit 18

[35] Trump Hotels & Casino Resorts, Inc., Form 10-Q Report for the Quarter Ended June 30, 2000, page 12.
[36] Edward Altman, *Corporate Financial Distress and Bankruptcy*, 2nd ed., Wiley, New York, 1993, pages 179-206.
[37] Edward Altman, *Corporate Financial Distress and Bankruptcy*, 2nd ed., Wiley, New York, 1993, pages 191-192.
[38] Edward Altman, *Corporate Financial Distress and Bankruptcy*, 2nd ed., Wiley, New York, 1993, pages 179-206.
[39] Edward Altman, *Corporate Financial Distress and Bankruptcy*, 2nd ed., Wiley, New York, 1993, pages 193-197. Altman also found that there is a "zone of ignorance" defined by Z-scores between 1.81 and 2.67, for which the "prediction of their bankruptcy is not as definite as it is for the vast majority in the initial sample of bankrupt firms."
[40] Altman notes that, "While the Z-score model seems to be effective for about two years prior to actual bankruptcy, there are numerous cases where the model indicated distress as much as four or five years prior. Edward Altman,

signal a very high risk of bankruptcy within two years as of June 30, 2000, which would discourage any lender from lending to THCR or THCR Holdings.

VIII. PRO FORMA CREDIT ANALYSIS OF THCR HOLDINGS'S CAPACITY TO SERVE AS DEVELOPER FOR AND MANAGER OF THE 1996 PROPOSED PROJECT

54. The 1996 Proposed Project as described by Trump Development and Trump Management was much larger than the Casino Projects for which PPE had agreed to serve as the Developer and Financial Advisor. In connection with the 1996 Proposed Project, Trump Management committed to provide both a "limited completion guarantee" and a portion of the debt financing.[41]

A. Twenty-Nine Palms Project Is Not a Reliable Indicator of THCR Development's Ability to Serve as Developer and Financial Advisor for the Casino Projects

55. As noted, THCR Management entered into a loan agreement, dated November 2, 2001, with Trust Company of the West and certain of its affiliates for up to $18.8 million to fund its participation in the construction loan for the Twenty-Nine Palms Project.[42] The loan amount represented 32.41% of the anticipated $58 million financing for the Twenty-Nine Palms Project.[43] In view of the weak financial condition of THCR Management's parent at that time, as evidenced by the Z-score analysis and confirmed by the pledges and guaranty necessary for securing a loan for the Twenty-Nine Palms Project, it is unlikely that THCR Management had the financial capacity to furnish a reliable project guarantee or a credible financing commitment for any deal significantly larger than the Twenty-Nine Palms Project.[44] Additionally, because the Twenty-Nine Palms Project was an expansion of an existing casino facility, and therefore less risky that a new gaming facility, that project does not serve as reliable precedent for THRC

Corporate Financial Distress and Bankruptcy, 2nd ed., Wiley, New York, 1993, page 201. THCR appears to be such a case.

[41] Memorandum from Peter M. Laughlin to Jim Shore, dated November 1, 1996, page 1 (Bates number THCRD-008974).

[42] Loan Agreement dated as of November 2, 2001 among THCR Management Services, LLC, as Borrower, and TCW Leveraged Income Trust, L.P., TCW Leveraged Income Trust II, L.P., and TCW Leveraged Income Trust IV, L.P., as Lenders, filed as an exhibit to Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2001.

[43] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2001, Part I, Item, 1, page 6.

[44] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for the Fiscal Year Ended December 31, 2001, Part I, Item, 1, page 6.

Management's ability to finance the development of a much larger brand new gaming facility for the Tribe.

B. Pro Forma Credit Analysis of THCR Holdings's Capacity to Support THCR Development's Obligations Assuming the 1996 Proposed Project Structure

56. In August 1996, THCR Development proposed to assist the Tribe in "securing the necessary governmental approvals to conduct full casino-style gaming....obtaining financing for, developing and operating Class III gaming facilities as established in accordance with applicable law."[45] The proposal concerned three casino projects: a hotel-casino on the Hollywood Reservation costing $500 million, a hotel-casino on the Tampa Reservation also costing $500 million, and a hotel-casino on the Tribe's Big Cypress Reservation costing $600 million.[46] The three casino projects would require $1 billion of financing.[47]
57. THCR Management originally offered to participate in the capital investment for the project by providing a limited completion guarantee if it were engaged to develop and construct the facility and by purchasing up to $40 million of mortgage notes just for the Casino Project on the Hollywood Reservation.[48] THCR Management proposed that the project would require project financing in the expected amount of $300 million but under no circumstances in excess of $375 million.[49] The difference between $300 million and $375 million implies a cost overrun facility of 25%.
58. The casino projects THCR Development proposed to the Tribe in 1996 would have required at least $1 billion of debt financing, and up to $1.25 billion of debt financing when the 25% overrun contingency is allowed for. As discussed below in paragraph 65, PPE agreed to purchase bonds representing approximately 12.70% of the debt financing for the Casino Projects. If THCR Holdings had to provide the same 12.70% of the debt financing, then its

