IN THE MATTER OF THE
APPLICATION OF ADAMAR OF NEW JERSEY, INC.
FOR A CASINO LICENSE

Decided: November 17, 1982
Approved for Publication by the Casino Control Commission:
April 8, 1988

SYNOPSIS

Adamar of New Jersey, Inc. applied to the Casino Control Commission for a casino license. Following a hearing by the Commission, a license was issued, subject to several conditions.

Adamar is a wholly-owned subsidiary of Ramada Hotel Operating Company ("RHOC"), which is, in turn, a wholly-owned subsidiary of Ramada Inns, Inc. ("Ramada"). The hearing focused on three areas of concern related to Adamar, RHOC and Ramada: integrity, management and financial qualifications.

The incidents relating to integrity concerns were found not to justify an adverse finding on qualification. However, because there was evidence of some dealings with an individual of questionable background in regard to Ramada's purchase of the Tropicana in Las Vegas, the Commission determined that licensure would be contingent on limited future contact between Ramada and that individual. In addition, other conditions were established relating to Ramada's relationship with the Doumani family, to which Ramada has ongoing financial obligations. Other conduct was found to involve improprieties, but none were sufficient to warrant denial of a license. One factor in the Commission's decision was that many of these incidents involved individuals who have since left the company. The Commission was convinced that the present corporate personnel possessed the requisite good character.

Management concerns involved cost overruns on the construction of the Atlantic City facility and general deficiencies in the operation of that casino under a temporary license. The Commission found that Ramada and Adamar were attempting to improve efficiency and security. Therefore, evidence of management difficulties did not require an adverse finding with respect to business ability.

Similarly, the Commission found that Ramada and Adamar were attempting to improve their financial condition, which has worsened because of large outstanding debts. The future viability of applicants would be dependent on the success of new financial plans. Therefore,
the Commission required applicants to agree to monitoring of their financial condition by the Commission, including the submission of an annual audit plan.

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Richard Morrissey, Deputy Attorney General; Mary Jo Flaherty; Deputy Attorney General, and Frederic Gushin, Deputy Attorney General, for the Division of Gaming Enforcement

Patricia M. Kerins, Senior Assistant Counsel; Nancy Q. Shickler, Assistant Counsel, and Bertha L. Scott, Assistant Counsel, for the Casino Control Commission

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BY THE CASINO CONTROL COMMISSION:

1. INTRODUCTION

This matter has been brought before the Casino Control Commission (Commission) pursuant to the application of Adamar of New Jersey, Inc. (Adamar) for a casino license. The history of Adamar's application, its acquisition of a temporary casino permit in November 1981, and the qualification criteria pertinent to this plenary casino license proceeding are set forth in the Chairman's instruction to the Commission and need not be repeated at length here. That instruction has been made part of the record in this casino license hearing and is incorporated by reference in this Opinion.

Adamar, a New Jersey corporation, is a wholly-owned subsidiary of Ramada Hotel Operating Company (RHOC), a Delaware corporation. In turn, RHOC is a wholly-owned subsidiary of Ramada Inns, Inc. (Ramada), a Delaware corporation. An organizational history and corporate profile of Adamar and Ramada are recounted in the Stipulated Factual Statement and need not be repeated here.

In discussing Adamar's application, this Opinion will deal only with those areas which were the subject of significant attention during the hearing. Detailed findings with regard to other licensing criteria are contained in a separate Resolution.

The areas which were focused upon at the hearing were: (1) the relationship between Marion W. Isbell and Abraham Teitelbaum; (2)
Ramada's participation in the rebate program of Joseph E. Seagrams and Sons, Inc.; (3) the payment of a commission fee to James G. Ryan as part of the acquisition of the Ambassador and Deauville properties; (4) the undisclosed mortgage interest held by John Wademan in the Lubik Group mortgage; (5) the acquisition and operation of the Tropicana Hotel and Country Club in Las Vegas; (6) the cost overruns and delays in the construction of the Tropicana Hotel and Casino facility in Atlantic City; (7) the operational problems at the Tropicana in Atlantic City; and (8) the financial stability of Adamar and Ramada. The first five issues will be grouped together and addressed under the heading "Integrity Issues". The sixth and seventh issues will be discussed as "Management Issues". The final issue will be titled "Financial Qualifications".

II. INTENSITY ISSUES

A. Isbell/Teitelbaum Relationship

Marion W. Isbell, Sr., was one of the founders of Ramada and served as Chairman of Ramada's Board of Directors from 1962 to 1979. Prior to his involvement with Ramada, Mr. Isbell owned a number of restaurants and coffee shops in Chicago, Illinois. In 1938, he joined the Chicago Restaurant Association (CRA), served as its president from 1942 to 1945, and thereafter was a member of the Board of Directors for the Association.

In 1939, CRA hired Abraham Teitelbaum, an attorney, as its labor counsel for a $20,000 per year retainer plus a Christmas bonus. Mr. Teitelbaum's retainer was increased to $54,000 a year in 1949 and to $125,000 a year in 1950. Mr. Isbell was a CRA director during this period of time and attended the board meetings during which the retainer increases were approved. Mr. Isbell did not move or second either increase.

By July 1952, Mr. Teitelbaum was facing charges of tax delinquency and evasion, with his indebtedness to the U.S. Treasury totalling over $188,000. The CRA advanced Mr. Teitelbaum $35,000 to meet this deficiency and reduced his retainer to $90,000. In September 1953, Mr. Teitelbaum was terminated by CRA. But for a one month employment in October 1954 to negotiate a pending union contract, his association with CRA was ended.

In 1958, the CRA was the focus of an investigation by the U.S. Senate Select Committee on Improper Activities in the Labor or Management Field. Mr. Teitelbaum appeared before the Committee
and invoked his Fifth Amendment privilege in response to all questions. Mr. Isbell was not asked to testify. In its report the Committee concluded that Mr. Teitelbaum and others hired as labor consultants were in fact "hoodlums and gangsters" who funneled money as fronts to organized crime figures and corrupt union officials in exchange for labor peace. Mr. Teitelbaum was alleged to have close ties to known organized crime figures in Chicago. No derogatory information was found by the Committee concerning Mr. Isbell's activities with the CRA.

There is no evidence of any contact between Mr. Isbell and Mr. Teitelbaum from the mid 1950's until 1969. The contacts in the next ten years, 1969 to 1979, were, at best, sporadic and are summarized in the Division's investigative report. They include a $2,000 personal loan to Mr. Teitelbaum in January 1969, the hiring of Mr. Teitelbaum by Mr. Isbell to settle a strike at a Ramada motel in Phoenix in June 1969, two letters of recommendation or reference by Mr. Isbell on behalf of Mr. Teitelbaum, one general, and the other to California parole officials in January 1974, and the offer of reduced rates at Ramada motels to Mr. Teitelbaum's teenaged son in July 1973. Finally, in June 1979, in response to an inquiry by Mr. Teitelbaum concerning the possible construction of a motel and the obtaining of a Ramada franchise in Guatemala City, Guatemala, Mr. Isbell instructed the Franchise Division to follow up on the inquiry and to extend courtesies to Teitelbaum while he was in Central America.

