

# Dillon Read & Co. Inc. & The Aristocracy of Stock Profits

Catherine Austin Fitts

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# Why I Wrote This Story

I made the decision to write “Dillon, Read & Co. Inc. and the Aristocracy of Stock Profits” in the middle of a vegetable garden in Montana during the summer of 2005. I had come to Montana to develop a venture capital model to support a healthier, fresher local food supply. If we want clean water, fresh food, sustainable infrastructure, and healthy communities, we are going to have to finance and govern these resources ourselves. We cannot invest in the stocks and bonds of large corporations, banks and governments that are harming our food, water, environment and all living things and then expect these resources to be available when we need them.

Surviving and thriving as a free people depends on creating and transacting with currencies and investments other than those printed and manipulated by Wall Street and Washington to the eventual end of our rights and assets.

What I found in Montana, however, was what I have found in communities all across America. We are so financially entangled in the federal government and large corporations and banks that we cannot see our complicity in everything we say we abhor. Our social networks are so interwoven with the institutional leadership — government officials, bankers, lawyers, professors, foundation heads, corporate executives, investors, fellow alumni — that we dare not hold our own families, friends, colleagues and neighbors accountable for our very real financial and operational complicity. While we hate “the system,” we keep honoring and supporting the people and institutions that are implementing the system when we interact and transact with them in our day-to-day lives. Enjoying the financial benefits and other perks that come from that intimate support ensures our continued complicity and contribution to fueling that which we say we hate.

Standing among the beautiful vegetables and flowers that Montana summer day, I was facing the futility of trying to craft investment solutions without some basic consensus about the economic tapeworm that is killing us and all living things — while we blindly feed the

worm. In a world of economic warfare, we have to see the strategy behind each play in the game. We have to see the economic tapeworm and how it works parasitically in our lives. A tapeworm injects chemicals into a host that causes the host to crave what is good for the tapeworm. In America, we despair over our deterioration, but we crave the next injection of chemicals from the tapeworm.

With this in mind, I decided to write “Dillon Read & Co Inc. and the Aristocracy of Stock Profits” as a case study designed to help illuminate the deeper system. It details the story of two teams with two competing visions for America.

The first was a vision shared by my old firm on Wall Street — Dillon Read — and the Clinton Administration with the full support of a bipartisan Congress. In this vision, America’s aristocracy makes money and finances the building of a global empire one neighborhood at a time by ensnaring our youth in a pincer movement of drugs and prisons. Middle class support for these policies is created through a steady and growing stream of government funding and contracts for War on Drugs activities at federal, state and local levels. This consensus is made all the more powerful by the gush of growing debt and derivatives used to bubble the housing and mortgage markets, manipulate the stock and precious metals markets and finance trillions missing from the US government in the largest pump and dump in history — the pump and dump of the entire American economy. This is more than a process designed to wipe out the middle class. This is genocide — a much more subtle and lethal version than ever before perpetrated by the scoundrels of our history texts.

This case study provides a detailed example of the financial kick-back machinery that makes the process go. It works something like this. A group of executives and investors start a company. Rather than build a business the old fashioned way, company profits are pumped up with government legislation, contracts, regulation, financing, subsidies and/or enforcement. This dramatically increases the value of the company’s financial equity. The company and its initial investors then sell their stock at a profit. Such profits replenish contributions made to the kind of politicians who can arrange such government benefits. Such profits also fund philanthropy to foundations and universities that have large endowments that invest

along side the investors. These tax-exempt organizations provide graduates to staff positions in the game, intellectual justification to attract popular support and photo opportunities which bestow legitimacy and social stature. Personnel cycle through the management and boards of business, government and academia, as the real economy declines — the environment deteriorates, productivity falls, income and infrastructure decline — and government deficits grow.

The second vision was shared by my investment bank in Washington — The Hamilton Securities Group — and a small group of excellent government civil servants and appointees who believed in the power of education, hard work and a new partnership between people, land and technology. This vision would allow us to pay down public and private debt and create new business, infrastructure and equity. We believed that new times and new technologies called for a revival that would permit decentralized efforts to go to work on the hard challenges upon us — population, environment, resource management and the rapidly growing cultural gap between the most technologically proficient and the majority of people. We believed that private and public capital should flow to that which was most economically productive rather than be mixed in a complex cocktail of insider deals designed to hollow out the American economy and culture.

My hope is that “Dillon, Read & the Aristocracy of Stock Profits” will help you to see the game sufficiently to recognize the dividing line between two visions. One centralizes power and knowledge in a manner that tears down communities and infrastructure as it dominates wealth and shrinks freedom. The other diversifies power and knowledge to create new wealth through rebuilding infrastructure and communities and nourishing our natural resources in a way that reaffirms our ancient and deepest dream of freedom.

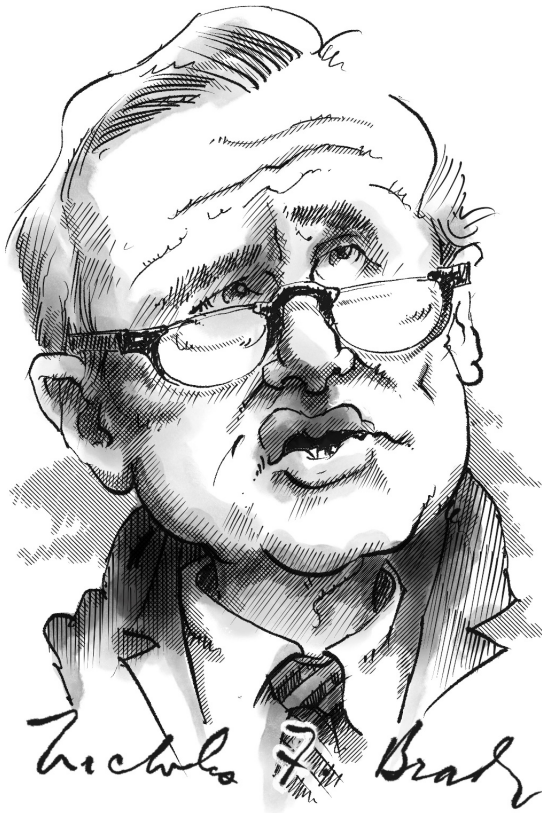
My hope is that as your powers grow to see the financial game and the true dividing lines, you will be better able to build networks of authentic people inventing authentic solutions to the real challenges we face. My hope is that you will no longer invite into your lives and work the people and organizations that sabotage real change. If

enough of us come clean and hold true to the intention to transform the game, we invite in the magic that comes in dangerous times.

Yes, there is a better way and, yes, we can create it.



## Brady, Bush, Bechtel & “the Boys”



I remember when John Birkelund first came to Dillon Read in 1981 to serve as President and Chief Operating Officer.<sup>1,2</sup> Dillon was a small private investment bank on Wall Street with a proud history and a shrinking market share as technology and globalization fueled new growth. I had joined the firm three years before and, after a period in corporate finance, had migrated to the Energy Group — helping to arrange financing for oil and gas companies who were clients of Birkelund’s predecessor, Bud Treman. Bud was a member of the old



*The partners' entrance to Dillon Read's offices on Wall Street at 46 William Street. Courtesy Robert Gambee and his book Wall Street.*

school — an ethical man increasingly frustrated with the corrupting influence of hot money and easy debt.

This was a time of transition. Dillon's Chairman, Nicholas F. Brady, was considered one of George H. W. Bush's most intimate friends and advisors. Both attended Yale, both were children of privilege. Bush had left his home in Greenwich Connecticut and with the help at his father's networks at Brown Brothers Harriman had gone into oil and gas in Texas. Brady had gone to Harvard Business School and then returned to the aristocratic hunt country of New Jersey, where the Bradys and the Dillons had estates, to work at Dillon Read.

Bush climbed through Republican politics to become Director of the Central Intelligence Agency (CIA) during the Ford Administration. After spending four years displaced by the Carter Administra-



tion, Bush was now Reagan’s Vice President with Executive Order authority for the National Security Council (NSC) and U.S. intelligence and enforcement agencies. Bush’s new authority was married with expanded powers to outsource sensitive work to private contractors. Such work could be funded through the non-transparent financial mechanisms available through the National Security Act of 1947, and the CIA Act of 1949.

This was a secret source of money for funding powerful new weaponry and surveillance technology and operations owned, operated or controlled by private corporations.<sup>3</sup> Carter’s massive layoffs at the CIA had created plenty of private contractor capacity looking for work.<sup>4</sup> An assassination attempt on President Reagan’s life two months after the inauguration meant that Vice President Bush and his team were called on to play an expanded role. Meantime, Nicholas Brady continued as an intimate friend and collaborator from his position as Chairman of Dillon Read.<sup>5</sup>

In April of 1981, Bechtel, working through the Bechtel private venture arm Sequoia, bought the controlling interest in Dillon Read from the Dillon family, led by C. Douglas Dillon, former U.S. Treasury Secretary<sup>6</sup> and son of the firm’s namesake, Clarence Dillon. This was a time when Bechtel was facing increased competition globally while experiencing a decline in the nuclear power business that they had pioneered.<sup>7</sup>

We found ourselves with new owners whose operations were an integral part of the military and intelligence communities and who had demonstrated a rapacious thirst for drinking from the federal money spigot.<sup>8</sup> George Schultz, former Secretary of the Treasury during the Nixon Administration, and now Bechtel executive, joined our board.

Unusual things started to happen that were very “un-Dillon-Ready-like.” First came a new bluntness. I will never forget the day that one of the partners brought around a very charming retired senior Steve Bechtel to tour the firm. Upon introduction, he peered up at me through thick glasses and said “Far out, a chick investment banker.” Then came strategic planning with SRI International, the think tank offshoot of Stanford University that had long standing relationships with the Bechtel family and Schultz. The head of the Energy Group

that I worked for at the time was part of the planning group. His mood changed during this period and he later left the firm, retiring from the industry. Before going he warned me that I should do the same. He never said why...leaving a chill that I have felt many times since as ominous changes continue that have no name or a face.

The planning group recommended that we expand our business into merchant banking. This means managing money in venture investment by starting and growing new companies or taking controlling interests in existing companies, including "leveraged buy-outs."<sup>9</sup> Rather than serving companies who needed to raise money by issuing securities, or make markets in existing securities, we were going to start raising money so we could create, buy and trade companies. A company was no longer a customer. They were now a target. Wall Street was its own customer who would raise money to buy companies who would work for us. This required new people with new skills.

## Notes

1. "The Boys" is a nickname used to refer to the CIA and/or the U.S. intelligence community.
2. *The Life and Times of Dillon Read*, Robert Sobel, Truman Talley Books/Dutton, 1991.
3. See *The Negative Return on Investment Economy-A Discourse on America's Black Budget* by Chris Sanders and Catherine Austin Fitts (<https://library.solari.com/the-negative-return-economy/>), *World Affairs Journal*. See also, Tim Weiner, *Blank Check: The Pentagon's Black Budget*, New York, Warner Books, 1991.
4. Carters Director of CIA, Admiral Stansfield Turner, fired over 800 covert operators. This "piratization" of covert is said to have created a significant infrastructure of private intelligence operatives, including a group called "The Company." In *Barry & 'the boys': The CIA, the Mob and Americas Secret History*, Mad Cow Press, 2001, pages 234-235 and 404 (<http://www.madcowprod.com/barry-the-boys-in-terrorland/>), Daniel Hopsicker writes:

"After Carter takes over in 1976 and Admiral Stansfield Turner cleans house at the CIA, finding jobs for long time CIA assets like (Barry) Seal became a priority that was often fulfilled by smuggling under color of narcotics interdiction," stated Hemming. "All these guys had to be placed somewhere after that choirboy Admiral started getting rid of them. The majority of the operators that were contract employees had to be placed somewhere. There had to be money to take care of these guys. Hemming is referring to what "Deadly Secrets" calls Turners Great Terror when the new CIA Director purged over 800 covert operatives after the Congressional revelations of the CIAs dirty laundry by the Church and Pike Committees investigations. These investigations, which then-CIA Director Bush fought every step of the way, led directly to the election of (Carter). Even General Manuel Noriega was let go in the purge, it was a sign of the desperation of the times. And it prompted droves of angry CIA cowboys to enlist in the George Bush for President Campaign, where their unofficial campaign slogan must have been "Never ever again.".....Headquartered outside of St. Louis, "The Company" launched in 1976 and grew into an enterprise with over 350 employees, with separate executives in charge of buying airports, leasing warehouses and even giving polygraph tests to new employees. There was even a \$2 million fund for bail. In just two years, The Company had acquired 33 airplanes, 3 airports, warehouses in 7 states and profits of \$48 million. 1976 was the year that Barry Seals drug smuggling career began according to his wife.

When the DEA busted them.. "they had secret radio frequencies of federal, state and local authorities," a DEA spokesman said. "They had mechanical programmers and night-viewing devices. They had air-to-ground radios so sophisticated we dont even have them on our airplanes."

5. See various references in Tarpley & Chaitken, *The Unauthorized Biography*, including a reference to Bradys meeting with Bush, Oliver

North and Felix Rodriguez in the White House (<http://www.tarpley.net/bush18.htm> and <http://www.tarpley.net/bushb.htm>):

“1986-Vice President Bush and his staff met in the White House with Felix Rodriguez, Oliver North, financier Nicholas Brady, and the new U.S. ambassador to El Salvador, Edwin Corr.”

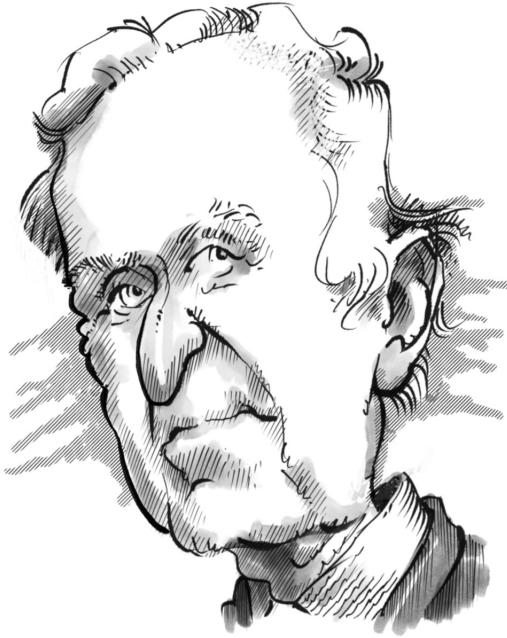
6. Dillon had helped Donovan found the OSS. Not surprisingly, Dillon Read also had numerous ties, like most Wall Street firms, with the intelligence community. See *The Life and Times of Dillon Read*, Robert Sobel, Truman Talley/Dutton, 1991.
7. See the description of Stephen Bechtel, Jr., Chairman of Bechtel and his concern for the outlook for Bechtels business on his way to the Bohemian Group—he is in the Mandalay Camp—most esteemed of The Groves 127 encampments as reported in *Friends in High Places: The Bechtel Story-The Most Secret Corporation and How It Engineered the World*, Laton McCartney, Ballentine Books, 1988, pps. 12–16. Mandalays attendance that year is described as follows:

“Its membership and guest list included Steve, his father, Stephen D. Bechtel, Sr.; Henry Kissinger; former Bechtel Group President and Secretary of State designate George P. Schultz (who this year was bringing West German Chancellor Helmut Schmidt as his personal guest); former IBM chairman and U.S. Ambassador to the Soviet Union Thomas J. Watson; former CIA director John A. McCone (former Bechtel partner); Attorney General William French Smith (who had just signed the MOU three months earlier relieving the CIA of the need to report drug dealing by its networks); industrialist Edgar F. Kaiser, Jr.; former Nixon political aide Peter M. Flanigan; Pan American World Airways onetime boss Najeeb Halaby; Wells Fargo Bank Chairman Richard P. Cooley; former General Electric chairman Philip D. Reed; Southern California Edison chairman J.K. “Jack” Horton; Utah International Chairman Edmund W. Littlefield; Dillon Reads former boss Nicholas F. Brady, who was serving as an interim senator from New Jersey and, like Peter Flanigan, was Steve

juniors guest; tire and rubber heir Leonard K. Firestone and, not least, Gerald Ford, the former President of the United States. In addition, this years encampment would feature such notables as former Secretary of State Alexander Haig, FBI Director William Webster; computer magnate (and former deputy Defense secretary) David Packard; Chief of Naval Operations Thomas Hayward; Eastern Airlines president Frank Borman; Federal Reserve Bank chairman Paul Volker; World Bank president Alden W. Clausen; Union Oil Chairman Fred L. Hartley; Atlantic Richfield Chairman Robert O. Anderson; publishing czar William Randolph Hearst, Jr.; Southern Pacific Railroad president Alan C. Furth; show business personalities Charlton Heston, Art Linkletter and Dennis Day; and including, among various other pooh-bahs, the Presidents of Dean Witter Reynolds the Bank of America and United Airlines—Page 16 describes problems Bechtel is facing “Confronted with a recession, declining oil prices and stiffer competition abroad” and how George Schultz, former Bechtel President and now Secretary of State will be at the Grove to help.”