[45] Draft agreement between THCR Development and the Tribe, dated August 1996, pages 1-2 (Bates numbers THCRD-009604- THCRD 009605).
[46] Draft agreement between THCR Development and the Tribe, dated August 1996, page 7 (Bates number THCRD-009610).
[47] Draft agreement between THCR Development and the Tribe, dated August 1996, page 7 (Bates number THCRD-009610). The financing would consist of $300 million each for the Hollywood and Tampa facilities and $400 million for the Big Cypress facility.
[48] Memorandum from Peter M. Laughlin to Jim Shore, dated November 1, 1996, page 1 (Bates number THCRD-008974).
[49] Draft Management Agreement by and between THCR Management and the Tribe, dated as of October 1996, section 11 (Project Financing), page 15 (Bates number THCRD-002946).

loan commitment would amount to \$158,750,000.[50] Inflation between 1996 and 2000 would have increased the project cost, and a completion guarantee, even a limited guarantee, would further increase the financial commitment that THCR Development would have been required to make. Nevertheless, to be conservative, I have limited my pro forma credit analysis to assessing THCR Holdings's capacity to enter into a \$160 million debt commitment as of July 24, 2000.

59. Exhibit 19 provides a pro forma credit analysis that shows the impact on THCR's credit statistics from entering into financial commitments alternatively amounting to \$40 million (the amount of debt financing THCR committed to provide in 1996 for a casino project on the Hollywood Reservation), \$80 million (the implied amount of THCR Management's debt financing commitment for two casino projects of equal cost on the Hollywood and Tampa Reservations), and \$160 million (the amount of THCR's debt financing commitment implicit in the casino projects it proposed to the Tribe in 1996).

60. The pro forma credit analysis in Exhibit 19 understates the financial impact of the additional financial commitments. I have assumed that the additional debt could be issued at par bearing a 15 1/2% coupon rate, the same coupon rate as the THCR Holdings 15 1/2% Senior Secured Notes, even though THCR Holdings's debt was trading at yields of around 20% or higher in July 2000.[51]

61. The pro forma credit analysis reveals that THCR's very weak financial condition would have become even weaker when the additional financial commitments are considered. For example, a \$160 million financial commitment would have raised THCR Holdings's total-debt-to-EBITDA ratio above 10.00x and would have raised its total-debt-to-total-debt-plus-equity ratio to 99.68%. Even the 92.51% leverage ratio without any additional borrowing would have prevented THCR Holdings from being able to provide any meaningful credit support to THCR Development on its own. Moreover, THCR Holdings would still have a very low Z-score, which would indicate a high risk of bankruptcy within two years and which would discourage lenders from lending to THCR or THCR Holdings.

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[50] Calculated as 12.70% of \$1.25 billion.

[51] It is also possible that THCR Holdings might have been able to issue debt at a yield lower than 20% through one of its subsidiaries. However, an S&P report noted that the Indiana gaming operations were not generating enough cash to enable THCR Holdings to service the Senior Notes and indenture restrictions were limiting the availability of cash from its other subsidiaries.

C. Pro Forma Z-Score Analysis of THCR Holdings's Capacity to Support THCR Development's Obligations Assuming the 1996 Proposed Project Structure

62. Exhibit 20 demonstrates the impact of the additional financial commitment on the Z-score for THCR Holdings that would result from THCR Management's and THCR Development's role in developing and financing the Casino Projects assuming the 1996 Proposed Project structure. The additional financial commitments would cause THCR Holdings's already very low Z-score to decrease further, which would indicate an even weaker credit quality and an even greater likelihood of going bankrupt within two years. As a result of this deterioration in credit quality, lenders would be even less likely to lend funds to THCR or THCR Holdings.