Abraham Teitelbaum died in April 1980. Mr. Isbell has no present position with Ramada and all stock in the corporation held by himself and his wife has been placed in a trust. That trust holds 203,199 shares or approximately 75 percent of the total outstanding shares.

The Division did not discover any associations between Mr. Teitelbaum and any present director, officer or principal employee of Ramada. The Division, in its investigative report, described the association with Teitelbaum as "long-term, although sporadic". It notes that Marion Isbell considered the more recent contacts with Teitelbaum to be "more of a nuisance than anything else", coming at a time when Teitelbaum was advancing in age, in ill health and at times destitute.

After considering all the evidence submitted regarding the Teitelbaum/Isbell relationship, we find this relationship does not reflect adversely upon the character and integrity of Ramada's present management.
B. Seagram Rebate Program

In 1972 Paul L. Potts, Ramada's Director of Purchasing for Food and Beverage, entered into separate rebate agreements with a Mr. Turner of Calvert Distillers and Daniel R. O'Sullivan, National Accounts Manager for Seagram Distillers Company. Both companies are divisions of Joseph E. Seagrams and Sons, Inc. (JES). In exchange for the use of Calvert and Seagram products as the house liquors in Ramada hotels, Ramada would receive a rebate of $2-3 per case of liquor. Similar arrangements were made with other divisions of JES. The practice continued until 1976, when it was discontinued by JES. From 1973 to 1976, Ramada received a total of approximately $159,000 from the various sales divisions of JES.

Different methods were used by the various JES divisions to disguise the rebate payments. In the case of Seagram Distillers, blank Ramada stationery would be forwarded by Mr. Potts' office to the Seagram distributor. A fictitious event held at a Ramada hotel would be described on the invoice and the document returned to Mr. Potts along with a check for payment. This expense, credited to the miscellaneous income account, actually represented the liquor rebate. Paul Masson, house wine for Ramada since 1975, rented a suite in the Fisherman's Wharf Ramada Hotel in San Francisco which was rarely used by the company. Paul Masson authorized the re-rental of the suite without credit to their company. Any rental of the suite became additional income to Ramada and represented the rebate to Ramada.

The SEC initiated an investigation into the JES rebate practice in 1976. As a result, a civil action for injunctive relief was filed in Federal district court against JES. A consent order was subsequently signed which permanently restrained JES from engaging in false financial filings. No action was taken against Ramada by the SEC. In the judgment of the SEC, Ramada had disclosed fully all rebate transactions on its books and records and the company had not violated either Federal law or SEC regulations.

The Department of Alcoholic Beverage Control, State of California, launched its own investigations into the rebate agreements between JES and the eight Ramada hotels in that state. Those eight hotels were owned and operated by RHOC. In February 1979, RHOC was charged by the California A.B.C. with receipt of illegal rebates from JES in violation of Section 25503(c) of the California Business and Professions Code. RHOC filed a stipulation of charges in
response and waived a hearing. Consequently, the California A.B.C. ordered the suspension of the liquor licenses held by the eight California Ramada hotels for 10 days. Five of those were stayed on condition that no further disciplinary action would be called for within the next year. In lieu of the actual five day suspension, RHOC paid a fine of $500 per hotel ($4,000 total).

From the evidence presented, it appears that only two or three Ramada officials were aware of the false documentations and the rebate practice. Two of those officers were Paul L. Potts and David Turner. Mr. Turner was the former Ramada Vice President and Director of Administration for the North American Hotel Division. As to the third official, Mr. Potts has testified before the SEC and affirmed in an interview with the Division of Gaming Enforcement that he reported the rebate practice to his former supervisor, Bruce Ford, Vice President, Hotel Operations. Mr. Ford was not called by the SEC and has denied knowledge of the rebate practice.

None of these individuals are currently employed by Ramada. M. William Isbell, Chief Executive Officer at the time of the rebates, testified that he was unaware of the illegal arrangement, and, once discovered, took action to stop the practice. Ramada also promulgated a set of guidelines to all employees which included a section on “Questionable Rebating and Similar Practices”. There is no evidence that any other officials at Ramada’s Phoenix headquarters had contemporaneous knowledge of the rebate arrangements.

The willingness of corporate employees to manipulate corporate records to disguise rebate payments is disturbing to the Commission. See, In the Matter of the Application of Claridge Limited for a Casino License, Docket No. 82-CL-4 (1982) at 21. However, Ramada has made both procedural and personnel changes to prevent such illegal activity from occurring in the future. Further, the Commission finds that other corporate officials did not have knowledge of the rebate scheme until after it was discovered and stopped. Thus the Commission sees no cause to make an adverse finding on Ramada’s present business and integrity qualifications based on these activities.

C. Finder’s Fee to James G. Ryan

Ramada began its search for a casino hotel site in Atlantic City in the summer of 1978. The task of locating and acquiring a suitable site was primarily the responsibility of George E. Griffen, then Vice President and Chief Financial Officer of Ramada. M. William Isbell was also involved in this exploration. In July 1978, Mr. Griffen was
contacted by James G. Ryan with an offer of his services to assist Ramada in discovering available properties, and meeting potential sellers and financial sources known to Mr. Ryan. Mr. Griffen was acquainted with Mr. Ryan from an unconsummated financial deal which occurred in 1970 while Mr. Griffen was an executive with LTV Corporation.

At the time he approached Mr. Griffen, Mr. Ryan was free on bail pending appeal of his Federal conviction for mail fraud in June 1978. He also had Federal charges pending against him for conspiracy to deal in counterfeit U.S. Treasury bills and for perjury. In addition, he had a prior Federal conviction for income tax evasion dating from the early 1960's.

After Mr. Ryan's initial contact, Ramada utilized his services to assist in the selection of a casino hotel site in Atlantic City. Mr. Ryan met with Mr. Griffen and with William Isbell during his visits to Atlantic City. Mr. Ryan was sent two reimbursement checks of $5,000 each to compensate him for expenses incurred during his work on Ramada's behalf. For his efforts in bringing Ramada together with the sellers of the Ambassador-Deauville properties in Atlantic City, Mr. Ryan received a commission or "finder's fee" in the amount of $250,000. His background and participation in the Ramada acquisition subsequently were publicized in a front page article in the November 15, 1978, Wall Street Journal entitled "Guess Who Pulls in a Gigantic Jackpot in Atlantic City".

