

# When casinos roll into the red

Restructuring Gateway Casinos and Entertainment wiped out \$1 billion in debt and provided the company with a \$100 million capital infusion and a \$500 million loan



Paragon Gaming Inc. proposes to borrow \$350 million and build a \$450 million casino adjacent to BC Place

By Glen Korstrom

Activists who oppose **Paragon Gaming Inc.**'s proposal to build Western Canada's largest casino adjacent to **BC Place** frequently say their opposition stems from fear that the venture will collapse in debt.

They justify these fears by pointing to a jackpot of casino companies that have run into debt so deep massive restructuring was required. One of those deals was the largest acquisition of 2010 that did not involve a mining company.

As for Las Vegas-based Paragon, it has an option to lease taxpayer-owned land, subject to civic approval and \$350 million in financing, so it can build a \$450 million casino and hotel complex by 2013.

Its \$6 million annual lease payments would help **BC Pavilion Corp.** (PavCo) pay for the \$563 million renovation of BC Place.

Paragon president **Scott Menke** has refused to open his private company's books to demonstrate fiscal strength. PavCo chairman **David Podmore**, however, told *Business in Vancouver* that he has seen Paragon's books and that he believes the company is capable of meeting financial commitments.

Things don't always work out so well for casino operators, however.

The largest non-mining acquisition of 2010 demonstrated that.

Burnaby's **Gateway Casinos and Entertainment Ltd.** morphed from being an income fund in 2007 to being owned by two shareholders: **Crown** and

**Macquarie Bank.**

Those two principals borrowed more than \$1 billion from various banks, and in 2010 its proverbial chickens came home to roost.

A consortium of debt holders, led by **Catalyst Capital Group Inc.**, started buying Gateway's debts from those various banks and cobbled it all together.

Then Catalyst executives offered an ultimatum to Gateway principals on behalf of all the debt holders. Catalyst either wanted Gateway to pay off its debts or ante-up the lion's share of the company's equity.

That set the wheels in motion for the debt-holders to pay off \$1 billion of the company's \$1 billion-plus in debt and

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# Casinos: Entire industry suffering from debt

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provide a capital infusion of \$100 million and a \$500 million term loan. In exchange, they got 98% of the company and were free to start racking up some new debt of their own.

“What was interesting for me was to see how these private equity investment firms go out and purchase the public debt with an eye to becoming management, basically becoming equity, and then going out and raising new debt for the enterprise,” said **Lawson Lundell LLP** partner **Mandeep Dhaliwal**.

His firm represented Catalyst on some aspects of the Gateway acquisition. He stressed that the lead lawyers on the case were at Toronto-based **Bennett Jones LLP**.

“The debt-holders’ purpose was to take over the company and then go out and leverage the company again with new debt over time,” Dhaliwal said.

Once in control of Gateway, the Catalyst consortium hired **Jefferies and Co.** to raise hundreds of millions of dollars of debt in the bond market.

Troubles in the gaming sector are also hitting Vancouver’s **Great Canadian Gaming Corp.** (TSX:GC) which has hinted that it may close Hastings Park casino and race track if negotiations with the **City of Vancouver** on a lease renewal do not improve.

The city wants Great Canadian to spend millions of dollars to build a parkade and refurbish its back stretch.

“We’re a public company. We have to disclose to our shareholders the fact

that the worst case scenario is that negotiations will not go anywhere and that we are forced to cease operations,” spokesman **Howard Blank** told media in March.

Trouble also struck **Edgewater Casino Inc.** in 2006, when it embarked on a different kind of restructuring than Gateway did.

Edgewater was losing \$157,000 a week, according to documents filed as part of its 2006 **Companies’ Creditors Arrangement Act** proceeding. It had racked up \$29 million in debts after opening in February 2005 and the result was being plunged into creditor protection.

The **Supreme Court of British Columbia** approved a \$42 million deal in 2006 that saw Paragon, as the new owners of the eventually profitable casino, make payments to creditors.

**Vancouver Whitecaps** co-owner **Greg Kerfoot** was the largest of those creditors given that he lent Edgewater \$12 million and also provided a \$5.4 million letter of credit for money owed to the **British Columbia Lottery Corp.**

Companies controlled by Edgewater’s previous owners, **Leonard Libin** and **Gary Jackson**, also received an undisclosed sum after creditors and legal fees were paid.

Much recent media attention has focused on how Paragon’s only Las Vegas gaming establishment is a neighbourhood sports bar with 15 slot machines called the **Creek Bar and Grill**. It is so far off the main Las Vegas strip tumbleweeds pass nearby.

But even the largest casino operators in the world suffer from massive debt and have come close to folding. ■ [gkorstrom@biv.com](mailto:gkorstrom@biv.com)

## Succession: Retirement plans back on

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**Don Sihota**, a partner with **Clark Wilson LLP** who specializes in mergers, acquisitions and business succession planning, said that he’s increasingly seeing owners of private businesses starting to look at succession.

Some, he said, having weathered the recession, are looking to expedite succession plans so they can retire earlier than planned.

“When all of a sudden there’s a major recession, a crisis, you start to question

whether you want to take that chance again, once you get through it,” he said.

Rowntree said that, going forward into 2011, he expects to see deals continue to build in volume and quality.

“I think it will give [private equity] a chance to get our money well invested,” he said. “It’s always easy to buy something, but the hard thing is to buy something well and pay fair value for it but put yourself in a spot where you can create value going forward.” ■ [jwagler@biv.com](mailto:jwagler@biv.com)



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