8. *Friends in High Places: The Bechtel Story—The Most Secret Corporation and How It Engineered the World* by Laton McCartney, Ballentine Books, 1988.
9. See Leveraged Buy-Out in Wikipedia ([http://en.wikipedia.org/wiki/Leveraged\\_buyouts](http://en.wikipedia.org/wiki/Leveraged_buyouts)).

## A Rothschild Man



John Birkelund

John Birkelund arrived at Dillon Read in September 1981. Born in Glencoe, Illinois, he had graduated from Princeton and then had joined the Navy where he served with the Office of Naval Intelligence in Berlin. While in Europe he became friends with Edward Stinnes, who recruited him after a short career with Booz Allen in Chicago to work in New York for the Rothschild family, considered to be one of if not the wealthiest family in the world.<sup>10</sup> He started at Amsterdam Overseas Corporation, which then moved its venture capital business into New Court Securities with Birkelund as co-founder. New Court was owned by the Rothschild banks in Paris

and London, Pierson Heldring Pierson in Amsterdam and the management. Their venture successes included Cray Research, inventor of the high-powered computers by that name, and Federal Express, the courier company based in Memphis which is the largest recipient of Federal government contracts in Tennessee.<sup>11</sup>

A *Time Magazine* story from December 1981, “The Rothschilds Are Roving” describes a decision by the French Rothschilds in response to the nationalization of Banque Rothschild by President Mitterrand to move significant operations and focus to the U.S. Time reports that they are changing the name of their aggressive venture capital firm, New Court Securities to Rothschild, Inc. and are taking over from the current CEO, John Birkelund.<sup>12</sup>

Birkelund was tall and energetic. He had piercing blue eyes, a driving and hard working ambition and intelligence. He seemed frustrated by the process of organizing and invigorating Dillon’s club-like culture. There was much about his willingness to try that endeared him to me — a point of view that was not reciprocated. Whatever the reason, I was not Birkelund’s cup of tea. I will never forget one of his early addresses to the banking group. He was full of energy and launched a section of his pep talk, “When you get up in the morning and look into the mirror to shave...” He suddenly froze, looking at me (one of few or possibly the only woman in the room) with fear that his reference to a masculine practice would offend. In the hopes of putting him at ease, I said with merriment, “Don’t worry, John, girls shave too.” The whole room burst out laughing and John turned red.

Birkelund had his hands full after arriving at Dillon Read. In 1982, Nick Brady left temporarily to serve in the U.S. Senate, appointed by Governor Tom Kean of New Jersey to serve out Harrison Williams term. George Schultz left Bechtel to serve as Secretary of State under Reagan. With Brady and Schultz in Washington D.C., the Bechtel relationship stalled. With Brady returning in 1983, Birkelund engineered the repurchase of the firm from Sequoia by the partners and the creation of meaningful venture and leveraged buyout efforts. In 1986, Brady and Birkelund lead the sale of Dillon Read to Travelers, the large Connecticut insurance company that later became part of Citigroup. The relationship with Travelers expanded our capital



***Cruising the Florida Keys 1984*** – Then Vice President George H. W. Bush, former CIA Director who led the National Security Council during Iran Contra (second from left), photographed with Nicholas F. Brady, then Chairman of the Wall Street firm Dillon Read, lead investment banker for RJR Tobacco, and later U.S. Treasury Secretary (third from left). (White House Photo)

resources to participate in the venture capital and leveraged buyout businesses. In no small part thanks to Birkelund's hard work and dictatorial cajoling, Dillon Read would not be left behind in the 1980s boom time.

One of my favorite Dillon Read officers was the son of a former Dillon chairman and, thus, remarkably wise about the ways of the firm. I sought him out after a Birkelund temper tantrum and said that Birkelund was not at all like a "Brady Man" and that I was surprised at Nick's choice. My colleague looked at me with surprise and said something to the effect of "Brady did not choose Birkelund. Birkelund is a 'Rothschild Man'." I then said something about Dillon being owned by the Dillon partners, so what did the Rothschild's have to do with us? My colleague rolled his eyes and walked away as if I was an interloper out of my league among the moneyed classes – clueless as to who and what was really in charge at Dillon Read and in the world.

After all, even *Time Magazine* had declared that the Rothschild invasion of America was underway.<sup>13</sup>



## Notes

10. See Mayer Amschel Rothschild family in Wikipedia (<http://en.wikipedia.org/wiki/Rothschilds>).
11. Eagle Eye reports Federal Express as the largest recipient of federal government grants in Tennessee. (link removed, service no longer available) A recent announcement by the Frick Museum appointing Birkelund to the board describes his resume as follows: ([http://www.frick.org/assets/PDFs/Press\\_2005/Board\\_release.pdf](http://www.frick.org/assets/PDFs/Press_2005/Board_release.pdf)):

“John P. Birkelund comes to the Board of the Frick as a dedicated supporter of the arts and the humanities. He is a founding member of the new Frick Collection support group called the “Directors Circle.” He has been a strong supporter of The New York Public Library where he serves as trustee and chairs its finance committee. He has also been engaged for many years as a trustee of Brown University and currently chairs the board of Overseers of its Thomas J. Watson Institute for International Studies. Mr. Birkelund serves as well on the board of The American Academy in Berlin and the Phi Beta Kappa Society. He recently retired as chairman of the National Humanities Center and the International Executive Service Corps and has served as a trustee of the Getty Foundation dedicated to the support of the National Gallery in London. Mr. Birkelund, formerly chairman and chief executive of Dillon Read & Co., is presently engaged as managing director of Saratoga Partners, a private equity investment firm that he co-founded in 1984. Corporate directorships have included the New York Stock Exchange, N.M. Rothschild & Co., and Barings Brothers. He is a member of the Council on Foreign Relations and holds an honorary degree from Brown University. In 1990, Mr. Birkelund was asked by President George H.W. Bush to chair the Polish American Enterprise Fund, a federal aid program designed to stimulate the then newly privatized Polish economic sector. The success of this program led to recognition by the Polish government and the U.S. State Department and the creation

of the Polish American Freedom Foundation which he presently chairs.”

12. From Time Magazine, December, 1981—“The Rothschilds are roving” (link no longer available):

“Its a little bare now,” apologizes Baron Guy de Rothschild, 72, waving his hand at the empty black lacquered walls of his office on the 7th floor at 21 Rue Lafitte in Paris...Reason: the Banque Rothschild is being nationalized by the socialist government of French President Francois Mitterrand, along with the countrys other major banks and holding companies. The Rothschilds, who are stepping out of the banks management, have demanded that the government operate the institution without the Rothschild name. “Nor has their bitterness at being nationalized been quenched by proposed government compensation payments of \$100 million, a sum they believe is less than the bank’s worth. “But the members of the French Rothschild clan will not lack for things to do with their money. Unaffected by the nationalization are the non bank personal holdings of Baron Guy and Cousins Baron Alain and Baron Elie, including New Court Securities, a US investment firm based in New York City, which will now receive more of the familys attention and money. And beginning January 1, 1982, New Court will change its name to a more golden sounding sobriquet: Rothschild, Inc.

“Founded with \$2 million 1967, New Court today manages a portfolio worth more than \$1 billion, including funds from such corporate clients as General Foods, TRW and Hughes Aircraft. New Courts other owners included NM Rothschild & Sons in London, which represents the English branch of the family and is headed by Evelyn de Rothschild, 50, and the Rothschild Zurich bank, of which Swiss Cousin Baron Edmond de Rothschild is part owner.

“New Court is an aggressive venture capital firm that has some \$200 million invested in fledgling American companies (Author Note: Federal Express was an

important New Court venture investment.) Last year its return on current investment of \$17 million was 35 %. In July, its American chairman John P. Birkelund, 51, asked the Rothschilds for more control over the firm. Instead, the family sacked Birkelund, named Guy and Evelyn as cochairmen and installed a new manager, Family Confidant Gilbert de Botton, 46.

“The new Rothschild man in New York City had previously directed the familys bank in Zurich, which grew from a paltry \$2.5 million in 1968 to its present capitalization of more than \$35MM. De Botton is currently investing heavily in sagging stocks of US energy companies, especially those with large domestic reserves of oil and gas. He also plans to strengthen the firms venture capital thrust. Says he: The US is the prime market in the world for startup, small and medium size companies.

“That bullishness on Americas prospects is shared by Co-Chairman Guy, who has been commuting monthly since last June between Paris and New Courts offices in New York Citys Rockefeller Center. Guy will not move permanently to the US and Cousin Ellies son Nathaniel, 34, a graduate of the Harvard Business School, is a prime candidate to direct US operations eventually. Says Guy: My great-grandfather sent one of his sons, my grandfather Alphonse, to America in 1848. After returning to France, Alphonse pleaded with his father that the US was the coming country and that there should be a House of Rothschild there. Its an enormous pity that my grandfathers advice was not heeded. As far as Im concerned we should have had a Rothschild bank in the US since the middle of the 19th century. Our involvement in America now is really 100 years late in arriving.”

13. From *Time Magazine*, December, 1981—“The Rothschilds are roving.”

## RJR Nabisco



If you want to understand Dillon Read in the 1980s, you must understand R.J. Reynolds (RJR), a tobacco company based in Winston-Salem, North Carolina. According to the official Dillon history, *The Life and Times of Dillon Read* by Robert Sobel (Truman Talley Books/Dutton, 1991) at pages 345–346, RJR had been Dillon client for many years:

“With Dillon’s assistance, Reynolds expanded out of its tobacco base into a wide variety of industries — foodstuffs, marine transportation, petroleum, packaging, liquor, and soft drinks, among others. In the process the R. J. Reynolds Tobacco Co. of 1963, which had revenues of \$117 million, became the R. J. Reynolds Industries of 1983, a \$14 billion behemoth.”

Throughout the 1980s, RJR’s huge cash flow fueled the buying and selling of companies that generated significant fees for Dillon Read’s bank accounts and investor connections for our Rolodexes.

In 1984 and 1985, Dillon Read helped RJR merge with Nabisco

Brands, making the combined RJR Nabisco one of the world's largest food processors and consumer products corporations. Nabisco's Ross Johnson emerged as the President of the combined entity. Johnson preferred the bankers he had used at Nabisco — Lehman Brothers. Johnson was on the board of Shearson Lehman Hutton.

To help RJR Nabisco digest the Nabisco acquisition, Dillon and Lehman helped to sell off eleven of RJR Nabisco's businesses. In the process, numerous Lehman Brothers partners joined Dillon Read. Among them was Steve Fenster, who had been an advisor to the leadership of Chase Manhattan Bank and was on the board of American Management Systems (AMS), a company that figures in our story in the 1990s.

After tours of duty in Dillon's Corporate Finance and Energy Groups, I spent four years recapitalizing the New York City subway and bus systems on the way to becoming a managing director and member of the board of directors in 1986. I did not work on the RJR account. Odd bits of news would float back. They were always about the huge cash flows generated by the tobacco business and the necessity of finding ways to reinvest the gushing profits of this financial powerhouse.

One of the young associates working for me teamed up with another young associate who worked on the RJR account to buy a sailboat in Europe. The second associate arranged to have the sailboat shipped to the U.S. through Sea-Land, an RJR subsidiary that provided container-shipping services globally. I was told RJR tore up the shipping bill as a courtesy. What kind of cash flows did a company have that could just tear up the shipping bill for an entire boat as a courtesy to a junior Dillon Read associate?

I was to get a better sense of these cash flows many years later when I read the European Union's explanation. The European Union has a pending lawsuit against RJR Nabisco on behalf of eleven sovereign nations of Europe who in combination have the formidable array of military and intelligence resources to collect and organize the evidence for such a lawsuit. The lawsuit alleges that RJR Nabisco was engaged in multiple long-lived criminal conspiracies.

### **Excerpt From European Lawsuit Against RJR Nabisco**

If you like spy novels, you will find that the European Union's presentation of fact to be far more fascinating than fiction. One of the complaints filed in the case describes a rich RJR history of business with Latin American drug cartels, Italian and Russian mafia, and Saddam Hussein's family to name a few. The Introduction reads as follows:

1. For more than a decade, the DEFENDANTS (hereinafter also referred to as the "RJR DEFENDANTS" or "RJR") have directed, managed, and controlled money-laundering operations that extended within and/or directly damaged the Plaintiffs. The RJR DEFENDANTS have engaged in and facilitated organized crime by laundering the proceeds of narcotics trafficking and other crimes. As financial institutions worldwide have largely shunned the banking business of organized crime, narcotics traffickers and others, eager to conceal their crimes and use the fruits of their crimes, have turned away from traditional banks and relied upon companies, in particular the DEFENDANTS herein, to launder the proceeds of unlawful activity.
2. The DEFENDANTS knowingly sell their products to organized crime, arrange for secret payments from organized crime, and launder such proceeds in the United States or offshore venues known for bank secrecy. DEFENDANTS have laundered the illegal proceeds of members of Italian, Russian, and Colombian organized crime through financial institutions in New York City, including The Bank of New York, Citibank N.A., and Chase Manhattan Bank. DEFENDANTS have even chosen to do business in Iraq, in violation of U.S. sanctions, in transactions that financed both the Iraqi regime and terrorist groups.
3. The RJR DEFENDANTS have, at the highest corporate level, determined that it will be a part of their operating business plan to sell cigarettes to and through criminal organizations and to accept criminal proceeds in payment for cigarettes by secret and surreptitious means, which under United States law constitutes money laundering. The officers and directors of the RJR DEFENDANTS facilitated this overarching money-laundering scheme by restructuring the corporate structure of the RJR DEFENDANTS, for example, by estab-

lishing subsidiaries in locations known for bank secrecy such as Switzerland to direct and implement their money-laundering schemes and to avoid detection by U.S. and European law enforcement. This overarching scheme to establish a corporate structure and business plan to sell cigarettes to criminals and to launder criminal proceeds was implemented through many subsidiary schemes across THE EUROPEAN COMMUNITY. Examples of these subsidiary schemes are described in this Complaint and include: (a.) Laundering criminal proceeds received from the Alfred Bossert money-laundering organization; (b.) Money laundering for Italian organized crime; (c.) Money laundering for Russian organized crime through The Bank of New York; (d.) The Walt money-laundering conspiracy; (e.) Money laundering through cut outs in Ireland and Belgium; (f.) Laundering of the proceeds of narcotics sales throughout THE EUROPEAN COMMUNITY by way of cigarette sales to criminals in Spain; (g.) Laundering criminal proceeds in the United Kingdom; (h.) Laundering criminal proceeds through cigarette sales via Cyprus; and (i.) Illegal cigarette sales into Iraq.<sup>14</sup>

The European Union goes on to explain the role of cigarettes in laundering illicit monies:

V. THE LINK BETWEEN RJR'S CIGARETTE SALES, MONEY LAUNDERING, AND ORGANIZED CRIME

**Money-Laundering Links Between Europe, The United States, Russia, and Colombia**

20. Cigarette sales, money laundering, and organized crime are linked and interact on a global basis. According to Jimmy Gure, Undersecretary for Treasury Enforcement: "Money laundering takes place on a global scale and the Black Market Peso Exchange System, though based in the Western Hemisphere, affects business around the world. U.S. law enforcement has detected BMPE-related transactions occurring throughout the United States, Europe, and Asia."
21. The primary source of cocaine within THE EUROPEAN COMMUNITY is Colombia. Large volumes of cocaine are trans-

ported from Colombia into THE EUROPEAN COMMUNITY and then sold illegally within THE EUROPEAN COMMUNITY and the MEMBER STATES. The proceeds of these illegal sales must be laundered in order to be useable by narcotics traffickers. Throughout the 1990s and continuing to the present day, a primary means by which these cocaine proceeds are laundered is through the purchase and sale of cigarettes, including those manufactured by the RJR aDEFENDANTS. Cocaine sales in THE EUROPEAN COMMUNITY are facilitated through money-laundering operations in Colombia, Panama, Switzerland, and elsewhere which utilize RJR cigarettes as the money-laundering vehicle.