Mr. Isbell was advised by George Griffen "months" before the closing of the Ambassador deal that Mr. Ryan was a convicted felon out on bail. Mr. Isbell was wary of Mr. Ryan's methods and background. He instructed Mr. Griffen, prior to any negotiations on the Ambassador property, to have no further dealings with Ryan. However, at a September 21, 1978, meeting at the Seaview Country Club, Mr. Isbell, along with Howard Johnson, Gerard Hallier and former Ramada general counsel Joseph Loveland, were told by George Griffen that he had committed Ramada to payment of a commission to Mr. Ryan. Amounts varying from one million dollars to a half a million dollars and less were debated by the group. Howard Johnson voiced his objection to the payment of any fee to Ryan, contending that everyone knew the Ambassador was on the market and citing Ryan's unsavory background. In response to the suggested $500,000 figure, Mr. Isbell retorted that he wouldn't pay even half that.

The issue of the finder's fee was discussed again during the consideration of the Memorandum of Understanding for the Am-
bassador-Deauville acquisition at the special meeting of Ramada’s Board of Directors on September 28, 1978. It was at that meeting that the remainder of the Ramada directors learned of Ryan’s background and Griffen’s commitment to him of a commission. Robert Rosow, a director and chairman of the audit committee, testified that his understanding was the fee to Ryan was due and owing whether or not Ramada bought the property. The concern of the Board was not the amount of the fee but the person to whom it was due. Mr. Isbell recollected that the choice facing the Board was either to live with the commitment to the fee or turn down the deal and forget about going into Atlantic City. Another consideration was the desire to avoid a lawsuit. Although the Board agreed to pay the fee, it decided that the sellers would pay Mr. Ryan’s commission, with a corresponding increase in the purchase price to be paid by Ramada. The intention was to further distance Ramada from Mr. Ryan.

The final fee to Ryan was $250,000, payable in five installments from the sellers. The fee is reflected in the settlement papers. On the date of settlement (September 29, 1978), Mr. Ryan signed a release from any additional claims to finder’s fees or commissions. The fee was considered by Ramada executives to be on the low side for such transactions.

Mr. Griffen was terminated by Mr. Isbell as a direct result of the Ryan fee, although not immediately after closing. Ramada learned in late autumn of 1978 that Mr. Ryan was continuing to represent himself as a Ramada agent for purposes of acquiring other properties in Atlantic City. At the direction of Mr. Isbell, Joseph Loveland, then general counsel to Ramada, sent a letter to Mr. Ryan dated December 28, 1978, warning him to cease his activities and representations.

Thomas Martin, Ramada’s Executive Vice President for Finance and Administration and a Ramada director, described Ramada’s current practice of investigating those who are holding themselves out as finders, brokers or agents prior to entering into any business relationship with them. This investigation includes a reference and a check of publicly available information.

The Commission does not condone a business relationship with a person having a criminal history such as that of James Ryan. Ramada should be sensitive to the concerns of the Commission and Division in this area. However, after examining all the evidence presented, including the actions of the Board and the termination of Mr. Griffen, Ramada’s relationship with James Ryan and its payment to
him of a finder’s fee do not justify an adverse finding with respect to its present business integrity and good character.

D. Wademan Interest in the Lubik Group Mortgage

An area of concern identified in the Division’s investigative report was the undisclosed interest held by John Wademan in the Lubik Group Mortgage. The Lubik Group is a group of investors headed by Cadillac dealer Michael Lubik, Sr., who, in 1976, acquired an option on the Ambassador Hotel in Atlantic City for $50,000. In January 1977, the Group exercised its option to purchase the property for $900,000, financed totally by a loan from First People’s National Bank, Westmont, New Jersey. The Group sold the property to Stenton Place Associates in June 1978 and took back a mortgage for $5.25 million at 7 percent interest. When the Ambassador property was acquired by Adamar in September 1979, Adamar assumed the remainder of the mortgage ($4.8 million). This mortgage brings the members of the Lubik Group into the ambit of Section 84(b) of the Casino Control Act as financial sources of Adamar. The individual members of the group must therefore be shown to possess a degree of integrity equivalent to that required of the casino license applicant.

At the time of the assumption of the mortgage, the holders of record of the mortgage were Lubik Cadillac, Michael R. Lubik, Albert Baker, Jr., Charles Price, Jacob Fleishman, Elias G. Naame and Donald Kaplan. Albert Baker, Jr., held four shares, or one third of the total.1 In 1976, he had sold one share, or an 8.3 percent interest in the investment, to a John Wademan for $5,000. The transaction was never recorded and was unknown to Ramada at the time of its assumption of the mortgage.

John Wademan was indicted in 1977 in Superior Court, Essex County for conspiracy and loan sharking. Convicted by a jury on May 12, 1978, for conspiracy and for engaging in the business of prohibited loans, he was sentenced to 33 months in jail. It is alleged both in the Division’s investigative report and in the Stipulated Factual Statement of the parties that Mr. Wademan is an associate of Angelo Sica, Richard Boiardo, Ruggiero Boiardo and Joseph Paterno, all reputed members of the Genovese organized crime family.

1The initial cash investment by the Lubik Group was limited to the $50,000 option price. That investment was divided into 12 shares. One free share went to Michael R. Lubik for constructing the deal and another free share was given to Elias Naame, Esquire, for his legal and financing assistance. The remaining ten shares were purchased for $5,000 each.
Adamar learned of Wademan's interest in the Lubik Group mortgage and his criminal background by means of a letter dated November 5, 1981, from Robert Sturges, then Deputy Director, Investigations, of the Division of Gaming Enforcement. Adamar thereupon filed suit against the Lubik Group in the Superior Court, Chancery Division, Atlantic County on November 18, 1981, seeking the establishment of a constructive trust and other relief necessary to eliminate any interest in the mortgage deemed to be undesirable by the Division. The Complaint was amended August 16, 1982. By agreement dated September 30, 1982, Adamar purchased Mr. Wademan's interest outright in the Lubik Group mortgage for a little over $150,000. The remaining members of the Lubik Group agreed not to alienate their shares to any individual or entity to whom the Commission or Division might object.

The parties have stipulated that, in light of the agreement, John Wademan is no longer a financial source and that the objection raised by the Division has been resolved. We are in agreement that this issue has no negative impact on the qualifications of Adamar.

E. The Acquisition and Operation of the Tropicana Hotel and Country Club

In its investigative report, the Division raised several areas of concern with regard to the acquisition and subsequent operation of the Tropicana Hotel and Country Club (Tropicana West) in Las Vegas by two wholly-owned Ramada subsidiaries in December 1979. As developed at the hearing, these issues may be grouped into three categories: "Relationship with Deil Gustafson," "Relationship with the Doumani Family," and "Holdover Employees." Each will be discussed in turn.

