

Chapter 11 buys time for Greektown Casino, McTevia tells Crain's Detroit Business

"Greektown buys some time"
Bankruptcy restructuring stops a forced sale

By Robert Ankeny

Greektown Casino L.L.C. may have bought the time it needs for financial restructuring by filing for federal court protection under Chapter 11 of the U.S. Bankruptcy Code, a Detroit-area turnaround expert says.

"Chapter 11 allows the casino to restructure its debt and get a new equity injection," said Jim McTevia, principal in Bingham Farms-based McTevia & Associates.

McTevia also said the move would forestall the threat of forced sale by the Michigan Gaming Control Board.

Early last month, the board set a June 10 show-cause hearing to decide whether to order a sale of Greektown because the casino isn't hitting prescribed financial goals.

That action came as Greektown was working on a deal to sell a 40 percent stake in the casino to Bloomfield Hills-based Entertainment Interest Group Inc.

Gregg Orley, a principal in EIG, said Friday in a statement that its contract with Greektown "remains in effect and we look forward to closing on this transaction."

"Our attorneys are carefully studying this recent development."

The investment company's other principals include Republic Bancorp founder and former Chairman and CEO Jerry Campbell and local businessmen and investors Robert Orley, Jon Weaver and Lawrence Lax.

Greektown is in violation of a 2005 board-ordered covenant to keep the casino debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization) ratio below 6.25-to-1, gaming board Executive Director Richard Kalm said at that meeting. Failure to do so gives the board authority to put the casino up for sale.

Kalm had recommended that the board not waive that authority and he asked for time to allow his staff to investigate the proposed buy-in by EIG once proper documents were filed.

On Friday, Kalm and state attorneys met with Greektown officials and lawyers in Detroit. He said the board still plans to have its June 10 meeting but would not invoke the sale provision during Greektown's Chapter 11 case.

He said monitoring of casino operations, including collecting wagering taxes daily and licensing of employees would continue as usual.

"We have boots on the ground to regulate the environment and guarantee the integrity of the games," Kalm said.

He said the bankruptcy reorganization filing was a decision by a private business, "and if it helps them, it's a good thing."

MGCB accounting consultants said Greektown's own forecasts show the casino would still be about \$43 million short of meeting the covenant even with a \$79 million equity infusion from EIG, which also agreed to make a \$21 million one-time payment toward money owed by the casino.

According to bankruptcy data filed in the cases, the casino owes 40 unsecured creditors a total of more than \$243 million but said it expects funds to be available for payments to these creditors.

The casino firm and its affiliates ticked off boxes in the bankruptcy filings claiming debt of \$100 million to \$500 million and assets of less than \$50,000.

The largest unsecured debt is listed as \$185 million to Deutsche Bank Trust Co. in New York. Second-largest is \$23 million owed to the LacVieux Desert Band of Lake Superior Chippewa Indians, the tribe that won a federal lawsuit against Detroit and its three casinos over the licensing process.

Third- and fourth-largest unsecured debts are owed to Detroit businessman Jim Papas, \$5,278,558; and Highland Park emergency financial manager Art Blackwell, \$4,090,000. Both were early investors in Greektown.

The bankruptcy filing should give the board as well as the casino and its suitor-investors, such as EIG, time to assess these deals, McTevia said.

"There is no way a U.S. Bankruptcy Court judge would allow the state or anyone to jump into this precipitously in a Chapter 11. The court won't allow liquidation or a shutdown now," McTevia said.

"Casinos can have liquidity problems just like anyone else. With \$600 million in bonds, servicing that debt and paying the overhead, and being taxed at 24 percent because it does not yet have the hotel

open, it was just a matter of time," McTevia said.

Expected during the Chapter 11 case, McTevia said, is a proposal to restructure debt to give bondholders some equity.

Also, it will give the casino time to open its hotel and expand its gaming space. And, by earning permanent casino status, it will benefit from a lowering of state and city gaming taxes to 19 percent of revenue.

"I look for Jerry Campbell or someone to come in with some equity to seed finishing of the hotel, and I would not want to do it outside of Chapter 11."

Aaron Payment, chairman of the Sault Ste. Marie Tribe of Chippewa Indians, served on the casino management board but lost that position last summer over a personnel dispute.

"We filed for Chapter 11 to protect our assets from the unfair covenants placed upon Greektown Casino by the Michigan Gaming Control Board," Payment said, "a standard that the other two casinos in Detroit do not have to follow."

Payment said he is puzzled about why the EIG principals have not yet filed suitability applications with the MGCB in order to get licensed.

Still unanswered, McTevia says, is the question of whether Detroit and Southeast Michigan can support three commercial casinos in competition with Caesars Windsor and Indian casinos in Michigan.

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