22. In a similar way, the primary source of heroin within THE EUROPEAN COMMUNITY is the Middle East and, in particular, Afghanistan, with the majority of said heroin being sold by Russian organized crime, Middle Eastern criminal organizations, and terrorist groups based in the Middle East. Heroin sales in THE EUROPEAN COMMUNITY and the MEMBER STATES are facilitated and expedited by the purchase and sale of the DEFENDANTS' cigarettes in money-laundering operations that begin in THE EUROPEAN COMMUNITY and the MEMBER STATES, Eastern Europe, and/or Russia, but which ultimately result in the proceeds of those money-laundering activities being deposited into the coffers of the RJR DEFENDANTS in the United States.

### **Background on the Convergence of Narcotics Trafficking and Money Laundering**

23. This complaint is about Trade and Commerce or, more correctly, illegal Trade and illegal Commerce, and how money laundering facilitates the financing and movement of goods internationally. Merchants engaging in global trade often turn to the more stable global currencies for payments of goods and services purchased abroad. In many markets, the United States dollar is the currency of choice and, in some cases, the United States dollar is the only accepted form of payment. Merchants seeking dollars usually obtain them in a variety of ways, including the following three methods. Traditional merchants go to a local financial institution



that can underwrite credit. Private financing is usually available for those with collateral. A third and least desirable source of dollar financing can be found in the “black markets” of the world. Black Markets are the underground or parallel financial economies that exist in every country. Criminals and their organizations control these underground economies, which generally operate through “money brokers.” These “money brokers” often fulfill a variety of roles not the least of which is an important intermediate step in the laundering process, one that we will refer to throughout this complaint as the “cut out.”

24. The criminal activity that provides the dollars for these black market money laundering operations is often drug trafficking and related violent crimes. South America is the world leader in the production of cocaine, and the United States and the European Union are the world’s largest cocaine markets. Likewise, Colombia and countries in the Middle East produce heroin. Cocaine and heroin are smuggled to the United States and Europe, and are sold for United States dollars as well as in local European currencies (and now the Euro). Russian drug smugglers obtain heroin from the Middle East and cocaine from South America, and sell both drugs in large quantities in the United States and in Europe. Retail street sales of cocaine and heroin have risen dramatically over the past two decades throughout the United States and Europe. Consequently, drug traffickers routinely accumulate vast amounts of illegally obtained cash in the form of United States dollars in the United States and Euros in Europe. The U.S. Customs Service estimates that illegal drug sales in the United States alone generate an estimated fifty-seven billion dollars in annual revenues, most of it in cash.
25. A drug trafficker must be able to access his profits, to pay expenses for the ongoing operation, and to share in the profits; and he must be able to do this in a manner that seemingly legitimizes the origins of his wealth, so as to ward off oversight and investigation that could result in his arrest and imprisonment and the seizure of his monies. The process of achieving these goals is the money-laundering cycle.
26. The purpose of the money-laundering cycle is to establish total

anonymity for the participants, by passing the cash drug proceeds through the financial markets in a way that conceals or disguises the illegal nature, source, ownership, and/or control of the money.

### **Background on Black Market Money Exchanges**

27. Within Europe, the United States, South America, and elsewhere, a community of illegal currency exchange brokers, known to law-enforcement officials as “money brokers,” operates outside the established banking system and facilitates the exchange of narcotics sale proceeds for local cash or negotiable instruments. Many of these money brokers have developed methods to bypass the banking systems and thereby avoid the scrutiny of regulatory authorities. These money exchanges have different names depending on where they are located, but they all operate in a similar fashion.
28. A typical “money-broker” system works this way: In a sale of Colombian cocaine in THE EUROPEAN COMMUNITY, the drug cartel exports narcotics to the MEMBER STATES where they are sold for Euros. In Colombia, the cartel contacts the money broker and negotiates a contract, in which the money broker agrees to exchange pesos he controls in Colombia for Euros that the cartel controls in Europe. The money broker pays the cartel the agreed-upon sum in pesos. The cartel contacts its cell (group) in the European Union and instructs the cell to deliver the agreed-upon amount of Euros to the money broker’s European agent. The money broker must now launder the Euros he has accumulated in the European Union. He may also need to convert the Euros into U.S. dollars because his customers may need U.S. dollars to pay companies such as RJR for their products.
29. The money broker uses his European contacts to place the monies he purchased from the cartel into the European banking system or into a business willing to accept these proceeds (a process described in more detail below). The money broker now has a pool of narcotics-derived funds in Europe to sell to importers and others. In many instances, the narcotics trafficker who sold the drugs in THE EUROPEAN COMMUNITY is also the importer

who purchased the cigarettes. Importers buy these monies from the money brokers at a substantial discount off the “official” exchange rates and use these monies to pay for shipments of items (such as cigarettes), which the importers have ordered from United States companies and/or their authorized European representatives, or “cut outs.” The money broker uses his European contacts to send the monies to whomever the importer has specified. Often these customers utilize such monies to purchase the DEFENDANTS’ cigarettes in bulk and, in many instances, the money brokers have been directed to pay the RJR DEFENDANTS directly for the cigarettes purchased. The money broker makes such payments using a variety of methods, including his accounts in European financial institutions. The purchased goods are shipped to their destinations. The importer takes possession of his goods. The money broker uses the funds derived from the importer to continue the laundering cycle.

30. In that fashion, the drug trafficker has converted his drug proceeds (which he could not previously use because they were in Euros) to local currency that he can use in his homeland as profit and to fund his operations; the European importer has obtained the necessary funds from the black market money broker to purchase products that he might not otherwise have been able to finance (due to lack of credit, collateral, or U.S. dollars, and/or a desire for secrecy); the company selling cigarettes to the importer has received payment on delivered product in its currency of choice regardless of the source of the funds; and the money broker has made a profit charging both the cartel and the importer for his services. This cycle continues until the criminals involved are arrested and a new cycle begins. Money laundering is a series of such events, all connected and never stopping until at least one link in the chain of events is broken.
31. Many narcotics traffickers who sell drugs in THE EUROPEAN COMMUNITY now also purchase and import cigarettes. In particular, as the trade in cigarettes becomes more profitable and carries lesser criminal penalties compared to narcotics trafficking, the “business end” of selling the cigarettes has become at least as attractive and important to the criminal as the narcotics

trafficking. Finally, it makes no difference whatsoever to the money laundering system whether the goods are imported and distributed legally or illegally.

Regardless of whether he sells his cigarettes legally or illegally, the narcotics trafficker has achieved his goal in that he has been able to disguise the nature, location, true source, ownership, and/or control of his narcotics proceeds. At the same time, the cigarette manufacturer (in this case RJR) has achieved its goal because it has successfully sold its product in a highly profitable way.<sup>15</sup>

Particularly endearing, the European Union alludes to one of the most important secrets of money laundering — that the attorney-client privilege of lawyers and law firms, particularly the most prestigious Washington and Wall Street law firms, are a preferred method for the communication of corporate crimes:

RJR has been aware of organized crime's involvement in the distribution of its products since at least the 1970s. On January 4, 1978, the Tobacco Institute's Committee of Counsel met at the offices of Phillip Morris in New York City. The Committee of Counsel was the high tribunal that set the tobacco industry's legal, political, and public relations strategy for more than three decades. The January 4, 1978 meeting was called to discuss, among other things, published reports concerning organized crime's involvement in the tobacco trade and the tobacco industry's complicity therein. The published reports detailed the role of organized crime in the tobacco trade (including the Colombo crime family in New York) and the illegal trade at the Canadian border and elsewhere. RJR's general counsel, Max Crohn, attended and participated in the meeting. All of the large cigarette manufacturers were present at the meeting and represented by counsel, such as Phillip Morris (Arnold & Porter, Abe Krash) [Author's note: Arnold & Porter is a firm that will come up several times later in our story] and Brown & Williamson (Paul Weiss Rifkind Wharton & Garrison, Martin London). The Committee of Counsel took no action to address, investigate, or end the role of organized crime in the tobacco business. Instead, the Committee agreed to formulate a joint plan of action to protect the industry from scrutiny of the U.S. Congress."<sup>16</sup>

More information on the RJR and other tobacco company lawsuits is provided at the Resource Page at this website. The reader can access directly by linking through this footnote.<sup>17</sup>

You will find an update in the litigation section in the SEC annual report for 2004 for RJR's successor corporation, Reynolds American, as well as other updates on litigation cases involving smuggling and slavery reparations.<sup>18</sup>

According to Dillon Read, the firm's average return on equity for the years 1982–1989 was 29 %. This is a strong performance, and compares to First Boston, Solomon, Shearson and Morgan Stanley's average returns of 26 %, 15 %, 18 % and 31 % respectively.<sup>19</sup> Given what we now know from the European Union's lawsuit and other legal actions against RJR Nabisco and its executives, this begs the question of what Dillon's profits would have been if the firm had not made a small fortune reinvesting the proceeds of – if we are to believe the European Union – cigarette sales to organized crime including the profits generated by narcotics flowing into the communities of America through the Latin American drug cartels.

To understand the flow of drug money into and through Wall Street and corporate stocks like RJR Nabisco during the 1980s, it is useful to look more closely at the flow of drugs from Latin America during the period – and the implied cash flows of narco dollars that they suggest. Two documented situations involve Mena, Arkansas and South Central Los Angeles, California.

## Notes

14. Complaint, European Union vs RJR Nabisco, Inc., et al (Oct 30, 2002), pp 1–2 / pdf. Online: [https://dillonreadandco.com/wp-content/uploads/2017/EU\\_vs\\_RJR\\_Complaint\\_Aug2001.pdf](https://dillonreadandco.com/wp-content/uploads/2017/EU_vs_RJR_Complaint_Aug2001.pdf) and [http://dunwalke.com/resources/documents/ArticleScans/Sized/RJR-Complaint\\_EUvs\\_30Oct2002.PDF](http://dunwalke.com/resources/documents/ArticleScans/Sized/RJR-Complaint_EUvs_30Oct2002.PDF).
15. Complaint, European Union vs RJR Nabisco, Inc., et al (Oct 30, 2002), pp 11–16 / pdf. Online: [https://dillonreadandco.com/wp-content/uploads/2017/EU\\_vs\\_RJR\\_Complaint\\_Aug2001.pdf](https://dillonreadandco.com/wp-content/uploads/2017/EU_vs_RJR_Complaint_Aug2001.pdf) and [http://dunwalke.com/resources/documents/ArticleScans/Sized/RJR-Complaint\\_EUvs\\_30Oct2002.PDF](http://dunwalke.com/resources/documents/ArticleScans/Sized/RJR-Complaint_EUvs_30Oct2002.PDF).

16. Complaint, European Union vs RJR Nabisco, Inc., et al (Oct 30, 2002), pp 19–20 / pdf. Online: [https://dillonreadandco.com/wp-content/uploads/2017/EU\\_vs\\_RJR\\_Complaint\\_Aug2001.pdf](https://dillonreadandco.com/wp-content/uploads/2017/EU_vs_RJR_Complaint_Aug2001.pdf) and [http://dunwalke.com/resources/documents/ArticleScans/Sized/RJR-Complaint\\_EUvs\\_30Oct2002.PDF](http://dunwalke.com/resources/documents/ArticleScans/Sized/RJR-Complaint_EUvs_30Oct2002.PDF).
17. Articles on the RJR Case and Other Tobacco Company Lawsuits:
  - Lower court told to reconsider EU, RJR cigarette-smuggling cases *journalnow.com* (May 3, 2005) <http://redcatsboards.yuku.com/sreply/16542/Lower-court-told-to-reconsider-EU-RJR-cigarettesmuggling>
  - Tobacco Companies Linked to Criminal Organizations in Lucrative Cigarette Smuggling Corp Watch (<http://www.corpwatch.org/article.php?id=898>)
  - Cigarette Case, CBC News Disclosure (Broadcast April 8, 2003) (link no longer available)
  - EU launches lawsuit against Philip Morris and R. J. Reynolds (November 6, 2000) (<https://nsra-adnf.ca/key-issue/eu-launches-lawsuit-against-philip-morris-and-r-j-reynolds/>)
  - EU vs RJR Nabisco, Inc, Complaint (August 3, 2001) ([https://dillonreadandco.com/resources/documents/footnote\\_docs/EU\\_vs\\_RJR\\_Complaint\\_Aug2001.pdf](https://dillonreadandco.com/resources/documents/footnote_docs/EU_vs_RJR_Complaint_Aug2001.pdf).)
  - Civil Money Laundering Action Against RJ Reynolds Press Release (Scoop: November 26, 2002) (<http://www.scoop.co.nz/stories/WO0211/S00141.htm>.)
  - See Reynolds SEC 10-K Filing, Litigation Section, pages 39–40 (link no longer available)
  - European Community v. RJR Nabisco, Inc., 150 F.Supp.2d 456, E.D.N.Y. July 16, 2001 ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-150\\_F.Supp.2d\\_456.pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-150_F.Supp.2d_456.pdf))
  - European Community v. RJR Nabisco, Inc., 355 F.3d 123, 2nd Cir. (N.Y.) Jan 14, 2004 ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-355\\_F.3d\\_123.pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-355_F.3d_123.pdf))
  - European Community v. RJR Nabisco, Inc., 125 S.Ct. 1968, U.S. May 02, 2005 ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-125\\_S.Ct.\\_1968.pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-125_S.Ct._1968.pdf))
  - European Community v. RJR Nabisco, Inc., 424 F.3d 175, 2nd Cir. (N.Y.) Sep 13, 2005 ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-424\\_F.3d\\_175.pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-424_F.3d_175.pdf))
  - European Community v. RJR Nabisco, Inc., 126 S.Ct. 1045 (Mem), U.S.

- Jan 09, 2006 (denying certiorari) ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-126\\_S.Ct.\\_1045\(Mem\).pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-126_S.Ct._1045(Mem).pdf))
- 2005 WL 2875039, Petition for a Writ of Certiorari, (U.S., Oct. 28, 2005) *European Community v. RJR Nabisco, Inc.* ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-2005\\_WL\\_2875039\\_Pet\\_for\\_Cert.pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-2005_WL_2875039_Pet_for_Cert.pdf))
  - 2005 WL 3322108, Brief in Opposition, (U.S., Dec. 01, 2005) *European Community v. RJR Nabisco, Inc.* ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-2005\\_WL\\_3322108\\_Brief\\_in\\_Opp.pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-2005_WL_3322108_Brief_in_Opp.pdf))
  - 2005 WL 3438567, Reply Brief, (U.S., Dec. 14, 2005) *European Community v. RJR Nabisco, Inc.* ([https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-2005\\_WL\\_3438567\\_Reply\\_Brief.pdf](https://dillonreadandco.com/resources/documents/ArticleScans/Sized/RJR-2005_WL_3438567_Reply_Brief.pdf))
18. From Reynolds SEC 10-K Filing, Litigation Section, pages 39–40 (link no longer available):

“On September 18, 2003, RJR, RJR Tobacco, RJR-TI, RJR-PR, and Northern Brands were served with a statement of claim filed by the Attorney General of Canada in the Superior Court of Justice, Ontario, Canada. Also named as defendants are JTI and a number of its affiliates. The statement of claim seeks to recover under various legal theories taxes and duties allegedly not paid as a result of cigarette smuggling and related activities. The Attorney General is seeking to recover \$1.5 billion in compensatory damages and \$50 million in punitive damages, as well as equitable and other forms of relief. The parties have agreed to a stay of all proceedings until February 2006. The time period for the stay may be lengthened or shortened by the occurrence of certain events or agreement of the parties.

“Over the past few years, several lawsuits have been filed against RJR Tobacco and its affiliates and, in certain cases, against other cigarette manufacturers, including B&W, by the European Community and the following ten member states, Belgium, Finland, France, Greece, Germany, Italy, Luxembourg, the Netherlands, Portugal and Spain, as well as by Ecuador, Belize, Honduras, Canada and various Departments of the Republic of Colombia. These suits contend that RJR Tobacco

and other tobacco companies in the United States may be held responsible under the federal RICO statute, the common law and other legal theories for taxes and duties allegedly unpaid as a result of cigarette smuggling. Each of these actions discussed below, seeks compensatory, punitive and treble damages.

“On July 17, 2001, the action brought by the European Community was dismissed by the United States District Court for the Eastern District of New York. However, the European Community and its member states filed a similar complaint in the same jurisdiction on August 6, 2001. On October 25, 2001, the court denied the European Community’s request of August 10, 2001, to reinstate its original complaint. On November 9, 2001, the European Community and the ten member states amended their complaint filed on August 6, 2001, to change the name of the defendant Nabisco Group Holdings Corp. to RJR Acquisition Corp. RJR Tobacco and the other defendants filed motions to dismiss that complaint on November 14, 2001, and the court heard oral argument on those motions on January 11, 2002. On February 25, 2002, the court granted the defendants’ motion to dismiss the complaint and, on March 25, 2002, the plaintiffs filed a notice of appeal with the United States Court of Appeals for the Second Circuit. The Second Circuit affirmed the dismissal on January 14, 2004. On April 13, 2004, the European Community and its member states petitioned the United States Supreme Court for a writ of certiorari. Briefing is complete. A decision by the Supreme Court is pending.