1. Relationship with Deil Gustafson

In April 1979, Ramada began negotiations for the purchase of Tropicana West through Howard Johnson, a Ramada director and then head of its Medical Division. The negotiations involved Deil Gustafson and Mitzi Briggs, owners of Hotel Conquistadore, Inc. (HCI) which was the operating company of the Tropicana West. In at least one preliminary negotiating meeting, M. William Isbell was present, along with Joseph V. Agosto, producer of the Folies Bergere show at the Tropicana West, who appeared to speak for Mitzi Briggs. The meeting was short, with the parties far apart on the value of the Tropicana operation. Almost all subsequent meetings involved Ramada officials, Deil Gustafson and his attorney.
During the negotiations, the results of an FBI investigation into alleged skimming operations and hidden control of the Tropicana West by Kansas City elements of organized crime were made public. The FBI had conducted wiretaps of organized crime figures and had filed affidavits relating to those wiretaps in Federal court. The affidavits were unsealed temporarily and became the substance of stories in the press. One article appearing in the May 23, 1979, Las Vegas Sun was entitled: "Affidavit Asserts Mob Got Skim Money from Agosto". The article detailed an affidavit which linked Joseph Agosto to Kansas City organized crime bosses. The affidavit also described Agosto's role in skimming operations at the Tropicana West. Additionally, the article revealed that Mr. Agosto and Del Gustafson were involved in a scheme to manipulate the stock in Eldorado International, Inc., for the purpose of merging with the Tropicana West. Articles appeared in the Las Vegas press and on national wire services in the following month describing the alleged role of Gustafson and Briggs as fronts for the Kansas City criminal syndicate and Joseph Agosto's coordination of the skim at the Tropicana West.

Ramada officials were aware of the adverse publicity concerning Gustafson, Briggs, Agosto and the operations at the Tropicana West. Prior to the newspaper disclosures concerning the Tropicana West and its principals, Gustafson, Briggs and Agosto, an unsigned letter of intent was written to HCI from Mr. Isbell dated May 14, 1979, detailing the terms of the purchase by Ramada as contemplated by the parties. It contained a provision for submission of any proposed material changes in the operation of Tropicana West to HCI for its approval. Such approval power by former owners is common where, as in this case, the purchase price is to be determined by an earn-out formula applied to earnings generated by Ramada's future operation of the Tropicana West. A second letter of intent dated June 14, 1979, and signed by Mr. Isbell, Mr. Gustafson and Ms. Briggs, again outlined the basic terms for their anticipated transaction. Again, a "veto power" to HCI over operational changes was provided, with the provision that such approval could not be unreasonably withheld. This agreement was signed after the allegations concerning the or-

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The formula calls for Ramada's subsidiary, Hotel Ramada of Nevada, Inc. to pay "an amount equal to five times two-thirds of the net pre-Federal income tax earnings for the period commencing the 13th full calendar month after closing (December 7, 1979) and ending at the expiration of the 30th month, less $6,500,000".
ganized crime connections and skimming activities of Agosto, Gustafson and Briggs had been disseminated in the press.

The final written agreement for the sale of the Tropicana West was executed by the parties on June 29, 1979. It did not contain the provision for prior approval by HCI of proposed material changes in operations. Grant Sawyer, Esq., retained by Ramada on June 14, 1979, as counsel for purposes of the Tropicana West acquisition, testified that he had stricken the "veto" provision from the first draft of the agreement which embodied the terms set forth in the June 14, 1979, letter of intent. Mr. Sawyer stated that he had explained to Ramada that the provision granting such control could not be included in the agreement under Nevada law unless Gustafson and Briggs were licensed by Nevada gaming authorities. If the parties attempted to permit such control without licensure, they would violate both Nevada gaming laws and regulations as well as Nevada penal law. Mr. Sawyer opined that the parties simply had not "thought it out very well" in view of the considerable difficulties Briggs and Gustafson were experiencing in connection with their licenses. Mr. Sawyer's advice was confirmed by Mr. Isbell's testimony.

The Nevada Gaming Control Board staff was kept apprised of Ramada's activities during the transition period between the execution of the agreement of sale on June 29, 1979 and closing on December 7, 1979. Ramada executives testified that they were advised by the Nevada gaming officials to limit their contacts with Gustafson to "strictly business" and not to enter into a social relationship with him. However, Howard Johnson, the person with primary responsibility for negotiating the purchase on behalf of Ramada, had developed and continued to maintain a personal relationship with Mr. Gustafson and Ms. Briggs.

On July 13, 1979, a formal complaint was filed against HCI Gustafson and Briggs by the Nevada Gaming Control Board. It sought revocation of their Nevada gaming licenses based on alleged violations of Nevada gaming regulations. The complaint was based on allegations that Joseph Agosto had a hidden role in the operations of Tropicana West without his licensure as a "key employee." The information in the complaint was derived from the Federal affidavits. On November 14, 1979, the complaint was settled when Briggs and Gustafson voluntarily surrendered their gaming licenses.

In October 1979, William Isbell met with Howard Johnson and Deil Gustafson at the Valley Ho Hotel in Nevada. Mr. Isbell testified that Mr. Johnson had asked him to pick him up for breakfast. When
Isbell arrived, Gustafson was in Johnson's hotel room, to the surprise and displeasure of Mr. Isbell. The discussion concerned Gustafson's insistence that the parties had made a side deal for Gustafson to have a "veto" over operational changes as set forth in the original term sheet. Mr. Isbell recalled that he resisted Mr. Gustafson's arguments by explaining to him that Ramada would treat him fairly and "live up to the letter of the contract, and that's it". Mr. Isbell also promised to listen to any ideas which Mr. Gustafson might have. Further, Mr. Isbell testified he believed the meeting was "somewhat of a setup" by Howard Johnson in order to force Mr. Isbell into accepting the side deal Johnson may have made with Gustafson.

Ramada received its gaming license to operate the Tropicana West from the Nevada Gaming Commission on November 15, 1979. As a condition of licensure, Howard Johnson was prohibited from any involvement with Hotel Ramada, Inc., the operating company, until his licensure as a director for the licensee was approved by the Commission. His license application was severed from that of Ramada. He then stepped down as a director of Hotel Ramada, Inc. after Nevada authorities raised questions about his alleged ongoing personal relationship with Deil Gustafson. Johnson had denied the relationship but failed to sign an affidavit to that effect at the request of the Nevada authorities. Johnson later withdrew his license application.¹

Ramada executives denied throughout the hearing that any side agreement was made by Ramada or that any veto was granted to or exercised by HCI or Mr. Gustafson. The Division has stipulated to the fact that they have found no evidence that Gustafson has been permitted to exercise any personal control in the Tropicana West since Ramada's acquisition on December 7, 1979.