IX. PRO FORMA CREDIT ANALYSIS OF THCR HOLDINGS'S CAPACITY TO SERVE AS DEVELOPER FOR AND FINANCIAL ADVISOR TO THE CASINO PROJECTS ASSUMING THE 2000 PROJECT STRUCTURE

A. Pro Forma Credit Analysis of THCR Holdings's Capacity to Support THCR Development's Obligations Assuming the 2000 Project Structure

63. Exhibit 20 provides a pro forma credit analysis that shows the impact on THCR Holdings's credit statistics from entering into financial commitments alternatively amounting to $20 million (the amount of the pre-financing soft costs PPE committed to advance to the Casino Projects in the Development Agreement) and $40 million (the amount of revenue bonds PPE purchased and committed to hold for 32 months when the bonds for the Casino Projects were issued.

64. In entering into the Development Agreement in 2000, PPE committed, among other obligations, to advance up to a maximum of $20 million (for both projects) to cover soft costs for the two Casino Projects during the pre-financing phase, subject to reimbursement from the Tribe out of the proceeds of the project financing.[52] In entering into the Financial Services Engagement Letter, PPE committed, among other obligations, to assist the Tribe in arranging financing for each Casino Project.

[52] Development Agreement, section 5.1(b). See also Financial Services Engagement Letter, section 1(c)(ii).

65. While PPE did not commit to provide full financing for the Casino Projects,[53] it is expected that the developer/financial advisor will provide a portion of the project financing. Accordingly, PPE purchased $40 million of the revenue bonds the Tribe issued to finance the construction of a convention facility and conference hotel on the Hollywood Reservation and a second convention facility and conference hotel on the Tampa Reservation in connection with the Casino Projects.[54] PPE agreed to continue to hold these revenue bonds for a period of 32 months (or until year-end 2004).[55] This investment represented 12.70% of the $315 million debt financing for the Casino Projects.[56]

66. The pro forma credit analysis again reveals that THCR Holdings's very weak financial condition would have become even weaker when the additional financial commitments associated with the Casino Projects are considered. All of THCR Holdings's key credit statistics would deteriorate further if THCR Management borrowed the capital it would need to contribute to the Casino Projects. For example, a $40 million financial commitment would have raised THCR Holdings's total-debt-to-EBITDA ratio to roughly 9.78x and would have raised its total-debt-to-total-debt-plus-equity ratio to 94.30%, again preventing THCR Holdings from being able to provide any meaningful credit support. Moreover, THCR Holdings would still have a very low Z-score, which would indicate a high risk of bankruptcy within two years and which would discourage lenders from lending to THCR or THCR Holdings.

B. Pro Forma Z-Score Analysis of THCR Holdings's Capacity to Support THCR Development's Obligations Assuming the 2000 Project Structure

67. Exhibit 22 demonstrates the impact of the additional financial commitment on the Z-score for THCR Holdings that would result from THCR Management's and THCR Development's role in developing and financing the Casino Projects assuming the 2000 project structure. The additional financial commitments would cause THCR Holdings's already very low Z-score to decrease further, which would indicate an even weaker credit quality and an even greater likelihood of going bankrupt within two years. As a result of this deterioration in credit quality, lenders would be even less likely to lend funds to THCR or THCR Holdings.

[53] Financial Services Engagement Letter, section 1(f).
[54] Capital Trust Agency, $290 Million Revenue Bonds, offering circular, April 22, 2002, page 16.
[55] Capital Trust Agency, $290 Million Revenue Bonds, offering circular, April 22, 2002, page 16.
[56] In addition, The Rank Group Plc, the parent of Hard Rock, which licensed the Tribe to operate the hotels and gaming facilities under the Hard Rock Hotel brand, purchased $25 million of the revenue bonds. Capital Trust Agency, $290 Million Revenue Bonds, offering circular, April 22, 2002, page 16.

X. THCR Holdings's Ability to Borrow the Funds to Support THCR's Development Obligations

68. Exhibit 7 shows that THCR Holdings and its subsidiaries had four issues of rated debt outstanding at June 30, 2000.[57] All four debt issues are rated in the lower end of the speculative-grade range.
69. Exhibit 23 shows the history of public debt financings by THCR Holdings and its subsidiaries since 1985. As of July 24, 2000, neither THCR Holdings nor its subsidiaries had issued debt publicly since April 1996. As noted, an S&P credit report on THCR Holdings in February 2000 disclosed that THCR Holdings had recently tried unsuccessfully a number of times to refinance some of its debt.[58] Refinancing was hampered by THCR Holdings's poor credit rating because the market for Ca-rated debt is very limited. (See Exhibits 8 and 9.)
70. Efforts in 1998 to reduce or refinance the debt were made public by THCR Holdings Chief Executive Nicholas L. Ribis.[59] The firm hired investment bankers both to explore selling a stake in the company and to evaluate refinancing opportunities. Ribis had hoped to reduce debt levels by $300 million by 2001. As Exhibit 23 suggests, through July 2000, the efforts had yet to yield any positive results.
71. As shown in Exhibit 17, THCR Holdings, which had not raised debt in the public market in more than four years [since April 1996], would have had to raise $2.374 billion before May 1, 2006 to refinance all its maturing debt and avoid a default. In view of THCR Holdings's pressing need to refinance its own debt and its failures to accomplish a refinancing between April 1996 and July 2000, a project sponsor would be understandably concerned that THCR Holdings would favor its own financial interest over the project's in its debt raising.