“On October 30, 2002, the European Community and the following ten member states, Belgium, Finland, France, Greece, Germany, Italy, Luxembourg, the Netherlands, Portugal and Spain, filed a third complaint against RJR, RJR Tobacco and several currently and formerly related companies in the United States District Court for the Eastern District of New York. The complaint, which contains many of the same or similar allegations found in two earlier complaints that were previously dismissed by the same court, alleges



that the defendants, together with certain identified and unidentified persons, including organized crime organizations and drug cartels, engaged in money laundering and other conduct for which they should be accountable to the plaintiffs under civil RICO and a variety of common law claims. The complaint also alleges that the defendants manufactured cigarettes, which were eventually sold in Iraq in violation of U.S. sanctions against such sales. The plaintiffs are seeking unspecified actual damages, to be trebled, costs, reasonable attorneys' fees and injunctive relief under their RICO claims, and unspecified compensatory and punitive damages, and injunctive and equitable relief under their common law claims. On April 1, 2004, the plaintiffs filed an amended complaint. The amended complaint does not change the substance of the claims alleged, but primarily makes typographical and grammatical changes to the allegations contained in the original complaint and adds to the description of injuries alleged in the original complaint. This matter remains pending, but all proceedings have been stayed pending a decision by the Supreme Court on the petition for certiorari filed by the plaintiffs in connection with the dismissal of their previous complaint.

"On December 20, 2000, October 15, 2001, and January 9, 2003, applications for annulment were filed in the Court of First Instance in Luxembourg challenging the competency of the European Community to bring each of the foregoing actions and seeking an annulment of the decision to bring each of the actions, respectively. On January 15, 2003, the Court of First Instance entered a judgment denying the admissibility of the first two applications, principally on the grounds that the filing of the first two complaints did not impose binding legal effects on the applicants. On March 21, 2003, RJR and its affiliates appealed that judgment to the Court of Justice of the European Communities. The application for annulment filed in connection with the third action is still pending before the Court of First Instance. On September 18, 2003, however, the Court of First Instance stayed the proceedings in the third

action, pending resolution of the appeals from the January 15, 2003 judgment denying the admissibility of the first two applications.

“RJR Tobacco, B&W and the other defendants filed motions to dismiss the actions brought by Ecuador, Belize and Honduras in the United States District Court for the Southern District of Florida. These motions were granted on February 26, 2002, and the plaintiffs filed a notice of appeal with the United States Court of Appeals for the Eleventh Circuit on March 26, 2002. On August 14, 2003, the Eleventh Circuit announced its decision affirming the dismissal of the case. On November 5, 2003, Ecuador, Belize and Honduras filed a petition for a writ of certiorari requesting the United States Supreme Court to review the decision of the Eleventh Circuit. The court denied the petition on January 12, 2004. B&W and the other defendants filed motions to dismiss a similar action brought by Amazonas and other departments of Colombia in the United States District for the Eastern District of New York. These motions were granted on February 19, 2002, and plaintiffs appealed to the United States Court of Appeals for the Second Circuit. The Second Circuit affirmed the dismissal on January 14, 2004. On April 13, 2004, Amazonas and other departments of Colombia petitioned the United States Supreme Court for a writ of certiorari. On June 17, 2004, B&W and the other defendants filed a brief opposing the petition, and the Amazonas and other departments of Colombia filed a reply brief on June 29, 2004. A decision by the Supreme Court is pending.

“RJR Tobacco has been served in two reparations actions brought by descendants of slaves. The plaintiffs in these actions claim that the defendants, including RJR Tobacco, profited from the use of slave labor. These two actions have been transferred to Judge Norgle in the Northern District of Illinois by the Judicial Panel on Multi-District Litigation for coordinated or consolidated pretrial proceedings with other reparation actions. Seven additional cases were originally filed in California, Illinois and New York. RJR Tobacco

is a named defendant in only one of these additional cases, but it has not been served. The action in which RJR Tobacco is named, but has not been served, was conditionally transferred to the Northern District of Illinois on January 7, 2003, but the plaintiffs contested that transfer, and the Judicial Panel on Multi-District Litigation has not yet issued a final ruling on the transfer. The plaintiffs filed a consolidated complaint on June 17, 2003.

“On July 18, 2003, the defendants moved to dismiss the plaintiff’s complaint. That motion was granted on January 26, 2004, although the court granted the plaintiffs leave within which to file an amended complaint, which they did on April 5, 2004. In addition, several plaintiffs have attempted to appeal the trial court’s January 26, 2004 dismissal to the United States Court of Appeals for the Seventh Circuit. Because the dismissal was not a final order, that appeal was dismissed. All the defendants moved to dismiss the amended complaint that had been filed on April 5, 2004. A decision is pending.”

19. See *The Life and Times of Dillon Read*, Robert Sobel, Truman Talley Books/Dutton, 1991, page 355. The calculation for First Boston is for 1982–1988.

## Narco Dollars in the 1980s: Mena, Arkansas; South Central L.A.



During the 1980s, a sometime government agent named Barry Seal led a smuggling operation that delivered a significant amount of narcotics estimated to be as much as \$5 billion from Latin America through an airport in Mena, Arkansas.<sup>20</sup> According to investigative reporters and researchers knowledgeable about Mena, the operation had protection from the highest levels of the National Security Council then under the leadership of George H.W. Bush and staffed by Oliver North. According to investigative reporter and author Daniel Hopsicker, when Seal was assassinated in February 1986, Vice President George H.W. Bush's personal phone number was found in his wallet. Through Hopsicker's efforts, Barry Seal's records also divulged a little known piece of smuggling trivia — RJR executives in Central America had helped Seal smuggle contraband into the U.S. in the 1970s.<sup>21</sup>



*Cover of Barry & 'the boys' by Daniel Hopsicker with Barry Seal (third on left) with CIA colleagues in 1963.<sup>22</sup>*

The arms and drug running operation in Mena continued after Seal's assassination. Eight months later, Seal's plane, the "Fat Lady," was shot down in Nicaragua. The plane was carrying arms for the Contras. The only survivor, Eugene Hassenfuss admitted to the illegal operation to arm the Contra forces staged out of the Mena airport. Hassenfuss' capture inspired Oliver North and his secretary at the National Security Council to embark on several days of shredding. The files that survived North's shredding that were eventually provided to Congress contain hundreds of references to drugs.

An independent counsel was appointed to investigate the concerns raised by Hassenfuss' capture. As described in my article, "The Myth of the Rule of Law," the founders note written by Chris Sanders, head of Sanders Research states:<sup>23</sup>

"The investigation resulted in no fewer than 14 individuals being indicted or convicted of crimes. These included senior members of the National Security Council, the Secretary of Defense, the head of covert operations of the CIA and others. After George Bush was elected President in 1988, he pardoned six of these men. The independent counsel's investigation concluded that a systematic cover up had been orchestrated to protect the President and the

Vice President... During the course of the independent counsel's investigation, persistent rumors arose that the administration had sanctioned drug trafficking as well as a source of operational funding. These charges were successfully deflected with respect to the independent counsel's investigation, but did not go away. They were examined separately by a Congressional committee chaired by Senator John Kerry, which established that the Contras had indeed been involved in drug trafficking and that elements of the U.S. government had been aware of it."

There is a standard line you hear when you try to talk to people in Washington, D.C. about the flood of narcotics operations and money laundering in Arkansas during the 1980s. "Oh, those allegations were entirely discredited," they say. This is not so. Thanks to numerous journalists and members of the enforcement community, the documentation on Mena drug running and the related money laundering is quite serious and makes the case that the government was engaged or complicit in significant narcotics trafficking. This includes the various relationships to employees of the National Security Council, the Department of Justice and the CIA under Vice President Bush's leadership and to then Governor of Arkansas, Bill Clinton and a state agency, the Arkansas Development and Finance Agency (ADFA). ADFA was a local distributor of U.S. Department of Housing and Urban Development (HUD) subsidy and finance programs and an active issuer of municipal housing bonds. One of its law firms included Hillary Clinton and several members of Bill Clinton's administration as partners, including Deputy White House Counsel Vince Foster and Associate Attorney General Webster Hubbell.

Those convicted and pardoned by President Bush included former Bechtel General Counsel, Harvard trained lawyer Cap Weinberger who as Secretary of Defense had presided over one of the most crime-ridden government contracting operations in U.S. history.<sup>24</sup> Forbes editor James Norman left Forbes in 1995 as a result of Forbes refusal to publish his story "Fostergate," about the death of Vince Foster and its relationship to the sophisticated software, PROMIS, allegedly used to launder money, including funds for the arms and drugs transactions working through Arkansas. Norman's story allegedly implicated Weinberger in taking kickbacks through a Swiss account

from Seal's smuggling operation. In other stories, the software was considered to be an adaptation of PROMIS software stolen from a company named Inslaw and turned over to an Arkansas company controlled by Jackson Stephens. An historical footnote to our story is that a later study of the prison industry shows that Jackson Stephens' investment bank, Stephens, Inc., was the largest issuer of municipal bonds for prisons.

Some of the most compelling documentation on Seal's Mena operation and related money laundering was provided by William Duncan, the former Special Operations Coordinator for the Southeast Region of the Criminal Investigation Division, Internal Revenue Service at the U.S. Treasury. The U.S. Treasury fired Duncan in June of 1989 when he refused to dilute or cover up the facts in Congressional testimony.<sup>25,26</sup> Since it is illegal to lie to Congress, this is the equivalent of being fired for refusing to break the law, and in the process, protecting a criminal enterprise. The Secretary of the Treasury when Duncan was fired was Nicholas F. Brady, former Chairman of Dillon Read. Brady left Dillon in September 1988 to join the Reagan Administration in anticipation of Bush's victory in the November elections. Duncan was fired within months of two important events detailed later in the story:

- (i.) the RJR Nabisco takeover made famous by the book, *Barbarians at the Gate: The Fall of RJR Nabisco* by Brian Burrough and John Helyer (Harper & Row, 1990) as well as a later movie by the same name, and
- (ii.) Lou Gerstner, now chairman of the Carlyle Group, joining RJR Nabisco to make sure that the aggressive management was in place to pay back billions of new debt issued in the takeover.

As we will see later in our story, the inability to stop Duncan from documenting the corruption at Mena and the U.S. Treasury, emphasized the importance of placing control of the IRS and its rich databases and information systems which illuminated flows of money in friendlier hands.

### **South Central, Los Angeles**

Gary Webb's "Dark Alliance" story documenting the explosion of cocaine coming from Latin America into South Central Los Angeles during the 1980s was originally published by the San Jose Mercury News in the summer of 1996 and then published in book form in 1998. The story and its supporting documentation was persuasive that the U.S. government and their allies in the Contras were involved in narcotics trafficking targeted at American children and communities.

All the usual suspects did their best to destroy Webb's credibility and suppress his story. This included the Washington Post, which had pulled Sally Denton and Rodger Morris' story on Mena at the last minute in 1995 — leaving it to run later in the summer in Penthouse Magazine. Luckily, Webb had arranged to have significant amounts of legal documentation substantiating his story posted on the San Jose Mercury News website. By the time that the News was pressured to take the story down, thousands of interested people all over the world had downloaded overwhelming evidence. Thanks to the Internet, the crack cocaine Humpty Dumpty could not be put back together again.

In response to citizen concern inspired by Webb's story, then Director of the CIA, John Deutch, agreed to attend a town hall meeting in South Central Los Angeles with local Congressional representatives in November 1996. Confronted by allegations in support of Webb's story, Deutch promised that the CIA Inspector General would investigate the "Dark Alliance" allegations.

This resulted in a two volume report published by the CIA in March and October of 1998 that included disclosure of one of the most important legal documents of the 1980s — a Memorandum of Understanding (MOU) between the Department of Justice (DOJ) and the CIA dated February 11, 1982 in effect until August 1995.<sup>27</sup> At the time it was created, William French Smith was the U.S. Attorney General and William Casey, former Wall Street law partner and Chairman of the SEC was Director of the CIA. Casey, like Douglas Dillon, had worked for Office of Strategic Services (OSS) founder Bill Donovan and was a former head of the Export-Import Bank. Casey was also a friend of George Schultz. Bechtel looked to the Export-Import Bank to provide the government guarantees that financed



billions of big construction contracts worldwide. Casey recruited Stanley Sporkin, former head of SEC Enforcement, to serve as general counsel of the CIA. When Schultz joined the Reagan Administration as Secretary of State, such linkages helped to create some of the personal intimacy between money worlds and national security that make events such as those which occurred during the Iran Contra period possible.

No history of the 1980s is complete without an understanding of the lawyers and legal mechanisms used to legitimize drug dealing and money laundering under the protection of National Security law. Through the MOU, the DOJ relieved the CIA of any legal obligation to report information of drug trafficking and drug law violations with respect to CIA agents, assets, non-staff employees and contractors.<sup>28</sup> Presumably, this included the corporate contractors who, by executive order, were now allowed to handle sensitive intelligence and national security outsourcing.

With the DOJ-CIA Memorandum of Understanding, in effect from 1982 until rescinded in August 1995, a crack cocaine epidemic ravaged the poorer communities of America and disenfranchised hundreds of thousands of poor people into prison who, now classified as felons, were safely off of the voting roles. Meantime, the U.S. financial system gorged on what had grown to an estimated \$500 billion-\$1 trillion a year of money laundering by the end of the 1990s. Not surprisingly, the rich got richer as corporate power and the concentration of investment capital skyrocketed on the rich margins of state sanctioned criminal enterprise.

Yale Law School trained Stanley Sporkin was appointed by Reagan in 1985-86 to serve as a judge in Federal District court, leaving the CIA with a legal license to team up with drug dealing allies and contractors. From the bench many years later, he helped engineer the destruction of my company Hamilton Securities while preaching to the District of Columbia bar about good government and ethics. He retired from the bench in 2000 to become a partner at Weil, Gotshal & Manges, Enron's bankruptcy counsel.