Mr. Gustafson, however, has pursued his claim for an approval power. After Ramada assumed ownership of the Tropicana West, Mr. Isbell was approached by Mr. Gustafson in Las Vegas and they briefly discussed ways that Mr. Gustafson could communicate his ideas on the Tropicana West operation to Ramada officials. Mr. Isbell, sensitive to the improper appearance conveyed by any Ramada staff member meeting with Mr. Gustafson, had a memorandum written by Joseph Loveland outlining what contact with Mr. Gustafson was permissible. Dated January 8, 1981, the memo lists the governmental

¹Johnson ceased to be a director of Ramada in May 1980 and severed all association with Ramada in December 1980.
investigations of Mr. Gustafson, the loss of his Nevada gaming license, the warning made by the Nevada Gaming Control Board to limit contact with Mr. Gustafson, the adverse publicity concerning alleged gaming improprieties and the upcoming licensing hearing in New Jersey. In light of those considerations, it advised that there should be no meetings between Ramada executives and Gustafson. Notwithstanding, it notes that Mr. Gustafson was still entitled to be supplied with certain information under the purchase agreement and that Ramada would be "pleased to consider any suggestions that Gustafson may have with respect to the operation of the Tropicana Hotel, including Casino operations".

Mr. Isbell was then sent a March 19, 1981, letter from Bertram Fields, Esq., representing HCI, which demanded that the alleged approval right promised to his clients be honored by Ramada. Ramada declined to do so. There remain other Ramada contacts with Gustafson. The terms of the purchase agreement imply that Ramada supply certain financial information concerning the Tropicana West operation to HCI by virtue of a future earn out formula. From May 1980 to mid-1981, Mr. Gustafson asked and received, by authority of Gerard Hallier (then head of hotel operations at the Tropicana West), a "City Ledger Account" at the country club attached to the Tropicana West. No irregularities were found in connection with the account. Mr. Gustafson also was provided with an office at the country club at the Tropicana West for the purpose of collecting markers outstanding and due to HCI.

The parties have now resorted to the courts to resolve the various disputes which have arisen out of Ramada's purchase of the Tropicana West operation from HCI. In the answer and cross-claims filed in

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*There is no express provision in the purchase agreement for the supplying of information to the sellers—HCI, Gustafson and Briggs. However, such a requirement is implicit in order that the sellers might reasonably calculate and, if necessary, dispute the earn-out computation. Information reasonably expected to be exchanged would be unaudited financial statements containing gross revenues, any priority disbursements or advances for seller's obligations. The agreement provided that all outstanding markers of the sellers be delivered to Hotel Ramada, Inc. at closing or soon thereafter. The sellers could, by written instruction, settle any marker for less than the face amount. The proceeds therefrom, minus fees and taxes, would be applied by the buyer to the sellers' obligations to Ed and Fred Doumani ($3 million) and the First National Bank of Nevada ($1 million).*
litigation pending in United States District Court, District of Nevada, HCI and Gustafson continue to claim an oral agreement was made with Ramada for an HCI veto over operational changes at the Tropicana West. Additionally, Gustafson seeks money damages or, in the alternative, a revocation of the sale agreement. We would note at this juncture that the only evidence concerning Mr. Gustafson's alleged "veto" power consists of his own assertions, either in meetings, through counsel or in the litigation. No such power is contained in the final purchase agreement which governs the transaction. Neither that document nor the actions of Ramada management would provide us with any reason to presume that power exists.

The Commission has considered this evidence in some detail because of its concern when any casino license applicant or related person or entity has dealings with persons deemed to be of "questionable background." See, In the Matter of the Applications of Great Bay Hotel and Casino Inc. and Americas-New Jersey Management, Inc. for Plenary Casino Licenses, Docket No. 82-CL-3 (1982) at 13. Such dealings could have an impact on the applicant's showing of good character, honesty and integrity required under Sections 84(c) and 89(b)(2). See, In Re Application of Boardwalk Regency Corp. for Casino License, 90 N.J. 361 (1982). It must be noted, however, that Ramada opened and maintained a line of communication with Nevada gaming authorities in its takeover of the Tropicana West. Testimony by Ramada officials shows that from the entry of the corporation into Nevada gaming, through the takeover transition period, they sought the advice of gaming authorities on how to deal with individuals who were alleged to have unsavory reputations. Indeed, the testimony shows that Nevada authorities welcomed Ramada, a publicly owned company, as an alternative to the HCI group.

While we make no findings as to either Mr. Gustafson's character or his reputation, it is clear from all the testimony and other evidence that Ramada executives understood that they should be very careful in any associations with Mr. Gustafson. That caution, while laudatory, is not as effective as explicit guidelines or conditions on contact with Deil Gustafson.

We have therefore determined that conditions shall appear in the Resolution which shall be issued in this matter to limit any further contact between Ramada and Mr. Gustafson. Absent express approval by this Commission, contact between Mr. Gustafson and Ramada shall be limited to that which is necessary to effectuate the legal and contractual responsibilities which emanate from the
purchase agreements for the Tropicana West and the litigation between the parties resulting therefrom. The Commission shall be kept apprised of these contacts as well as of all developments in the litigation. Additionally, no settlement may be entered into the litigation without the prior approval of the Commission. With those conditions in place, we find no grounds to make any adverse findings on Ramada's character or integrity based upon the evidence of Ramada's relationship with Deil Gustafson and HCI.

2. Relationship with the Doumani Family

Along with the purchase of the assets of HCI, Ramada, through its subsidiary, Adamar of Nevada, Inc., acquired a 50 percent ownership in the underlying real estate and buildings of the Tropicana West complex by purchasing the partnership interest in Tropicana Enterprises held by the Doumani family. The Tropicana West complex consists of the hotel, the casino and the country club, with a golf course and tennis facilities. At the time of the Tropicana West purchase, Tropicana Enterprises, a partnership, consisted of two family groupings: the Jaffe family and the Doumani family.

In connection with its license renewal by this Commission, another casino licensee, GNAC Corp., was requested to demonstrate the qualifications of Edward Doumani pursuant to Sections 85(d) and 89. In that proceeding, the Division raised questions regarding Mr. Doumani's suitability. Mr. Doumani and GNAC have requested a hearing on those qualifications. In light of those facts, we feel it is important to look closely at the evidence concerning Ramada's transactions with the Doumani family.

Originally, Ramada sought to purchase the entire partnership, which owned the Tropicana West property, but the Jaffe family was not interested in selling their share of the partnership. Negotiations were then conducted between Ramada executives, including Thomas Martin, and Edward and Fred Doumani, along with their respective attorneys.

Thomas Martin testified that Ramada was in close contact with Nevada Gaming Control authorities during these negotiations and that their staff approved the purchase.

An agreement was reached on July 25, 1979, in which the Doumani share of the partnership interest was acquired for a little over $34 million in cash, notes and assumption of some partnership liabilities. Pursuant to the agreement, three notes were executed on December 1, 1979. Each was accompanied by a security agreement
and a guarantee of indebtedness by Ramada. The first note was for $3.9 million payable in two installments. The second note provided for an obligation of approximately $20.7 million, to be paid in four annual installments commencing January 1982. The final note to the Doumanis was in the amount of $453,098.

