

Fourth Time's A Charm: How Donald Trump Made Bankruptcy Work For Him - Clare O'Connor - Filthy Rich

Trump Plaza, Atlantic City. Image via Flickr.

Here at FORBES, we've been tracking [Donald Trump's](#) wealth since the inaugural [Forbes 400](#) rich list in 1982. Today, we value him at \$2.7 billion, although he [claims he's worth far more](#). One question we're often asked when talk turns to Trump's fortune: how can a man who has been bankrupt so many times remain a multi-billionaire? How is he worth more now, post-bankruptcies? We spoke to bankruptcy lawyers and casino industry experts — some of whom have had firsthand involvement in Chapter 11 cases connected to Trump — in an attempt to explain how he has survived corporate bankruptcies and thrived in the aftermath.



It's nothing personal...

First things first: Donald Trump has filed for *corporate* bankruptcy four times, in 1991, 1992, 2004 and 2009. All of these bankruptcies were connected to over-leveraged casino and hotel properties in Atlantic City, all of which are now operated under the banner of [Trump Entertainment Resorts](#). He has never filed for *personal* bankruptcy — an important distinction when considering his ability to emerge relatively unscathed, at least financially.

"Corporations, limited partnerships, and LLCs in which he had an ownership interest or companies that had his name attached have filed for bankruptcy," said Michael Viscount of Atlantic City law firm Fox Rothschild LLP, who represented unsecured creditors when Trump Hotels & Casino Resorts, as it was then called, filed for Chapter 11 protection in 2004. "Therein lies the big distinction."

He did take a personal hit the first time around: he'd financed the construction of the Trump Taj Mahal with junk bonds and was unable to pay the high interest. His business was in the red, and so was he, to the tune of about \$900 million in personal debt. By the mid-90s, he'd reduced most of that debt, selling his Trump Princess yacht, his Trump Shuttle airline, and his stake in a handful of other businesses. More importantly, he stopped guaranteeing debt with his own wealth. "The first bankruptcy was the only time his personal fortune was at stake," said Ted Connolly, a Boston bankruptcy lawyer who used Trump as model for getting out of debt in his book *The Road Out Of Debt: Bankruptcy and Other Solutions to Your Financial Problems*. "He learned from it. He's insulated."

...it's just business.

Trump has never apologized for using Chapter 11 as a business tool — indeed, when [he spoke to my FORBES colleague Keren Blankfeld](#) recently, he noted that many "great entrepreneurs" have used bankruptcy to restructure debt, free up capital and improve their businesses.

"I've cut debt — by the way, this isn't me personally, it's a company," Trump said. "Basically I've used the laws of the country to my advantage and to other people's advantage just as [Leon Black](#) has, [Carl Icahn](#), [Henry Kravis](#) has, just as many, many others on top of the business world have."

But to those uninitiated in bankruptcy laws, four instances of corporate bankruptcy in a row can seem staggering. "To the ordinary person in the street, it may seem surprising, but certainly not to me," said Reed Smith partner Michael Venditto, who has represented clients in high profile Chapter 11 cases, including bankrupt airline TWA. "Chapter 11 is how you reshape and restructure a company that has problems. It doesn't indicate anything nefarious or even bad management."

It's better than the alternative.

More important, said Venditto, are the repercussions Chapter 11 might have for creditors versus, say, liquidation. "You can have a visceral reaction to the fact that this company has gone through Chapter 11 multiple times, but the bondholders look at it and the alternatives are much, much worse. What is an empty casino sitting on the Atlantic City boardwalk worth? If it's operating and it's got cash flow and income, it may

not be able to pay back every cent on the dollar, but the creditors are better off in the long run.”

He’s leveraged his persona.

Trump’s name and image have undoubtedly helped him survive each bankruptcy and come out on top. He’s able to demand a high percentage of reorganization equity based on the value his brand brings to a casino or hotel operation. So says Edward Weisfelner, a partner at New York firm Brown Rudnick who was involved in two of the three casino bankruptcies, first representing bondholders, then as counsel to Carl Icahn’s firm Icahn Partners, who [tried to buy most of the debt](#) in Trump Entertainment Resorts. “The leverage he had was that his name was on the side of his casinos,” said Weisfelner. “The cost of throwing him out, rebranding and changing his name everywhere would be very high. ”

Added Joseph Weinert, senior vice president at Atlantic City casino consultancy Spectrum Gaming Group, who has produced research for Trump: “The stakeholders decided they were better off with Trump’s name than they were without it.”

He has less and less interest in the bankrupt companies.

With each bankruptcy proceeding, Donald Trump’s stake in the casinos and hotels in Atlantic city that bear his name has decreased. In the first Trump Taj Mahal bankruptcy, he handed over 50% equity to bondholders in return for favorable interest rates. In 2004’s Chapter 11 filing, his stake was reduced to 25%. During wranglings with bondholders immediately before the 2009 bankruptcy, Trump resigned from the board of Trump Entertainment Resorts; his equity stake is now 5%, with another 5% in warrants.

He’s not the one to blame.

Atlantic City lawyer Viscount doesn’t believe Donald Trump himself should be held accountable for any of his company’s bankruptcies — his creditors, he said, knew what they were getting themselves into when they lent Trump money over and over again. “They’re all big boys and girls,” he said. “They’ve all played this game before, in the insolvency space. The company that possessed his name filed bankruptcy because it was overleveraged. What does that tell you? People want to lend him money. He does grandiose things with it.”

Icahn lawyer Weisfelner doesn’t place blame for these corporate bankruptcies with creditors, and questions whether Trump’s companies have used Chapter 11 the way its creators intended.

“There’s such a thing as good faith,” he said. “The purpose of bankruptcy laws is to protect companies, their customers and employees, to give them a second chance and to treat claim holders fairly. If bankruptcy is used instead to artificially elevate your equity interests above legitimate creditor claims and avoid obligations then you could argue that’s not what the laws were designed to do.”

Viscount doesn’t think Trump has misused the system at all. “Chapter 11, in my view, is the ultimate business transaction forum,” he said. “It’s the place you go to keep a business alive and well. He’s done nothing inappropriate.”