Gary Webb died in 2004, another casualty of an intelligence, enforcement and media effort that keeps global narcotics trafficking and the War on Drugs humming along by reducing to poverty and

making life miserable for those who tell the truth. At the heart of this machinery are thousands of socially prestigious professionals like Sporkin who engineer the system within a labyrinth of law firms, courts and government depositories and contractors operating behind the closely guarded secrets of attorney client privilege and National Security law and the rich cash flows of the U.S. federal credit.<sup>28</sup>

## Notes

20. *Barry & 'the boys': The CIA, the Mob and Americas Secret History*, Dan Hopsicker, MadCow Press, 2001. According to Hopsicker, on the same day, the CIA repossessed Barry Seals Lear Jet. It turns out that it was theirs all along. Seal had signed a series of promissory notes on the Lear Jet in 1982 totaling \$1.8 million—twice what the plane was worth. Hopsicker says “this puzzled us until we learned, from former CIA pilot Morgan Hetrick that this was Standard Operating Procedure, allowing 'the boys' to express their displeasure by taking away your toys at will.” Hopsicker describes the attorneys for one of the assassins saying that the assassins alleged that Oliver North arranged the hit to assassinate Seal.
21. *Barry & 'the boys': The CIA, the Mob and Americas Secret History*, Daniel Hopsicker, MadCow Press, 2001, page 459. Useful links on Mena include:
  - *Boys on the Tracks* by Mara Leveritt (<http://www.maraleveritt.com/>)
  - *Who was that Ex-President I Saw You With Last Night?* by Sam Smith (<http://www.scoop.co.nz/stories/HL0502/S00155.htm>)
  - *The Clinton Scandals* by Sam Smith, Mena section (<https://web.archive.org/web/20210506115917/http://prorev.com/wwindex.htm>)
  - *The Crimes of Mena* by Roger Morris and Sally Denton (<http://www.ratical.org/ratville/JFK/crimesOfMena.html>)
  - *Barry and 'the boys': The CIA, the Mob & America's Secret History* by Daniel Hopsicker ([http://www.madcowprod.com/Merchant2/merchant.mvc?Screen=PROD&Store\\_Code=MP&Product\\_Code=BAB](http://www.madcowprod.com/Merchant2/merchant.mvc?Screen=PROD&Store_Code=MP&Product_Code=BAB))
  - Articles re: Laundering Money through the Arkansas Housing and Economic Development Agency:
    - *Hostages* by Mike Ruppert — Includes Gray Money: the Contin-

- ued Cover-Up by Mark Swaney (<http://www.fromthewilderness.net/free/ciadrugs/hostages.html>)
- *The Mystery of the “Lost” Mena Report; Gray Money: the Continued Cover-Up* by Mark Swaney (<http://www.etherzone.com/2001/swan080301.shtml>)
  - *What Really Happened, Mena Archives* (<http://www.whatreallyhappened.com/RANCHO/POLITICS/MENA/mena.html>)
22. See Daniel Hopsickers description of this picture in *Was Bush Spy Pick on Agency Hit Team? — CIA Nominee in Pic of Agencys 60s Assassination Squad* (<http://www.scoop.co.nz/stories/HL0408/S00254.htm>) and Barry & ‘the boys’: *The CIA, the Mob and Americas Secret History*, Daniel Hopsicker, page 26.
23. Chris Sanders, Sanders Research Associates, founders note to “The Myth of the Rule of Law,” by Catherine Austin Fitts (<https://www.dunwalke.com/gideon/q301.pdf>).
24. *Blank Check*, by Tim Wiener, Warner Books, 1991.
25. Testimony of William Duncan, Hearing before the Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on Government Operations, House of Representatives, One Hundred Second Congress, First Session, July 24, 1991. Excerpts from pages 64–73, 85–86. Online: [http://www.whatreallyhappened.com/RANCHO/POLITICS/MENA/testimony\\_of\\_william\\_c.\\_duncan\\_7-24-91.html](http://www.whatreallyhappened.com/RANCHO/POLITICS/MENA/testimony_of_william_c._duncan_7-24-91.html).
26. Misconduct by Senior Managers in the IRS, Twentieth Report by the Committee on Government Operations, House of Representatives, One Hundred First Congress, Second Session, October 4, 1990, excerpts from pp. iii, 117–131. Online: <http://www.whatreallyhappened.com/RANCHO/POLITICS/MENA/duncan.html> and 1991 Affidavit by William Duncan. Online: <https://web.archive.org/web/20210506122823/http://prorev.com/wwduncan.htm>.
27. From Congressional Record (May 7, 1998). Enter H2970 in ‘Search’ box:

Ms. WATERS. Mr. Chairman, this amendment would call for a review of the 1995 memorandum of understand-

ing that currently exists between the Director of Central Intelligence and the intelligence community and the Department of Justice regarding reporting of information concerning Federal crimes. This amendment is very simple and non-controversial. It calls for a review of the current memorandum of understanding to ensure that drug trafficking and drug law violations by anybody in the intelligence community is reported to the Department of Justice. Specifically, the review would examine any requirements for intelligence employees to report to the Director of Central Intelligence and any requirements for the Director to report this information to agencies. This information would be reported to the Attorney General. The review would be published publicly. This simple amendment fits well with the recent calls for a reinvigorated war on drugs. The need for this amendment, however, cannot be understated.

One of the most important things that came out of the hearing of the House Permanent Select Committee on Intelligence was an understanding about why we did not know about who was trafficking in drugs as we began to investigate and take a look at the allegations that were being made about the CIA's involvement in drug trafficking in south central Los Angeles and the allegations that profits from that drug trafficking was going to support the Contras.

We discovered that for 13 years the CIA and the Department of Justice followed a memorandum of understanding that explicitly exempted the requirement to report drug law violations by CIA non-employees to the Department of Justice. This allowed some of the biggest drug lords in the world to operate without fear that the CIA would be required to report the activity to the DEA and other law enforcement agencies.

In 1982, the Attorney General and the Director of Central Intelligence entered into an agreement that excluded the reporting of narcotics and drug crimes by the CIA to the Justice Department. Under this agreement, there was no requirement to report information of drug trafficking and drug law violations with respect to CIA agents, assets, non-staff employees and contractors. This remarkable

and secret agreement was enforced from February 1982 to August of 1995. This covers nearly the entire period of U.S. involvement in the Contra war in Nicaragua and the deep U.S. involvement in the counterinsurgency activities in El Salvador and Central America.

Senator Kerry and his Senate investigation found drug traffickers had used the Contra war and tie to the Contra leadership to help this deadly trade. Among their devastating findings, the Kerry committee investigators found that major drug lords used the Contra supply networks and the traffickers provided support for Contras in return. The CIA of course, created, trained, supported, and directed the Contras and were involved in every level of their war.

The 1982 memorandum of understanding that exempted the reporting requirement for drug trafficking was no oversight or misstatement. Previously unreleased memos between the Attorney General and Director of Central Intelligence show how conscious and deliberate this exemption was.

On February 11, 1982, Attorney General French Smith wrote to DCI William Casey that, and I quote, this is what he said:

[Page: H2971]

I have been advised that a question arose regarding the need to add narcotics violations to the list of reportable non-employee crimes . . . no formal requirement regarding the reporting of narcotics violations has been included in these procedures.

On March 2, 1982 William Casey responded:

I am pleased these procedures which I believe strike the proper balance between enforcement of the law and protection of intelligence sources and methods will now be forwarded to other agencies covered by them for signing by the heads of those agencies.

My colleagues heard me correctly.

The CHAIRMAN. The time of the gentlewoman from California (Ms. Waters) has expired.

(By unanimous consent, Ms. Waters was allowed to proceed for 3 additional minutes.)

Ms. WATERS. Mr. Chairman, the fact that President

Reagan's Attorney General and Director of Central Intelligence thought that drug trafficking by their assets agents and contractors needed to be protected has been long known. These damning memorandums and the resulting memorandum of understanding are further evidence of a shocking official policy that allowed the drug cartels to operate through the CIA-led Contra covert operations in Central America.

This 1982 agreement clearly violated the Central Intelligence Agency Act of 1949. It also raises the possibility that certain individuals who testified in front of congressional investigating committees perjured themselves.

Mr. Chairman, every American should be shocked by these revelations. Given the shameful history of turning a blind eye to CIA involvement with drug traffickers, this amendment seeks to determine whether the current memorandum of understanding closes all of these loopholes to the drug cartels and narcotics trade.

At this time I know that there is a point of order against my amendment. The chairman of the committee is going to oppose this amendment, and so I am going to withdraw the amendment. But I wanted the opportunity to put it before this body so that they could understand that we had an official policy and a memorandum of understanding that people could fall back on and say I did not have to report it. Yes, I knew about it.

We have a subsequent memorandum of understanding of 1995 that is supposed to take care of it. I am not sure that it does.

Mr. Chairman, I submit for the Record the following correspondence between William French Smith and William J. Casey:

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Office of the Attorney General, Washington, DC, February 11, 1982.

Hon. William J. Casey, Director, Central Intelligence Agency, Washington, D.C.

Dear Bill: Thank you for your letter regarding the procedures governing the reporting and use of information

concerning federal crimes. I have reviewed the draft of the procedures that accompanied your letter and, in particular, the minor changes made in the draft that I had previously sent to you. These proposed changes are acceptable and, therefore, I have signed the procedures.

I have been advised that a question arose regarding the need to add narcotics violations to the list of reportable non-employee crimes (Section IV). 21 U.S.C. 874(h) provides that '[w]hen requested by the Attorney General, it shall be the duty of any agency or instrumentality of the Federal Government to furnish assistance to him for carrying out his functions under [the Controlled Substances Act] . . .'. Section 1.8(b) of Executive Order 12333 tasks the Central Intelligence Agency to 'collect, produce and disseminate intelligence on foreign aspects of narcotics production and trafficking.' Moreover, authorization for the dissemination of information concerning narcotics violations to law enforcement agencies, including the Department of Justice, is provided by sections 2.3(c) and (i) and 2.6(b) of the Order. In light of these provisions, and in view of the fine cooperation the Drug Enforcement Administration has received from CIA, no formal requirement regarding the reporting of narcotics violations has been included in these procedures. We look forward to the CIA's continuing cooperation with the Department of Justice in this area.

In view of our agreement regarding the procedure, I have instructed my Counsel for Intelligence Policy to circulate a copy which I have executed to each of the other agencies covered by the procedures in order that they may be signed by the head of each such agency.

Sincerely,

William French Smith, Attorney General.

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THE DIRECTOR OF Central Intelligence, Washington, D.C., March 2, 1982.

Hon. William French Smith, Attorney General, Department of Justice, Washington, D.C.

Dear Bill: Thank you for your letter of 11 February

regarding the procedures on reporting of crimes to the Department of Justice, which are being adopted under Section 1–7(a) of Executive Order 12333. I have signed the procedures, and am returning the original to you for retention at the Department.

I am pleased that these procedures, which I believe strike the proper balance between enforcement of the law and protection of intelligence sources and methods, will now be forwarded to other agencies covered by them for signing by the heads of those agencies.

With best regards,

Yours, William J. Casey.

Enclosure.”

28. See *The Stanley Sporkin Hotseat*. Online: <http://whereisthemoney.org/hotseat/stanleysporkin.htm>.



# Leveraged Buyouts



Leveraged buyouts were a phenomenon that got going in the 1980s. A leveraged buyout (LBO) is a transaction in which a financial sponsor buys a company primarily with debt — effectively buying the target company with the target’s own cash and financial ability to service the debt. As described in *Barbarians at the Gate: The Fall of RJR Nabisco* at pages 140–141:

“In 1982 an investment group headed by William Simon, a former treasury secretary, took private a Cincinnati company, Gibson Greetings, for \$80 million, using only a million dollars of its own money. When Simon took Gibson public 18 months later, it sold for

\$290 million. Simon's \$330,000 investment was suddenly worth \$66 million in cash and securities... By 1985, just two years after Gibson Greetings, there were 18 separate LBO's valued at \$1 billion or more. In the five years before Ross Johnson [RJR Nabisco Chairman and CEO] decided to pursue his buyout, LBO activity totaled \$181.9 billion, compared to \$11 billion in the six years before that.

"A number of factors combined to fan the frenzy. The Internal Revenue Code, by making interest but not dividends deductible from taxable income, in effect subsidized the trend. That got LBOs off the ground. What made them soar were junk bonds.

"Of the money raised for any LBO, about 60 percent, the secured debt, comes in the form of loans from commercial banks. Only about 10 percent comes from the buyer itself. For years, the remaining 30 percent — the meat in the sandwich — came from a handful of major insurance companies whose commitments sometimes took months to obtain. Then, in the mid-eighties, Drexel Burnham began using high-risk "junk" bonds to replace the insurance company funds. The firm's bond czar, Michael Milken, had proven his ability to raise enormous amounts of these securities on a moment's notice for hostile takeovers. Pumped into buyouts, Milken's junk bonds became a high-octane fuel that transformed the LBO industry from a Volkswagen Beetle into a monstrous drag racer belching smoke and fire.

"Thanks to junk bonds, LBO buyers, once thought too slow to compete in a takeover battle, were able to mount split-second tender offers of their own for the first time."

In a highly leveraged company, the equity owner does not really have control. It's the bondholder or creditor who can put the company in default. With the dirty tricks available from covert "economic hit" teams combined with a creditor's ability to throw a company in default, who needs to be a visible owner? Unmentioned was the ease and elegance with which junk bonds made it possible to take over companies with narco dollars and other forms of hot money financed by powerful partners hidden behind mountains of debt.

There emerged a growing number of attractive business savvy investment firms vying to be the owners of record for a growing number of companies taken private in leveraged buyouts. This included Kohlberg Kravis Roberts & Co. (KKR), the LBO firm that took over RJR Nabisco in 1989 in one of the most visible takeovers

of the decade, documented by *Barbarians at the Gate*. Dillon Read represented the RJR Nabisco board on the transaction. While the bidding war between KKR and the management group led by Ross Johnson teamed with Shearson Lehman escalated, I remember being dumbfounded as to why anyone thought that RJR Nabisco could service the proposed amounts of debt. In later years as I read reports that the debt was being serviced, I wondered what magic tricks KKR had that we mere mortals were missing. In reading *Barbarians at the Gate*, it turns out they managed to win despite not having the highest bid on all bidding rounds. One wonders the extent to which the bidding process was reengineered to ensure a KKR win and the media manipulated to make it look like the board had reasons to favor KKR over management other than the real reasons.

Years later, reading between the lines of the European Union lawsuit, it struck me that perhaps KKR had simply sheltered one of the worlds premier money laundering networks and, behind the veil of a private company, taken this network to a whole new level. In that same period, they recruited Lou Gerstner from American Express to run the more aggressive, more leveraged RJR. The lawsuits filed by the European Union against RJR allege that top management, including during the time Gerstner led the company as CEO, directed RJR's illegal activities. When the European Union said "highest corporate level" and "officers and directors," that meant Lou Gerstner — and through Gerstner and the board, the controlling shareholder, KKR.

Successful at RJR, Gerstner left to revitalize IBM and was then knighted by Queen Elizabeth. After retiring from IBM, Gerstner was chosen to chair the Carlyle Group in Washington in late 2002. The European Union's lawsuit highlights Gerstner's deeper qualifications to revitalize IBM, one of the most powerful military and intelligence contractors, and to lead an LBO firm like Carlyle that built its business on military and intelligence contractors and the intelligence to which such contractors are privy.<sup>29</sup>

Henry Kravis and George Roberts were two of the founders of KKR. Kravis' father — successful in the Oklahoma oil and gas business — was reported to be a friend of the Bush family and had many close ties with Wall Street. Henry Kravis and his San Francisco

cousin and partner, George Roberts were said to be generous supporters of the Bush campaign.

It was inconceivable to me that KKR could have won the RJR Nabisco bidding war despite lower bids without Vice President George H. W. Bush in the White House (having just won the election) and/or Nick Brady at Treasury exercising their invisible hand. Bush's White House counsel, Harvard educated C. Boyden Gray (now partner at Wilmer Cutler) was heir to one of the many North Carolina RJR fortunes. When the bidding team led by Ross Johnson, then CEO of RJR Nabisco lost to KKR, I wondered, did Nick finally get Ross Johnson back for diluting Dillon Read's RJR lead underwriting business after the merger with Nabisco in 1985?

When Nick Brady first got to Treasury, he was apparently slow to staff and organize his public affairs office. Before leaving Wall Street in April of 1989 to join the Bush Administration, I used to get calls from reporters looking for basic background, including his bio. One reporter asked me if I thought Brady was tough enough to survive in Washington's treacherous waters. I responded that, "Yes, Brady did have a genteel manner. However, the world was littered with the bodies of the men and women who had underestimated Nick Brady."

## Notes

29. See Dan Briodys *The Iron Triangle: Inside the Secret World of The Carlyle Group*.

# A Parting of the Ways



There was an invisible spirit that crept through our lives on Wall Street in the 1980s. LBO's were a part of it. I could never quite put my finger on what was wrong. It was as if there was too much dirty money and, as it grew more and more powerful in invisible ways, the way companies were financed, bought and sold grew progressively more out of control. The common sense and humanity seemed to drain out, and as personal wealth of the insiders grew, so did the lies.

Part of what was happening within Dillon Read was the difference in styles between Nick Brady and John Birkelund. When Nick wanted me to do something, he would come and say something like: "Look, I need you to do this and stop doing that and I can't tell you why. I just need you to be a good soldier and do it." And his candor had a certain charm to it and so in the spirit of being a good soldier you would give up on some deal or idea you thought was going to be a moneymaker. For some reason, Birkelund did not feel comfortable

taking this straightforward approach and so situations would get caught up in complex pretzels of office politics.

For example, when the Dillon Read partners sold the firm in 1986 to Travelers, three years after buying our stock back from Bechtel, Birkelund came to my office to ask me what I thought of the deal. I told Birkelund that it was a done deal and that my opinion as one of the newest partners was irrelevant. Birkelund insisted — he really wanted to know. I told him that I was disappointed that we were no longer owners and that I thought a large insurance company would not prove to be a good business fit. He exploded with rage and stomped out of the office. Minutes later, my husband Geoffrey — a successful Wall Street attorney — called to tell me that he had just had a call from Fritz Hobbs, one of the senior Dillon partners, saying that Birkelund told him that I had resigned from the firm and that he, Geoffrey, needed to exercise some control of his wife. I explained that I had not resigned. I then advised Geoffrey to call Fritz and persuade him that he had managed to get me under control, to assure him that I had not and had no intention of resigning and that he, Geoffrey, could be counted on to make sure that I supported the sale and the changes contemplated. Hence, my partners could look to my husband to manage me. I then spent several weeks collaborating with Geoffrey on the manipulation of me — which turned out to be a remarkably effective, though unorthodox, communication vehicle.