The security agreements relating to each debt provide that the notes are secured by the partnership interest in Tropicana Enterprises. In the event of default, the Doumani family would regain the partnership interest conveyed to Adamar of Nevada, Inc. In effect they would resume their 50 percent interest in the real estate and structures which house the Tropicana West and assume the role of landlords to Hotel Ramada, Inc.

The first note for $3.9 million has been paid off. The outstanding obligations to the Doumani family now total approximately $18 million. All payments to date have been made in a timely fashion. Thomas Martin testified that Ramada and Adamar of Nevada, Inc. have made budgetary provisions for the payment of future installments and there are no present plans to request an extension of any payments due under these notes.

Ramada officials did discuss with the Doumanis in late 1981 the possible deferral of $4 million of the installment payment due to the Doumanis in January 1982. The discussion took place through counsel. The Doumanis had agreed to the delay but Ramada later elected not to defer. This deferral appeared to be tied to a proposed agreement to settle the previously mentioned litigation between HCI, Production and Leasing, Inc., an HCI creditor, and Ramada. Production and Leasing filed suit on February 25, 1981, in U.S. District Court against HCI, Ramada, Deil Gustafson, M. William Isbell, Howard Johnson and the Nevada Gaming Commission. In its complaint, it alleged breach of its agreement of sale for the "Folies Bergere Show" to HCI and its subsequent assignment of rights to Ramada. Both Ramada and HCI have filed answers, cross appeals and third party claims alleging breaches of the agreement to purchase the Tropicana West. The proposed settlement would have resolved disputes over all HCI creditor claims as well as the conflict over the earn-out formula. The Doumanis were receivers of "marker monies" under the purchase agreement. Those receivables, tied up in creditor litigations, were to have been released under the proposed settlement. Ed Doumani was involved in those settlement talks.

Mr. Martin testified that, to his knowledge, neither Ramada nor any of its subsidiaries have any other business dealings with the
Doumani family. Under the present agreements with Adamar of Nevada, Inc., the Doumanis have no voice in the operation of the Tropicana West nor are they entitled to receive any information concerning its operation. The Doumanis do visit the Tropicana West on a regular basis. Mr. Martin characterized these visits as purely social, for example, to eat in the Gourmet Room.

A review of all the evidence presented on this issue does not give us cause to doubt that the conduct of present Ramada officials was proper or that their contacts with the Doumanis were limited to those necessary to transact a business arrangement. It should also be noted that once again, as in the case of Mr. Gustafson, Ramada kept in touch with Nevada gaming authorities with regard to its purchase of the Doumani share of Tropicana Enterprises.

Nevertheless, unless carefully restricted, there is potential for control and influence over Ramada and its subsidiaries by the Doumani family. Our concerns are with the substantial financial obligations owed to the Doumanis, guaranteed by Ramada, and the possible reversion of the partnership interest in Tropicana Enterprises to the Doumanis upon default under the security agreements. As 50 percent partners in the real estate and as landlords to Hotel Ramada, Inc., the Doumanis could be in a position of considerable influence over the operations of the Tropicana West. The fact that Ramada negotiated a deferral of a payment to the Doumanis, even if such deferral did not ultimately take place, is further indication of the opportunity for control and influence. Therefore, we feel it is appropriate that limitations be placed on Ramada's relations with the Doumanis. Subject to these limitations, the Commission will not now find the Doumanis to be persons required to qualify under Section 85(d) of the Act.

Conditions will therefore be set forth in the Resolution which will issue in this matter to limit Ramada's contacts with the Doumani family. At a minimum, those conditions will require that all payments due the Doumanis under the notes or agreements will be made on a timely basis through an institutional trustee. The trustee shall make appropriate reports to the Commission and the Division. Moreover, absent express approval by this Commission, Ramada may have only such contact with the Doumani family as is necessary to execute any legal or contractual responsibilities arising from the agreements and notes and such contact must be immediately reported to the Commission and the Division.
3. Holdover Employees

During the hearing, there was extensive testimony presented in regard to Ramada's operation of the Tropicana West. Allegations concerning the skimming operation under HCI management of the Tropicana West had raised concerns about a continuation of that practice by supervisory casino employees (known as "holdover employees") who remained after Hotel Ramada assumed operations. Those problems were further exacerbated by the fact that there was little, if any, transition period from HCI to Hotel Ramada control. Therefore, we feel it is appropriate to consider these assertions and their possible impact on the business ability and integrity of Ramada.

After the signing of the agreement with HCI, Ramada dispatched teams of auditors, investigators and casino operation personnel to Las Vegas to observe the operation, develop systems (more particularly, internal controls) for Hotel Ramada's future management and to plan and coordinate the takeover itself.

During the June to December 1979 period, Ramada addressed the problem of holdover employees by developing a system for background investigations and evaluations of the employees. This system was also to be applied to prospective employees once the takeover took place. The procedure was developed by Loren Newland, Ramada's Director of Loss Prevention, under the direction of Thomas Martin.

The investigations began with those in key positions at the top of the managerial hierarchy and proceeded down to those with less responsibility. Inquiries included police record checks, employment and personal credit references, credit records, government sources and neighborhood interviews. There were two or three investigators assigned to these employee investigations. Because of the large number of employees involved, review of all holdover employees was not completed by December 7, 1979. In testimony, Ramada executives cited statistics indicating substantial turnover in personnel in general management and casino operations since Ramada's takeover. A number of key positions were designated to be filled by Ramada appointees regardless of the results of the background investigations by virtue of their critical importance in the operation of the Tropicana West.

Other areas of Tropicana West's operations were reviewed during this period, including casino operations, the audit department, surveillance and service contracts.
Much attention at the hearing was focused on the "Matison memo". That memorandum, dated September 27, 1979, is an analysis of the alleged skimming activities at the Tropicana West. That analysis was based on a review of the affidavits from the FBI investigation. The memorandum made a number of suggestions for preventive measures to be taken by Ramada. It appears from all the evidence submitted that Ramada executives both anticipated Mr. Matison's suggestions within the context of their investigative and operational review and that they incorporated his recommendations in their activities.

There remain some problems with the management of the Tropicana West. Tropicana West has not been a profitable operation for Ramada. There was an alleged scam at one of the blackjack tables on July 16, 1981, which resulted in between $120,000—130,000 in winnings to the perpetrators. Three employees were terminated as a result of that incident.

Another concern to the Commission is the current employment at the Tropicana West of Gandolph Ascuito as a floorperson. Mr. Ascuito was denied a casino employee license by Commission Order dated October 1, 1980. The grounds of the denial were Mr. Ascuito's failure to demonstrate by clear and convincing evidence his good character, honesty and integrity. See, In the Matter of the Application of Gandolph Ascuito for a Casino Employee License, Docket No. 79-EA-9 (1980). There was also evidence presented at Mr. Ascuito's hearing concerning his involvement with organized crime elements in Buffalo and Rochester, New York, in gaming related activities. (Ibid.). After having been apprised of Mr. Ascuito's background and this Commission's actions concerning his licensure, Ramada's continued employment of him at the Tropicana West may indicate a questionable judgment in safeguarding the integrity of casino operations. Nonetheless, the mere retention of this one individual as a floorperson does not reveal a disregard for regulatory concerns or an inability to effectively manage casino operations.