[57] I am counting the three 11 ¼% debt issues of THCR Funding, THCR Funding II, and THCR Funding III as one issue in this calculation because of the similarity of their terms and the overlapping guarantors.
[58] Standard & Poor's, Trump Hotels & Casino Resorts Holdings, L.P., Summary Analysis, February 11, 2000, page 1.
[59] See "Trump to Refinance Debt," *New York Times*, Metro Section, March 5, 1998, page 8, column 6.

XI. THCR's Ability to Sell Common Stock to Support THCR Holdings's Development Obligations

72. Exhibit 24 shows THCR's recent share price history. THCR's common stock price had decreased from a recent high of $34.00 per share on June 6 and 7, 1999 to only $2.9375 per share on July 24, 2000, representing a loss of more than 91% of THCR's equity value. Any sale of THCR common stock to outside investors, if it could even be accomplished, would dilute the ownership interest of Donald Trump.
73. Exhibit 25 shows that THCR's common stock price had substantially underperformed other gaming stocks and the S&P 500 Index since the end of 1996. This underperformance would make THCR common stock very unattractive to prospective investors.
74. THCR was a buyer, rather than a seller, of its common stock. During 1997, 1998, and 1999, THCR repurchased $17,276,000, $2,259,000, and $462,000, respectively, worth of its common stock.[60] It did not repurchase any common shares in 2000,[61] but that may have been due to THCR's tight liquidity situation.[62] In any case, THCR's depressed share price and strong negative stock price momentum as of July 24, 2000 would have severely restricted THCR's ability to raise a significant amount of money in July 2000 through the sale of its common stock.

XII. CONCLUSIONS

75. It is my opinion that THCR Holdings was excessively leveraged, and as a direct result, was in very weak financial condition as of July 24, 2000. THCR Holdings had an extremely limited financial capacity to raise funds or to guarantee debt or project completion. The market prices of THCR's common stock and THCR Holdings's bonds were signaling financial distress.

[60] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for Fiscal 1999, page F-6.
[61] Trump Hotels & Casino Resorts, Inc., Form 10-K Annual Report for Fiscal 2000, page F-6.
[62] Standard & Poor's, Trump Hotels & Casino Resorts Holdings, L.P., Summary Analysis, February 11, 2000, pages 1-2.

76. The Z-score for THCR Holdings as of June 30, 2000 is only 0.351, which is far below the critical bankruptcy cut-off of 1.81. It had been below this critical cut-off for each of the years 1996 through 1999, which suggests a high likelihood of bankruptcy within the foreseeable future. The declining Z-scores for THCR Holdings between year-end 1998 and June 30, 2000 indicate an increasing likelihood of bankruptcy between 1998 and 2000. THCR Holdings's persistently low and declining Z-scores signal a very high risk of bankruptcy within two years as of June 30, 2000, which would discourage any lender from lending to THCR or THCR Holdings.

77. It is also my opinion that THCR Development was financially incapable of completing the 1996 Proposed Project, had it been undertaken in 2000 instead of the Casino Projects, because of the extremely weak financial condition of its parent, THCR Holdings. THCR Development would have been unable to provide a project guarantee commitment or project lending commitment satisfactory to knowledgeable third party lenders to the 1996 Proposed Project without significant outside credit support, such as a guarantee from a sufficiently creditworthy entity.

78. Additionally, I conclude that THCR Development was financially incapable of serving as the Developer of and Financial Advisor to the Casino Projects as of July 24, 2000 because of the extremely weak financial condition of its parent, THCR Holdings. THCR Development would have been unable to fully meet its development commitments or provide a project lending commitment satisfactory to knowledgeable third party lenders to the Casino Projects without significant outside credit support, such as a guarantee from a sufficiently creditworthy entity.

79. This report has been prepared exclusively for counsel's use in connection with the above-captioned litigation. It may not be used for any other purpose without the author's and counsel's prior written consent.

Dated: New York, New York
January 11, 2010

John D. Finnerty
John D. Finnerty, Ph.D