My back channel<sup>30</sup> was compromised several weeks later when Ken Schmidt, the head of Dillon's municipal department who Birkelund had also assigned to "manage" me while I managed a large and profitable client and deal flow, broke down one night after several drinks and confessed that he and my other partners were using my husband to manipulate me. Perhaps he would not have felt as guilty if he realized where Geoffrey was accessing his strategies.

After the sale of Dillon to Travelers, we put together significant Travelers financial support for our LBO business. Birkelund called me to his office to ask me if I would take the lead on marketing our LBO's to bond buyers. This request caught me off guard, as I was confident that this was a role in which I would not be successful. I asked why he thought I was appropriate. He described my success at designing and marketing \$4 billion of New York City transporta-



*Senior Dillon Partner Peter Flanigan, shown here at the Rainbow Room with Catherine at Christmas time in 1988, later became the one of the largest personal Dillon investors in private prison company Cornell Corrections. (Photo courtesy Catherine Austin Fitts)*

tion systems bonds. This was a deal that nine firms had said could not be done but that had gotten done quite successfully with Dillon Read's leadership, making the first page of the New York Times and the financial press. I explained to John that I could sell deals that I had personally structured and which I believed to be sound credits because they were based on some fundamental wealth-creating purpose that would ensure the bond buyers were paid back. However, a lot of the LBOs flowing through Wall Street were not based on sound financial engineering and involved companies that were of dubious value. I was terrific with Dillon's investment clients when I believed in a credit. Unless I was personally confident in the investments long-term viability, I was not effective at selling it.

John thought I was being difficult and I was amazed that he could not understand that just as fish don't fly, I did not have the ability to do a good job for the firm at this task. It was as if two parallel universes were trying to communicate and failed. One was looking to go with the flow of more and more government and corporate debt without thought for how future generations would pay back all this debt — what some of us called the debt bubble — because that was

the way to win at the game of hot money profits. The other thought that money served a strategic purpose and that flipping people and companies like pancakes for quick profits was risky business.

Things came to a head when I arrived at the weekly banking meeting of the Dillon Read partners one morning in 1988 and listened to Steve Fenster, one of the partners who had joined us in 1987 from Lehman Brothers with an interim stint at Chase, make his presentation on why Dillon's LBO group should take the second position behind First Boston in the Campeau hostile takeover of the Federated Department Stores.<sup>31</sup> During his presentation, Fenster, later a professor at the Harvard Business School, presented a "sources and uses of funds" statement. This is a statement that estimates where the money is coming from to buy the company and how it will be spent and in what amounts. Steve described a significant source of funds would come from "productivity improvements" — a portion of what was needed to fund the cost of hundreds of millions for golden parachutes for senior management and fees for lawyers and investment bankers.

The "productivity improvements" were the increased profits to be generated by middle management over many years — all without partaking of the hundreds of millions pork fest enjoyed up front by senior management and Wall Street. We would get rich and get out up front. The guys in the trenches would work like dogs for years for scraps if the deal were to work. I was stunned. I asked Steve why in the world middle management would stick around and spend years working to generate increased profits without adequate incentives. After all, these financials would be disclosed in SEC filings. The companies' middle managers would read the proxy and could "walk with their feet." This meant the company would fail.

If the company failed before we sold new bonds, the Travelers bridge line that we were using would lose millions. If it failed after we sold the bonds, our customers who bought the bonds would get left holding the bag. Fenster looked at me in disgust and said something to the effect of "we will be out in December," meaning if the deal tanks it will be someone else's problem. I responded "Steve, our bond buyers won't be," meaning that Dillon would be selling the securities to pension and mutual funds and other bond buyers



who would then take what could be millions in losses. By this time, Brady had left for Washington and Birkelund was now in command of the firm. Birkelund was trying to build a fortune. Nick had one to protect. It struck me that the balance that the Brady-Birkelund partnership had somehow managed to strike between playing to win in the hot money game and not putting Brady's personal reputation at risk was gone. Dillon anticipated significant fees and Fenster and the partners around the table were hungry for the quick bucks of big year-end bonuses.

That was when I decided that we might be losing sight of the line between financial engineering and financial fraud. I left the boardroom and headed downstairs to make a call to Washington, D.C. There was nothing else to learn at Dillon Read. It was time to go — I was too much a member of the old school. Other firms had indicated an interest in recruiting me. However, I had promised Nick I would institutionalize my clients and not strip the business from the firm. The way to continue to do that was to join the incoming Bush Administration in Washington, D.C. The corruption was bad, a crash was coming and Washington would lead the clean up. Besides, the corruption was being engineered in part through Washington. I wanted to understand how the economy and markets really worked. It was long my dream to find ways that investors could profit from activities which increased human and environmental safety and wealth. I needed to understand how the federal government and credit worked.

When the Federated Department Stores declared bankruptcy on January 15, 1990 as a result of their takeover by Campeau using an unsound financial structure, Dillon Read, Travelers and Dillon's bond buyers were left holding millions of badly discounted securities. By that time, I was Assistant Secretary of Housing-FHA Commissioner at HUD managing billions of defaulted mortgages and coordinating with the group at the Resolution Trust Corporation who were managing billions of defaulted savings and loan (S&L) mortgages. While Birkelund and Fenster were explaining the Campeau-Federated defaults to Travelers, I was learning why Oliver North allegedly referred to HUD as "the candy store of covert revenues."<sup>32</sup> It took years of cleaning up the mortgage mess to understand that this homebuild-

ing and mortgage fraud was an integral part of the National Security Council's shenanigans during Iran-Contra and a U.S. federal debt that was growing at alarming rates.

### Notes

30. See <http://en.wikipedia.org/wiki/Back-channel> — A back channel in the language of diplomacy is an unofficial channel of communication between states or other political entities, used to supplement official channels, often for the purposes of discussing highly sensitive policy issues.
31. See [http://en.wikipedia.org/wiki/Federated\\_Department\\_Stores](http://en.wikipedia.org/wiki/Federated_Department_Stores) and [http://en.wikipedia.org/wiki/Robert\\_Campeau](http://en.wikipedia.org/wiki/Robert_Campeau).
32. See *The Conspirators*, by Ret. Cmdr. Al Martin. Online: <http://www.almartinraw.com/book.html>.

## “HUD is a Sewer”



Jack Kemp

As Assistant Secretary for Housing-Federal Housing Commissioner, I was responsible for the operations of the Federal Housing Administration (FHA), which was the largest mortgage insurance fund in the world. FHA at that time had annual originations of \$50–100 billion of mortgage insurance and an outstanding portfolio of \$320 billion of mortgage insurance, mortgages and properties. Leading the FHA necessitated significant understanding of how homes are built, how mortgages finance thousands of communities throughout America and how investors finance the process by buying securities in pools of mortgages. My responsibilities included the production



*C. Austin Fitts, Assistant Housing Secretary, conferring with assistants during a break in her testimony before a Senate subcommittee. She was seeking higher limits on Government-backed loans. From left, Russ Davis, Peter Monroe, and Steve Britt. (The New York Times / Andrea Mohin)*

and management of assisted private housing; management of an organization of 7,000 employees in 80 offices nationwide; and development of network information systems and tools. In addition, I served as advisor to the Secretary of HUD on financial markets regulatory responsibilities, including the RTC Oversight Board, Federal Housing Finance Board and Home Loan Bank Board System, Fannie Mae and Freddie Mac.

When I told Nick Brady in 1989 that I was going to work at HUD, he said, “You can’t go to HUD — HUD is a sewer.” While my experience as Assistant Secretary cleaning up significant mortgage fraud that lost the government billions during the 1980s confirmed that HUD’s financial reputation was deserved, leading the FHA provided invaluable insight into how government management of the economy one neighborhood at a time really harms communities. Hence,



*Catherine Austin Fitts being sworn in as Assistant Secretary of Housing in April 1989 by Jack Kemp, the Secretary of HUD. Catherine’s childhood friend, Georgie LaRue, is holding the Bible. (Photo courtesy Catherine Austin Fitts)*

access to the “real deal” on real estate and the mortgage markets was an opportunity. If you want to see the real economy in a place, you absolutely want an accurate map of the financial flows in that system — starting with the land and real estate. My favorite description of HUD was to come many years later from staff to the Chairman of the Senate HUD appropriation subcommittee — Senator Kit Bond. When asked what was going on at HUD, the Congressional staffer said, “HUD is being run as a criminal enterprise.”<sup>33</sup>

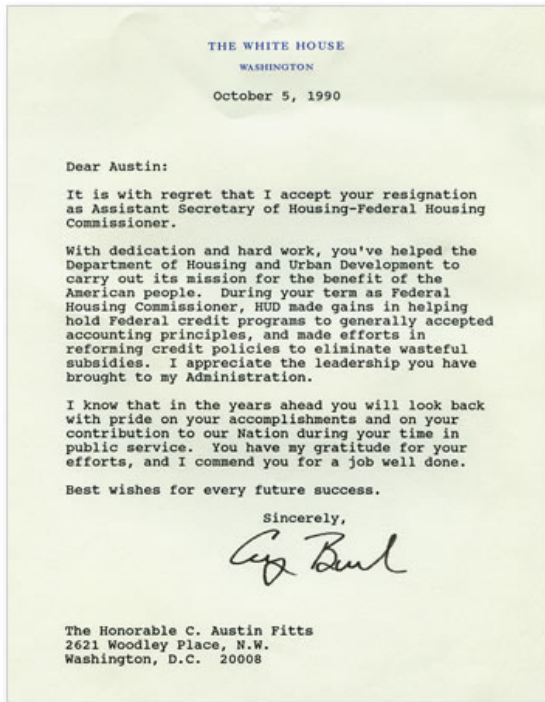
Shortly after arriving at HUD in April 1989, I began to learn about the FHA Coinsurance program. Since 1984, HUD/FHA had allowed private mortgage bankers to issue federal credit to guarantee multi-family apartment projects. After issuing \$9 billion in mortgage guarantees, HUD/FHA was to lose something approaching 50 % of the value of the portfolio — a level of losses hard to explain with mortal logic. When my staff approached me with a proposal to bail out a mortgage company so they could continue to lose money for us, I asked why we should spend money to lose more money in a way that would harm communities. After a long silence during

which 30 staff members intently studied their feet, one brave soul explained to me that the mortgage bank was owned and run by a major Republican donor. Shocked, I said. “I am a major Republican donor,” and pointing to my presidential cufflinks that were adorning my French cuffs, “I got a pair of cuff links. You get cuff links. You don’t get \$400 million of federal credit to throw down the drain.” My staff looked at me like I was so naive and clueless that there was no point in trying to communicate with me — better to let me learn the hard way.

Within minutes, a screaming Jack Kemp, furious that I had not provided illegal subsidy to keep the mortgage banking company going (despite his orders to stop anything corrupt or illegal), called me on the carpet.<sup>34</sup> The problems were compounded by the opinion of HUD General Counsel Frank Keating, who had joined from DOJ, that we did not have to honor our contracts. Rather we could abrogate contracts and ignore the law. If those who had been harmed sued us, Frank said, by the time they won “we will be gone.” Frank was to help write and pass new laws and administrative policies to use HUD as a source of War on Drugs activities and enforcement revenues. After many dirty tricks and much ranting and raving, HUD was to turn the defaulted coinsurance portfolio over to a private contractor named Ervin & Associates, a newly created company founded by John Ervin, a former employee of Harvard’s HUD property management company, NHP.

In the process of cleaning up the coinsurance portfolio, I got a chance to learn more about some of the tax-exempt housing bond deals that involved FHA mortgage insurance. Examples of these deals were those done through one of the Connecticut state housing authorities by a Dillon Read banker, Jewelle Bickford, during the 1980s. Bickford had a lot of support from two of the largest future Dillon Read investors in Cornell Corrections — Ken Schmidt and Birkelund — which was hard for me to fathom. Bickford was one for shortcuts and what sounded to me like more than little white lies. Schmidt shared an intelligence background with Birkelund. He served with Air Force Intelligence early in his career as Birkelund had served in the Office of Naval Intelligence (ONI). When I later realized the role of the intelligence agencies in the HUD portfolio

their comfort with HUD deals in Connecticut with high default rates seemed somehow more logical.



After Bickford’s housing bonds were embroiled in the coinsurance crash and burn, Jewelle somehow managed to get promoted up — landing at Birkelund’s old firm, Rothschild Inc. Which always made me wonder exactly whose bank accounts ended up with the \$4 billion emptied out of the FHA mutual funds at HUD as a result of coinsurance, not to mention the billions more lost in the single family FHA programs. Over \$2 billion was lost by FHA/HUD in the Texas region in fiscal 1989 alone. The Texas region had included Arkansas, where the state agency, ADFA was so bad they had been disqualified at one point according to the HUD Fort Worth regional leadership. It was this state agency which was alleged to have laundered the local profit share of the arms and drug trafficking channeled through Mena, Arkansas.<sup>35</sup>

For comparisons sake, \$4 billion is about the amount of money that would buy you a controlling lead position in taking over one of the world’s premiere money laundering networks. When KKR raised the war chest in 1987 that gave them the wherewithal to bid and win RJR Nabisco, it amounted to \$5.6 billion.

Money is like the Pillsbury Doughboy. When you squeeze down on one part, it pops up someplace else.

### **Wall Street Lessons: Dillon Read’s James Forrestal**

James Forrestal’s oil portrait always hung prominently in one of the private Dillon Read dining rooms for the eleven years that I worked at the firm. Forrestal, a highly regarded Dillon partner and President of the firm, had gone to Washington, D.C. in 1940 to lead the Navy during WWII and then played a critical role in creating the National Security Act of 1947. He then became Secretary of War (later termed Secretary of Defense) in September 1947 and served until March 28, 1949. Given the central banking-warfare investment model that rules our planet, it was appropriate that Dillon partners at various times lead both the Treasury Department and the Defense Department.

Shortly after resigning from government, Forrestal died falling out of a window of the Bethesda Naval Hospital outside of Washington, D.C. on May 22, 1949. There is some controversy around the official explanation of his death — ruled a suicide. Some insist he had a nervous breakdown. Some say that he was opposed to the creation of the state of Israel. Others say that he argued for transparency and accountability in government, and against the provisions instituted at this time to create a secret “black budget.”<sup>36</sup> He lost and was pretty upset about it — and the loss was a violent one. Since the professional killers who operate inside the Washington beltway have numerous techniques to get perfectly sane people to kill themselves, I am not sure it makes a big difference.

Approximately a month later, the CIA Act of 1949 was passed. The Act created the CIA and endowed it with the statutory authority that became one of the chief components of financing the “black” budget — the power to claw monies from other agencies for the benefit of secretly funding the intelligence communities and their



corporate contractors. This was to turn out to be a devastating development for the forces of transparency, without which there can be no rule of law, free markets or democracy.

I studied Forrestal's oil painting with his solemn stare during many a private lunch — each time reminded that government service was an important duty and honor in the Dillon tradition but it was a dangerous business. Congressional Committees had roughed up Clarence Dillon. Forrestal had died. Douglas Dillon was Secretary of the Treasury when Kennedy was assassinated.

Because I wanted to understand how the world really worked, I listened carefully. Over years of private lunches and dinners and conversations I watched and listened to hundreds of lessons on how to be careful — the tricks of predator evasion in Wall Street and Washington. In the midst of many knowledgeable teachers, Forrestal's leadership was a guiding light that was to serve me well in the years ahead.

### **Wall Street Lessons: The Power of the People**

Another thing I learned on Wall Street is the extent to which those who appear to have little material power can have significant power when they organize to do so. My rise to partnership at Dillon Read was fueled by a steady stream of intelligence from loyal secretaries, print shop personnel, drivers and staff whose generosity, street smarts and hard work was a constant reminder that the rise to Wall Street's board rooms was not necessarily based on performance as opposed to privilege. One of the greatest challenges as an associate at Dillon Read was knowing where to invest our time when multiple partners were pressing us to give priorities to their projects. Hence, a heads up from someone's secretary that they were trashing me in the year-end reviews was insider intelligence worth its weight in gold. Giving first priority to those who supported us in year-end reviews and compensation could be the difference between failure and success.

Right after I became a partner, I got a call from a personnel department director who was looking for a new secretary for me. The person who called said they were interviewing someone who has been with a Canadian Broadcasting office in New York for seven-

teen years. This was her first interview since they shut the office down. She was absolutely excellent and if we wanted to recruit her we needed to make her an offer right away. The personnel director said, “The only problem is that she is Jamaican (of African descent), but she is very light skinned.” I was stunned and said something to the effect of “Who cares?” The personnel person said, “If I sent a black person to be interviewed with most of the partners in this firm, I would be fired.” And so I hired Pat Phillips to work for me and was the beneficiary of her extraordinarily overqualified talent until her death twelve years later, by which time she was a Hamilton shareholder and Secretary of our board.