In its summation, the Division did not perceive any of these issues sufficient to warrant denial of a license to the applicant. After considering all the evidence submitted, the Commission agrees. While Ramada may have had dealings with suspect individuals and may have engaged in certain improprieties, i.e., the liquor rebates, the Commission is convinced that the present corporate personnel are possessed of the requisite character. This finding is due in large part to the resignation or termination of the individuals involved in many of
those associations or practices and to the positive attitude displayed by the Ramada management toward regulatory directions concerning the former owners of the Tropicana West. On the whole, and subject to scrupulous compliance with the conditions outlined above, we see no cause to question the integrity of the applicant.

III. MANAGEMENT ISSUES

A. Cost Overruns and Delays in the Construction of the Atlantic City Facility

Ramada had initially attempted to enter the gaming field in Atlantic City through renovation of the Ambassador Hotel into a 546 room casino hotel at a cost of $80 million. Ramada's petition for approval of its design and construction plans was unanimously rejected by the Commission on May 8, 1978. It submitted a revised plan which included salvaging the original steel framework from the Ambassador at an estimated cost of $139 million and, on August 2, 1979, that plan was approved by the Commission. The final cost for the entire project is estimated to be between $330 and $339 million.

Some increase in the cost of the project and the subsequent delay in opening was attributable to the Commission's denial of the original proposal. However, the problems faced by the applicant in the construction of the project had many sources. Because some of the problems resulted in part from Ramada's management of the project, the evidence presented on this issue warrants closer examination by us.

Contrary to engineering reports, the Ambassador's steel superstructure needed substantial repair and reinforcement. Ramada's management also initiated a number of design changes. These included the addition of a theatre (incomplete as of this date), and the enlargement of the showroom and ballroom to cater to a more affluent market. Ramada also used "fast-track" rather than regular construction. With the fast-track approach, construction takes place while architects are still designing portions of the project.

In order to handle a project of this magnitude, Ramada hired William C. Crow Construction ("Crow") as its construction manager for overall on-site supervision of the project. Crow was responsible for, among other things, the provision of field offices and services, as well as the coordination and maintenance of project records, including cost models and project management schedules. Crow provided periodic reports to Adamar and Ramada management.

Ramada did not quickly recognize Crow's shortcomings as a
construction manager. This was in part a result of the acquisition of the Tropicana West and the demands that project made on Ramada's management personnel. Finally in July 1981, in response to excessive project delays and overruns, Ramada hired Hill International, Inc. ("Hill"), a construction consulting firm. Hill was to provide Ramada with an evaluation of the project's current status and an estimate of completion cost and completion date. It was also to assist on-site personnel with completion of the project and resolution of claims. Hill's final evaluation of Crow concluded that the company would not meet its project schedule nor could it provide necessary site supervision and management. The Hill investigation cited the excessive time spent repairing the deteriorated steel structure, incomplete design and structural drawings due to the fast track construction method, and Ramada's design changes throughout the period of construction as factors contributing to project delays and rising costs. They also noted the general inadequacy of Crow's performance. Hill assumed overall responsibility for the project in the late summer of 1981 and submitted periodic reports to Ramada's Board of Directors up until completion of the project in November 1981.

Ramada has not denied that mismanagement occurred in connection with the construction of the Atlantic City project, but claims that it had a right to rely on the management ability of Crow. Ramada asserts that it was either not alerted to or was unable to control the problems as they worsened. Nevertheless, Ramada management remains accountable for overseeing the construction of the project. In part, as a result of the problem with construction of the Atlantic City facility, M. William Isbell resigned as Chairman of the Board, President and Chief Executive Officer of Ramada effective August 19, 1981. Ramada management personnel, both on site prior to September 1981, and in Phoenix have resigned or been moved out of direct operating responsibilities. Derivative and class action shareholder suits have been filed alleging mismanagement of the Atlantic City project resulting in delays and overruns.

The Commission is disturbed by the problems which resulted from Ramada's own actions and the lack of communication evident between project personnel and Ramada management and Ramada's executives and the Board of Directors. There have been personnel changes in top management at Ramada, most notably the installation of Richard Snell as Chairman and Chief Executive Officer to replace Isbell. Both Mr. Snell and Mr. Martin, Ramada's highest ranking financial officer, have represented to the Commission that methods
of communicating information to the Board have undergone a change for the better.

The Commission is aware that Ramada has learned hard lessons from the construction of the Atlantic City project. We are encouraged by the increased interest and scrutiny displayed by Ramada's Board. With a more active Board and open lines of communication between Ramada's directors and its management team, the occurrence of these problems in the future can be avoided. With those provisos, we find that this issue does not so negatively reflect on the present business integrity and ability of the applicant as to deny qualification.

B. Operational Problems at the Atlantic City Tropicana Hotel and Casino

Both the Division's operational review (D-86) and the report of the Commission's Division of Financial Evaluation and Control revealed serious problems in the operation of the Applicant's Atlantic City casino since its opening on November 26, 1981. Such operational failings go to the Applicant's proofs establishing its business ability and the likelihood of its maintenance of a successful, efficient casino operation in Atlantic City. N.J.S.A. 5:12-84(d).

Management turnover and experience was specified as a problem area. Adamar has lost or replaced seven executives since opening, including its president and general manager, Clyde Richard Cook. Adamar has only recently filled the critical position of vice president of casino operations, vacant since the resignation of Louis Cavaricci on November 4, 1981. Additionally, the vice presidents for finance and for marketing have no prior casino hotel experience. Although Ramada and Adamar executives maintain that experience in other business areas can be transferred to the gaming marketplace, they admit to a slow learning process for their operational people. With relatively recent personnel changes, it is difficult to judge what the effect may be on Tropicana's relatively poor showing in comparison to the remaining Atlantic City casinos.

Adamar has experienced low patron play in the table games. This is attributable in part to its low credit policy. Adamar executives testified that its credit policies are being evaluated and that credit play, increasing since May 1982, will increase as will credit lines of existing players. The facility has limited meeting and exhibition space and has never offered headline entertainment. However, efforts to encourage junket activity have increased, both here and abroad.

Slot activity, although on the increase, has generated other prob-
lems. The biggest problems were a result of an early summer bus coupon program. First day traffic tie-ups caused extensive delays for passengers loading and unloading and generated passenger ill-will. Patrons were advised by Tropicana employees and bus personnel that coupons would be honored beyond the expiration date. When the coupons were not honored, a significant number of patron complaints were filed with the Commission and more patron ill-will was generated.