Many years later, after I had started my own investment bank in Washington, D.C., I got a call from a driver at one of the car services that we used to use when I was at Dillon. He said, “Are you doing a deal with Ken Schmidt?” I explained that, yes, I had proposed working together on a fairly large complex transaction. It would take a lot of work but if successful would be great business for both firms. The driver said, “He was in the car last night. He was bragging about how he was going to screw you. Here is what he is going to do.” This was the same Ken Schmidt who had confessed the Dillon partners conversations with my ex-husband. Ken was still blubbering indiscreetly about his bad deeds. And so the driver saved me from my mistake of attempting to partner with my old firm.

## Notes

33. For my documentation as to the HUD systems ability to reject repeated efforts to ensure that its programs were run according to the law, see Personal Experience with FHA-HUD. Online: <https://library.solari.com/wp-content/uploads/2003/fhalist.htm>.
34. For a complete history of my experiences working for Jack Kemp at HUD, see *The Kemp Tapes*. Online: <https://library.solari.com/jack-kemp-1935-2009/>.
35. See links on Mena in endnote above and at the Article Resources—Events page. Online: <http://www.dunwalke.com/resources/events.htm>.

36. See *The Negative Return on Investment Economy — A Discourse on Americas Black Budget* by Chris Sanders and Catherine Austin Fitts. Online: <https://library.solari.com/the-negative-return-economy/>.

## Dillon's Investment in Cornell



On February 21, 1991, after I had left the Bush Administration and remained in Washington D.C. to invest in my own start up, Hamilton Securities, Dillon Read's Venture group invested in Cornell Corrections — essentially bankrolling the creation of quite a different startup in the newly emerging private prison industry. Cornell was founded with David M. Cornell who was Operations Manager – Special Projects of Bechtel and Chief Financial Officer of its subsidiary Becon Construction from 1983–1990.<sup>37</sup> Cornell Corrections was created to take advantage of plans to privatize the government's prison operations. The War on Drugs and its related mandatory sentencing were fueling an explosion in the U.S. prison population. The construction and management of new prison facilities was potentially big business for the construction industry — firms like Brown & Root who Cornell used to build their first detention center — and those who financed them — like Dillon Read.

According to a later Harvard case study on Cornell's facility,<sup>38</sup> David Cornell was pursuing the prison business while at Becon in partnership with Dillon Read — presumably the part of the firm that helps to create and sell the types of local government bonds that finance many prisons. When Becon decided not to pursue the prison business, Cornell decided to leave and start his own private prison company. With Bechtel out of the business, Cornell and Dillon then

decided to use Brown & Root to construct the first prison. Brown & Root was a subsidiary of Halliburton, both based in Houston like Cornell Corrections.

According to Cornell's filings with the SEC and other corporate reports, Dillon used funds from three of its venture funds, Concord, Concord II and Concord Japan to make these initial investments. Dillon Read's April 1997 SEC filing described Concord and Concord II as limited partnerships organized under the laws of New York and Delaware.

To understand Dillon's investments in Cornell it is essential to understand who governed Dillon Read, who at Dillon invested personally as well as who at Dillon along with outside directors helped to govern the Dillon venture funds that invested in Cornell. These are the people who are responsible for the investment decisions and who would have benefited in various forms.

As provided in Dillon's Cornell SEC filings, Dillon, Read Holding Inc.,<sup>39</sup> Dillon, Read Inc.<sup>40</sup> and Dillon, Read & Co. Inc.<sup>41</sup> listed their officers and directors as including John P. Birkelund, David W. Niemiec, Franklin W. Hobbs, IV, Francois de Saint Phalle as well as senior leadership from Barings, the British bank that was now an investor in Dillon and ING, the Dutch financial conglomerate that acquired Barings when it failed in 1995.<sup>42</sup>

The presence of Barings in Dillon's governance structure is noteworthy. Barings, the oldest merchant bank in England and said to be a financial leader in the 1800s China opium trade, collapsed in February 1995 as a result of a trading scandal in Asia and was taken over by ING. Barings became the lead outside investor in Dillon Read in late 1991, when they effectively financed Dillon's management buying out Travelers. This was the same year that Dillon bankrolled Cornell Corrections. Barings' difficulties in 1995 may have increased the pressure on Dillon to generate revenues, particularly before it was sold to Swiss Bank Corporation (now part of UBS) in the summer of 1997, changing its name to SBC Warburg Dillon Read.

In the April 1997 Dillon Cornell SEC filing, the Concord Japan venture fund invested in Cornell is described as a corporation organized under the laws of the Bahamas, whose principal office and business address was c/o Roy West Trust Corporation, (Bahamas) Limited,

West Bay Street, Nassau, Bahamas. Hence, Concord and Concord II were “onshore” funds and Concord Japan was an “offshore” fund. The officers and directors of Concord Japan include representatives of some of the largest most prestigious Japanese corporations as well as Amerex SA which listed its address as the Coutts Bank office in the Bahamas. Coutts is considered one of the most prestigious private banks in the world.<sup>43</sup>

In May 1991, Dillon invested additional funds from one of the Lexington Funds.<sup>44</sup> The Lexington Funds were created to invest money for Dillon officers and directors. Dillon then made additional investments with these various funds in September and November 1991. By the time of Cornell’s initial public offering of stock in October 1996, Dillon Read and the funds it managed and its officers and directors had accumulated approximately 44 % of the outstanding common stock. This meant that they were the controlling shareholders.

Along the way, Dillon officers and directors had personally purchased significant shares of Cornell stock. Investors included Chairman John Birkelund, Vice Chairman Dave Niemiec who signed many of the documents on behalf of Dillon and Lexington, President and CEO Franklin “Fritz” W. Hobbs, IV as well as numerous other senior partners, including Ken Schmidt. Dillon officer Peter A. Liedel, who signed on behalf of Concord, had joined the board of Cornell. Cornell named one of its facilities after him – the Liedel Community Correctional Center, a pre-release facility in Houston.

*Seven Largest Dillon Holders of Personal Positions in Cornell*

Shareholder	Shares	Options included	Amount of funds
John P. Birkelund	39,579	3,736	\$96,990.16
John H. F. Haskell, Jr.	36,730	3,505	\$85,382.75
David W. Niemiec	35,018	3,270	\$76,989.51
Franklin W. Hobbs, IV	30,455	2,803	\$56,986.04
Peter Flanigan	28,178	2,687	\$48,781.40
George A. Wiegers	28,176	2,571	\$44,988.85
Kenneth M. Schmidt	24,778	2,454	\$35,622.38

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Source: Cornell Corrections, Inc. April 1997 13-D Filing by Dillon Read.

For the full list of 32 Dillon officers with personal positions, cf. this endnote.<sup>45</sup>

*Total Estimated Dillon Investment in Cornell Corrections Stock<sup>46</sup>*

Sharholder	Amount of Funds
Concord (Est.)	\$630,000
Concord II	\$2,120,459.83
Concord Japan	\$338,734.26
Lexington III	\$70,000.65
Lexington IV	\$9,541.14
Dillon Read Officers and Directors	\$652,999.99
TOTAL (Est.)	\$3,821,736

Source: Cornell Corrections, Inc. October 1996 Prospectus and April 1997 13-D Filing by Dillon Read.

Dillon's investments in Cornell represent an extraordinary firm-wide commitment to starting up one company. This was not a common occurrence, but as we will see, this was not the first time that Dillon Read had backed a Houston business involved in privatization in an extraordinary way. The decision for an officer and director to buy shares would have been an individual decision — whether they used their own funds or if the firm helped arrange credit or other funds for them to finance their purchases. Hence, this meant that a significant number of Dillon's leadership decided that investing was something they actively wanted to do and for which they chose to be financially and ethically liable. One can only wonder what the Dillon leadership had been led to believe about the future of the private prison business, let alone what it implied about the future of the country.

## Notes

37. Prior to joining Bechtel, Cornell was President of Tenneco Financial Services from 1981 to 1982. Prior to that time, he served as an Executive Vice President of Philadelphia Life Insurance Co. and President of Philadelphia Life Asset Management Company from 1972–1981 (See Cornell Corrections October 4, 1996 Prospectus, page 43. Online:

[https://dillonreadandco.com/resources/SEC/01-0000890566-96-001533\\_10-04-1996\\_Prospectus.txt](https://dillonreadandco.com/resources/SEC/01-0000890566-96-001533_10-04-1996_Prospectus.txt).

38. Harvard Design School Case Study. Online: [http://www.dunwalke.com/resources/documents/Events/Harvard\\_Case\\_Study\\_940101-014.pdf](http://www.dunwalke.com/resources/documents/Events/Harvard_Case_Study_940101-014.pdf).
39. Executive Officers and Directors of Dillon, Read Holding, Inc. are listed as:
  - John P. Birkelund, Chairman, Director and Managing Director of Dillon Read & Co. Inc.
  - David W. Niemiec, Vice Chairman, Director, Managing Director, Treasurer and Secretary of Dillon Read & Co. Inc.
  - Francois de Saint Phalle, Vice Chairman, Director and Managing Director of Dillon Read & Co. Inc.
  - Franklin W. Hobbs IV, President, Chief Executive Officer, Managing Director of Dillon, Read & Co. Inc.
  - Leendert C. Grijns, Chairman, Internationale Nederlanden Capital Corporation, 135 East 57th St. NY, NY 10022 (Dutch Citizen)
  - Jan Hessel Lindenbergh, Director, ING Bank, The Netherlands (Holland Citizenship)

This and the information in Footnotes 36 and 37 below are detailed in Cornell Corrections' April 4, 1997 SEC 13-D Filing. Online: [https://dillonreadandco.com/resources/SEC/09-0000950162-97-000313\\_4-04-1997\\_Sched13d.txt](https://dillonreadandco.com/resources/SEC/09-0000950162-97-000313_4-04-1997_Sched13d.txt).

40. Executive Officers and Directors listed for Dillon, Read Inc. were Birkelund, Niemiec, Saint Phalle and Hobbs and representatives of Dillon investors ING and Barings.
41. Executive Officers and Directors of Dillon, Read & Co. Inc. were Birkelund, Niemiec, Saint Phalle and Hobbs, Simon A. Borrows, Baring Brothers International Limited, 60 London Wall, London, EC2M 5TQ, Director (UK Citizen) Leendert C. Grijns, Chairman, Internationale Nederlanden (U.S.) Capital Corporation, 135 East 57th Street, NY, NY 10022 (Dutch Citizen) James R.C. Lupton, Executive Director, Baring Brothers International Limited, 60 London Wall, London (UK Citizen) Michael D.G. Ross, Managing Director, Baring Brothers International



Limited, (UK Citizen). Also listed were 52 additional Dillon Read Managing Directors as follows:

- Barbara Alexander, Director and Managing Director
- Sharyar Aziz, Director and Managing Director
- Tamara A. Bush, Director and Managing Director
- James H. Brandi, Director and Managing Director
- William S. Brenizer, Director and Managing Director
- James C. Brennan, Director and Managing Director
- John G. Brim, Director and Managing Director
- Michael A. Cilia, Director and Managing Director
- Frank V. Colombo, Director and Managing Director
- Kenneth S. Crews, Director and Managing Director (Dallas Office-3950 Trammel Crow Lane, 2001 Ross Avenue, Dallas TX 75201)
- David M. Dickson, Jr. Director and Managing Director
- Charles P. Durkin, Jr., Director and Managing Director
- Blair W. Effron, Director and Managing Director
- Raul P. Esquivel, Director and Managing Director
- Peter Flannigan, Director
- Thomas J. Hartfield, Director and Managing Director
- John H. F. Haskell, Jr., Director and Managing Director
- Anthony B. Helfet, Director and Managing Director (San Francisco Office – 555 California Street, Suite 4950, San Francisco, CA 94104)
- William O. Hiltz, Director and Managing Director
- Robert H. Hotz, Director and Managing Director
- James W. Hunt, Director and Managing Director (Dallas Office)
- Peter H. Imhoff, Director and Managing Director
- Yerger Johnstone, Director and Managing Director (London Office – 60 London Wall, London EC2M 5TQ) (UK Citizen)
- Craig A.T. Jones, Director and Managing Director
- Kenjiro Kawaguchi, Director and Managing Director (Tokyo Office-Imperial Tower, 6th Floor, 1-1-11 Uschisaiwai-cho, Chiyoda-ku, Tokyo, Japan) (Japanese Citizen)
- Patrick J. Landers, Director and Managing Director
- Bryan H. Lawrence, Director and Managing Director
- J. Richard Leaman, III, Director and Managing Director
- Richard R. Macek, Controller, Director and Managing Director, 120 Wall Street, New York, NY 10005
- Daniel F. Marciano, Director and Managing Director
- Cynthia Melcher, Director and Managing Director
- Richard J. Milligan, Director and Managing Director

- Richard H. Montague, Director and Managing Director
- Robert Moulton-Ely, Director and Managing Director
- John H. Mullin, III, Shade Tree Farmer, Ridgeway Farm Inc. Route 2, Box 380, Brookneal, VA 24528
- Christian L. Oberbeck, Director and Managing Director
- Victor A. Pelson, Director
- Robert A. Pilkington, Director and Managing Director
- Thomas L. Piper, III, Director and Managing Director
- Jerome H. Powell, Director and Managing Director
- William P. Powell, Director and Managing Director
- Eric W. Roberts, Director and Managing Director
- Kenneth M. Schmidt, Director and Managing Director
- HC. Bowen Smith, Director and Managing Director
- Richard R. S. Smith, Director and Managing Director
- Danforth H. Starr, Director
- Jason D. Sweet, Director and Managing Director (Dallas Office)
- F. Davis Terry, Jr., Director and Managing Director
- Lorenzo D. Weisman, Director and Managing Director (French Citizen)
- Edward B. Whitney, Director and Managing Director
- George A. Wieggers, Director
- John E. Wilson, Director and Managing Director
- Robert A. Young, Director and Managing Director

42. For a description of Barings and ING see <http://en.wikipedia.org/wiki/Barings>.

43. The officers and directors of Concord Japan included:

- Kenjiro Kawaguchi, Director and Managing Director Dillon Read & Co., Tokyo
- Amerex SA, Coutts & Company (Bahamas) Ltd, West Bay Street, Nassau Bahamas
- Takashi Imai, Nippon Steel Corporation, Tokyo
- Yoh Kurosaw, The Industrial Bank of Japan, Ltd
- Heiichi Hamaoka, Nissan Motor Co. Ltd, Tokyo
- Gentaro Kawase, Nippon Life Insurance Company

See Exhibit D of Cornell Corrections' April 4, 1997 SEC 13-D Filing. Online: [https://dillonreadandco.com/resources/SEC/09-0000950162-97-000313\\_4-04-1997\\_Sched13d.txt](https://dillonreadandco.com/resources/SEC/09-0000950162-97-000313_4-04-1997_Sched13d.txt).

44. I was an investor in the first Lexington Fund.

45. Personal Investments of Dillon Read Officers and Directors in Cornell  
Corrections in Dillons April 1997 13-D Filings were:

Name	Shares	Options Included	Amount of Funds (\$)
Charles Ballard	5,870	569	5,848.82
John P. Birkelund	39,579	3,736	96,990.16
J. Robert Burton, III	2,387	228	2,448.38
James P. Connelly	697	47	2,576.55
Douglas Darby	5,424	517	13,512.39
Sally Dean	2,379	228	2,425.62
Peter Flanigan	28,178	2,687	48,781.40
Felice Gelman	488	47	2,087.17
Harry Hagerty	684	70	1,498.53
John H. F. Haskell, Jr	36,730	3,505	85,382.75
E. Terri Herman (1)	368	23	1,396.40
Franklin W. Hobbs, IV	30,455	2,803	56,986.04
Robert H. Hotz	1,260	116	5,340.13
Peter H. Imhoff	8,353	853	7,500.00
Craig A. T. Jones	12,671	1,141	18,248.65
W. Howard Keenan, Jr.	5,819	548	9,274.77
Peter A. Leidel (2)	1,839	116	6,972.91
Nathan Leight	1,221	116	5,230.15
Richard H. Montague	1,291	116	5,427.55
Robert Moulton-Ely	1,002	93	4,253.93
John Murabito	367	35	1,570.06
David W. Niemiec	35,018	3,270	76,989.51
James F. Reilly	1,140	116	5,001.73
Bret Russell	5,720	569	5,425.82
Kenneth M. Schmidt	24,778	2,454	35,622.38
H. C. Bowen Smith	22,111	2,105	22,746.92
Michael I. Somers	11,929	1,137	12,223.44
F. Davis Terry, Jr.	2,460	232	10,507.61
Wayne Thornbrough	6,107	582	26,147.30
George H. Weiler, III (3)	1,103	70	4,180.11
George A. Wiegiers	28,176	2,571	44,988.85
Richard C. Yancey	9,629	918	21,803.72

(1) (2) (3) Does not include 1,000 shares each purchased in the open market.