With respect to compliance with accounting and internal control regulations, both the Commission and Division staff reports allege deficiencies in general areas, including certain procedures at the gaming tables, voiding procedures, some inventory discrepancies and a higher than average number of equipment deviations. Compliance with the strict internal control regulations of New Jersey is paramount to the maintenance of public confidence and trust in the credibility and integrity of the regulatory process and casino operations.

Adamar's president, John Chiero, admitted to all of the problems cited in the staff reports. He testified that he and his staff have endeavored to be responsive to any problems brought to their attention by either the Commission or the Division. To remedy the material deviations already highlighted in the reports, Adamar has proposed a mandatory, continuous education and training program for all casino, accounting and security employees. The program is intended to give employees who work directly with the internal control procedures a thorough knowledge of those procedures. The program has been favorably received by both Commission and Division staff.

In light of the response of management to rectify problem areas through training, vigilance to the regulatory scheme and cooperation with the Commission and Division, conditions to compel compliance appear unnecessary at this time. This Commission expects that the management of the Tropicana in Atlantic City will continue to institute procedures which will contribute to the efficient and secure running of the casino.

In view of all the evidence presented to the Commission, we find that the management difficulties raised in the hearing do not require an adverse finding with respect to the business ability and casino experience of the present management of Ramada and Adamar.

IV. FINANCIAL QUALIFICATIONS

Most of the testimony at the hearing was directed to the financial status of the applicant. The reports of the Division and the Com-
mission's Division of Financial Evaluation and Control raised concerns about the ability of Ramada and Adamar to demonstrate their financial stability as required by section 84(a). In its summation, the Division suggested that the licensure of Adamar and Ramada be conditioned:

...in such a way that would allow the Commission and Division staff [sic] to closely monitor the financial stability of the applicant.

In order to determine if such a condition is necessary or appropriate, we will review the evidence presented at the hearing.

The delays and cost overruns resulting from the construction of the Atlantic City facility served as a drain on the resources of both Ramada and RHOC. In order to fund the project, the Medical Division of Ramada was sold in December 1980, and a number of short-term credit agreements were executed with a consortium of banks, led by Continental Illinois National Bank and Trust of Chicago.

The first loan in February 1980, ("Ramada loan") consisted of two revolving credit agreements for $70 million and $40 million. The $40 million debt was secured by Ramada's portfolio of preferred stock and carried an interest rate of 1/4 of 1 percent above the prime rate. The $70 million line of credit was secured by a mortgage on the Atlantic City Tropicana and had an interest rate calculated at 110 percent of prime. This latter agreement was amended in May 1981 to provide an additional $40 million in available credit. The second loan ("RHOC loan") was negotiated in October 1981, after the true extent of the construction problems in Atlantic City became known. The agreement was for a $55 million non-revolving credit agreement, at 115 percent of prime, secured by first and second liens on RHOC's domestic hotel properties. As a requirement for obtaining this loan, Ramada was required to transfer all its stock in Adamar to RHOC and to repay its $40 million revolving loan by December 31, 1981. Ramada was forced to sell its preferred stock portfolio at a pre-tax loss of $34.7 million.

The impact of this heavy burden of short-term outstanding debt and large interest payments is primarily felt in the company's cash flow. Coupled with the recession, Ramada is in what was characterized by its chief financial officer as a "tight cash position."

Ramada and its subsidiaries have experienced losses in 1981 and expect to sustain an overall loss in 1982. Ramada executives attribute
the losses to the effects of the economic downturn on the hotel and gaming business, the increase in interest expenses and the expenses incurred by the Atlantic City operation. Thomas Martin, in his testimony, also admitted that Ramada's financial projections for 1982 were overly optimistic.

At the hearing, Ramada senior management and advisors presented their strategy to alleviate these short-term liquidity problems and realign Ramada's debt to equity ratio. The key to this plan is the restructuring of the short-term obligations owed to the Continental Illinois bank consortium. Thomas Martin and George Hartman, Vice President of Bankers Trust Company, outlined the terms that have been agreed upon for consolidation of the present Ramada and RHOC loans, the extension of repayment, and the infusion of up to $40 million in additional credit.

In order to meet its obligations under the restructured loan agreement, Ramada has scheduled the sale of a number of its hotel properties. This will have the effect of reducing Ramada's overall debt, improving its debt to equity ratio as well as its short-term profits. The sale of these properties is designed to tap the unrealized appreciation of those properties. That appreciation, under standard accounting methods, is not reflected in Ramada's balance sheet.

Ramada is also prepared to cut back capital improvement expenditures if property sales do not meet expected levels. That plan cannot be relied upon for more than short-term relief without impairing the overall performance of the company.

Ramada also presented testimony on its future financing plans. James Schneider, a vice president in the investment banking firm of Drexel Burnham Lambert, Inc., testified as to his involvement in developing long-term financing for Ramada through the use of debt exchange offers and the generation of new cash with a future equity offering. Mr. Schneider opined that the unrecognized appreciation of Ramada's hotel properties, its cash flow, the restructuring of the bank debt and its access to public markets through its debt issues and stock make Ramada financially stable.

It is clear from the evidence presented on the financial and management issues that the future viability of the applicants in this case is dependent upon the success of the financial plans outlined at the hearing. These issues are of grave concern to this Commission. The granting of a plenary license to the applicant has been made a condition of the financial restructuring agreement. In recognition of the critical importance that this financial plan plays in the stability
of Ramada and Adamar, as well as our concern for the continued financial stability of Ramada, certain monitoring conditions are appropriate and necessary. Those monitoring conditions are set forth in the Resolution accompanying this Opinion. They have been drafted to provide satisfactory controls to meet our concerns without unduly burdening Ramada.

They include the formation of a Finance Committee within Ramada's corporate structure. The Committee will meet on a regularly scheduled basis and will entertain a detailed agenda concerning the present and future financial status of both Ramada and Adamar of New Jersey. The Committee will report to both the Board of Directors and the Commission on a variety of topics relating to the financial status of the company. Additionally, minutes of the Committee's meetings will be supplied to the Commission and shall be approved by the Board of Directors.

The Audit Committee of the Board of Directors shall prepare and submit to the Commission an annual audit plan for the corporation. Finally, Ramada shall report immediately to the Commission any breach or renegotiation of the terms or covenants of its recently restructured debt obligations.

V. CONCLUSION

The Commission is satisfied that Ramada, RHOC and Adamar have met all applicable statutory requirements. Accordingly, a plenary license shall issue to Adamar of New Jersey, Inc. as manager of the Tropicana Hotel and Casino, subject to strict compliance with the conditions referenced herein and set forth in the formal license Resolution regarding this matter, which is numbered 82-371.

You must check the New Jersey Citation Tracker in the companion looseleaf volume to determine the history of this case in the New Jersey courts.