46. In the October 1996 Prospectus, Dillon Read and its funds as shareholders are listed as owning 1,359,863 shares. As of the April 1997 filing, Dillon lists shareholdings of 1,191,864. The difference of 168,000 shares is assumed to be distribution of shares to partners by Concord prior to the April 1997 filing. The original cost of these shares has been estimated at \$2.75 per share described by valuations in the October 1996 Prospectus ([https://dillonreadandco.com/resources/SEC/02-0000890566-97-002232\\_10-21-1996\\_Prospectus.txt](https://dillonreadandco.com/resources/SEC/02-0000890566-97-002232_10-21-1996_Prospectus.txt).)

# Cornell Corrections



Based on company SEC filings, Houston-based Cornell Corrections started off with correctional facilities in Massachusetts and Rhode Island in 1991 and then in 1994 acquired Eclectic Communications, the operator of 11 pre-release facilities in California with an aggregate design capacity of 979 beds. An important relationship for Cornell from the start was the U.S. Marshals Service, an agency of DOJ, who was Cornell's primary client for its Donald W. Wyatt Federal Detention Facility in Central Falls, Rhode Island, a facility with a capacity of 302 beds.

The U.S. Marshals Service is the oldest U.S. enforcement agency. Among other duties, the U.S. Marshals Service houses and transports prisoners prior to sentencing and provides protection for the federal court system. According to the Marshals Service's website, they are also:

"Responsible for managing and disposing seized and forfeited properties acquired by criminals through illegal activities. Under the auspices of the Department of Justice Asset Forfeiture Program, the Marshals Service currently manages more than \$964 million worth of property, and it promptly disposes of assets seized by all DOJ agencies. The goal of the program is to maximize the net return from seized property and then to use the property and proceeds for law enforcement purposes."

An article by Jeff Gerth and Stephen Labaton in the New York Times in November 1995, ‘Prisons for Profit: A Special Report; Jail Business Shows Its Weaknesses’ describes the problems that Cornell ran into with its Rhode Island facility. This facility had been financed with municipal bonds issued through the Rhode Island Port Authority in the summer of 1992 and underwritten by Dillon Read. The article states:

“Two years ago, the owners of the red cinder-block prison in this poor mill town threw a lavish party to celebrate the prison’s opening and show off its computer monitoring system, its modern cells holding 300 beds and a newly hired cadre of guards.”

But one important element was in short supply: Federal prisoners.

“It was more than an embarrassing detail. The new prison, the Donald W. Wyatt Detention Facility, is run by a private company and financed by investors. The Federal Government had agreed to pay the prison \$83 a day for each prisoner it housed. Without a full complement of inmates, it could not hope to survive.

“So the prison’s financial backers began a sweeping lobbying effort to divert inmates from other institutions. Rhode Island’s political leaders pressed Vice President Al Gore while he was visiting the state as well as top officials at the Justice Department to send more prisoners. Facing angry bondholders and insolvency, the company, Cornell Corrections, also turned to a lawyer who was then brokering prisoners for privately run institutions in search of inmates.

“The lawyer, Richard Crane, has done legal work for private corrections companies and Government penal agencies. He put the Wyatt managers in touch with North Carolina officials. Soon afterward, 232 prisoners were moved to Rhode Island from North Carolina, and Mr. Crane was paid an undisclosed sum by Cornell Corrections.”

Cornell’s Donald C. Wyatt facility later became a case study at the Harvard Design School’s Center for Design Informatics. This was an indication of the wave of business and investment opportunities that prisons and enforcement presented to everyone from architects to construction companies to real estate and tax-exempt bond in-

vestors.<sup>47</sup> Harvard's case study mentions that Cornell arranged for the facility to be constructed by Brown & Root of Houston, Texas, then a subsidiary of Halliburton. (Brown & Root, now known as KBR, separated from Halliburton in April 2007 after 44 years as a subsidiary.) Brown & Root/KBR's construction of prison facilities was to become more visible many years later after its construction of detention facilities at Guantanamo Bay, prisoner of war camps in Iraq and its winning of contracts to build detention centers for the Department of Homeland Security. A request to Cornell for information regarding companies used for prison construction subsequent to the Wyatt facility has been made, but no response has yet been received.

Dillon Read had long standing relationships with Brown & Root and the Houston banking and business leadership as a result of the firm's historical role in underwriting oil and gas companies, including pipelines. In 1947, Herman and George Brown, the founders and owners of Brown & Root, were part of a group of Texas businessmen banked by Dillon Read as investor and underwriter (in a manner very similar to Dillon's backing of Houston-based Cornell many years later) to form the Texas Eastern Transmission Co. to buy the "Big Inch" and "Little Big Inch" pipelines in a privatization by the U.S. government.

The Texas Eastern pipelines were critical to bringing natural gas from Texas and the Southwest to Eastern markets. For most Americans, Houston and New York seem far apart. However, the intimacy of their connection is better understood when you study the investment syndicates that controlled the railroad, canals, pipelines and other transportation systems that have connected these markets and helped to determine control of the local retail businesses for both goods and capital along the way. For example, Texas Eastern's Big Inch pipeline went from east Texas to Linden, New Jersey, some 30 miles away from the Dillon and Brady estates in New Jersey and approximately 20 miles from the Dillon Read offices on Wall Street.

According to investigative journalist Dan Briody in *The Halliburton Agenda: The Politics of Oil and Money*, the Brown brothers netted \$2.7 million in profits on their shares in their initial public offering right after the company was formed and won the bid to buy the

pipelines from the government in the late 1940's. That, however, was not the real payoff. According to Briody, Brown & Root subsequently worked on 88 different jobs for Texas Eastern, and generated revenues of \$1.3 billion from Texas Eastern between 1947 and 1984.<sup>48</sup>

According to Robert Sobel in *The Life and Times of Dillon Read*, under August Belmont's personal leadership of the transaction, Dillon Read also made a profit on the Texas Eastern shares. "Nothing is known of Dillon Read's profits on the underwriting, but it was a sizeable owner of TETCO [Texas Eastern] common, acquired at 14 cents a share, which rose to \$9.50."<sup>49</sup> While figures for Dillon Read revenues from underwriting and other investment banking services over the years comparable to Brown & Root's construction contracts are not available, my recollection was that Dillon continued to maintain a profitable relationship with Texas Eastern when I worked at the firm in the 1980s many decades later. Interestingly enough, Briody also describes in detail the McCarthyist efforts that were made to destroy Federal Power Commission chairman Leland Olds, an honest government official, because his ethical regulatory decisions threatened the richness of the Texas Eastern profits. The clear implication is that the pattern of generating financial windfalls from government privatizations combined with dirty tricks against honest government officials is nothing new.<sup>50</sup>

The closeness of the Brown & Root relationship with Dillon Read is also underscored by Briody's description of the head of Brown & Root's frustration with Lyndon Johnson's decision to serve as John Kennedy's running mate. He quotes August Belmont, by then a leader of Dillon Read, who was with Brown in Houston in his private hotel suite listening to the radio coverage of Johnson's announcement. According to Belmont, "Herman Brown....jumped up from his seat and said, 'Who told him he could do that?' and ran out of the room."<sup>51</sup>

What Briody does not mention is allegations regarding Brown & Root's involvement in narcotics trafficking. Former LAPD narcotics investigator Mike Ruppert once described his break up with fiancée Teddy — an agent dealing narcotics and weapons for the CIA while working with Brown & Root, as follows:



“Arriving in New Orleans in early July, 1977 I found her living in an apartment across the river in Gretna. Equipped with scrambler phones, night vision devices and working from sealed communiqués delivered by naval and air force personnel from nearby Belle Chasse Naval Air Station, Teddy was involved in something truly ugly. She was arranging for large quantities of weapons to be loaded onto ships leaving for Iran. At the same time she was working with Mafia associates of New Orleans Mafia boss Carlos Marcello to coordinate the movement of service boats that were bringing large quantities of heroin into the city. The boats arrived at Marcello controlled docks, unmolested by even the New Orleans police she introduced me to, along with divers, military men, former Green Berets and CIA personnel.

“The service boats were retrieving the heroin from oil rigs in the Gulf of Mexico, oil rigs in international waters, oil rigs built and serviced by Brown and Root. The guns that Teddy monitored, apparently Vietnam era surplus AK 47s and M16s, were being loaded onto ships also owned or leased by Brown and Root. And more than once during the eight days I spent in New Orleans I met and ate at restaurants with Brown and Root employees who were boarding those ships and leaving for Iran within days. Once, while leaving a bar and apparently having asked the wrong question, I was shot at in an attempt to scare me off.”<sup>52</sup>

Source: “Halliburton’s Brown and Root is One of the Major Components of the Bush-Cheney Drug Empire” by Michael Ruppert, *From the Wilderness*

Another important relationship for the Houston-based Cornell Corrections was the California Department of Corrections. Whether this reflected that California was home base for David Cornell’s former employer, Bechtel, is not clear. When Cornell Corrections got started, California had the largest prison population of any U.S. governmental entity. In part due to extraordinary growth in incarcerations of non-violent drug users as a result of the War on Drugs, the federal prison population managed by the Federal Bureau of Prisons at the Department of Justice has become the largest with 186,560 based on their September 8, 2005 weekly update.<sup>53</sup> California is close behind with 168,000 youths and adults incarcerated in California prisons and 116,000 subject to parole.

Cornell’s early years of business were not financially profitable.

The private prison industry faced significant resistance and legal and operational challenges to privatizing federal, state and local prison capacity. Within the private prison industry, Cornell faced competition for new contracts and acquisitions from two larger, more experienced companies, CCA and Wackenhut. By 1995, compared to industry leaders, Florida-based Wackenhut and Tennessee based Corrections Corporation of America (CCA), Cornell Corrections appeared to be lagging in government contract growth. As of mid 1996, Cornell was carrying \$8 million of cumulative losses on its balance sheet.

Cornell’s Chief Financial Officer, Treasurer and Secretary was Steven W. Logan, who had served as an experienced manager in Arthur Anderson’s Houston office. This was the same office of Arthur Anderson that had served as Enron’s auditor until the Enron bankruptcy brought about the indictment and conviction of Arthur Andersen.<sup>54</sup> Arthur Andersen was Cornell’s auditor, having first served as a consultant to create market studies which helped support the approvals for and financing of the building of the Rhode Island facility for the U.S. Marshals Service. Logan was later forced out of Cornell after an off-balance sheet deal<sup>55</sup> engineered with the help of a former Dillon Read banker Joseph H. Torrence, like those done for Enron was called into question and significant stock value declines triggered litigation from shareholders.

	1992	1993	1994	1995	1996
Revenues	\$2.5MM	\$3.2MM	\$15.7MM	\$20.6MM	\$32.3MM
Net Income (Loss)	.9	(.9)	(.6)	(1.0)	(2.4)
Beds in Operation	–	282	1,155	1,135	2,899

(MM = In millions) Source: Cornell Corrections, Inc.,  
Selected Consolidated Financial Data, Form 10-K For Fiscal Year Ended 1996

Most venture capital investors prefer to exit their investment within 5 years. That means that Dillon Read would have likely wanted to establish or start their exit from Cornell by 1996. The stock market was hungry for Initial Pubic Offerings (IPOs) where a new company sells its stock to the public for the first time. Venture capitalists typically make their profit from financing a company and then selling their equity when a public market has been established for the

company's stock. However, by the end of 1995, Cornell's story was not an exciting one. It was not a market leader, its growth was slow and it had no profits. If the calf was going to be taken to market, it would need fattening.

### **A Note on "Prison Pop"**

The "pop" is a word I learned on Wall Street to describe the multiple of income at which a stock is valued by the stock market. So if a stock like Cornell Corrections trades at 15 times its income, that means for every \$1 million of net income it makes, its stock goes up \$15 million. The company may make \$1 million, but its "pop" is \$15 million. Folks make money in the stock market from the stock going up. On Wall Street, it's all about "pop."

Prison stocks also are valued on a "per bed" basis — which is based on the number of beds provided and the profit per bed. "Per bed" is really a euphemism for people who are sentenced to be housed in their prison.

For example, in 1996, when Cornell went public, based on the financial information provided in the offering document provided to investors, its stock was valued at \$24,241 per bed. This means that for every contract Cornell got to house one prisoner, at that time, their stock went up in value by an average of \$24,261. According to prevailing business school philosophy, this is the stock market's current present value of the future flow of profit flows generated through the management of each prisoner. This, for example, is why longer mandatory sentences are worth so much to private prison stocks. A prisoner in jail for twenty years has a twenty-year cash flow associated with his incarceration, as opposed to one with a shorter sentence or one eligible for an early parole.<sup>56</sup> *This means that we have created a significant number of private interests — investment firms, banks, attorneys, auditors, architects, construction firms, real estate developers, bankers, academics, investors among them — who have a vested interest in increasing the prison population and keeping people behind bars as long as possible.*

When you invest in stock, you make money if and when you sell the stock at a higher price than you paid for it. This would be true for the people who invested in Cornell stock, including Dillon Read

and its venture funds. Cornell was run by a board of directors that represented the shareholders, particularly the controlling shareholders — in this case Dillon Read. The board is the group of people who decides what goes. Senior management officials, such as the founder and Chairman David Cornell, who run the company day to day, are also on the board. Most of the money they make comes from stock options that they get to encourage them to get the stock to go up for the investors. That means that what everyone who runs the company wants is for the stock to go up.

There are two ways to make the stock go up. First, you can increase net income by increasing capacity — the number of “beds” — or profitability — “profits per bed.” Second, you can increase the multiple at which the stock trades by increasing the markets’ expectations of how many beds or what your profit per bed will be and by being very accessible to the widest group of investors. So, for example, passing laws regarding mandatory sentencing or other rules that will increase the needs for prison capacity can increase the value of private prison company stock without those companies getting additional contracts or business. The passage of — or anticipation of — a law that will increase the demand for private prisons is a “stock play” in and of itself.

The winner in the global corporate game is the guy who has the most income running through the highest multiple stocks. He is the winning “pop player.” Like the guy who wins at monopoly because he buys up all the properties on the board, he can buy up the other companies. So the private prison company that wins is the one that gets the most contracts that guarantee it the most prisons and prisoners that generate the most income for the longest period with the smallest amount of risk.

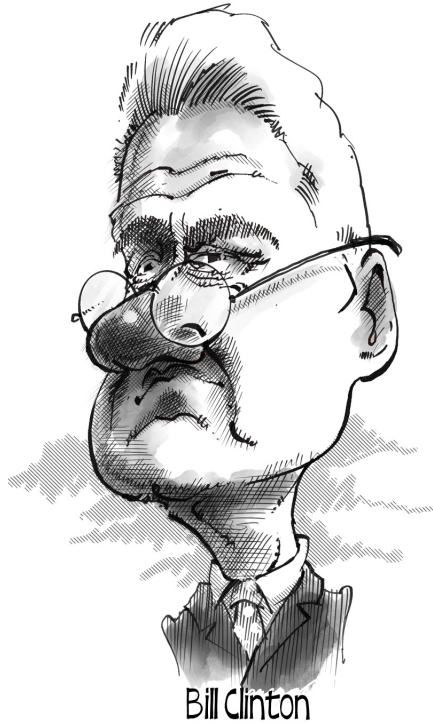
The way that Cornell could become a winner quickly was to get lots of government contracts to house lots of prisoners and acquire other companies with government contracts to house lots of prisoners and do it quickly.<sup>57</sup> And that was exactly what happened.

## Notes

47. See *Harvard Design School Case Study*. Online: [https://www.dunwalke.com/resources/documents/Events/Harvard\\_Case\\_Study\\_940101-014.pdf](https://www.dunwalke.com/resources/documents/Events/Harvard_Case_Study_940101-014.pdf)
48. See *The Halliburton Agenda: The Politics of Oil and Money*, Dan Briody, John Wiley & Sons, 2004, pages 103 and 112.
49. See *The Life and Times of Dillon Read*, Robert Sobel, Penguin Books, 1991, page 234.
50. See *The Halliburton Agenda: The Politics of Oil and Money*, Dan Briody, John Wiley & Sons, 2004, Chapter 5: Collateral Damage: The Leland Olds Story, pages 93–114.
51. See *The Halliburton Agenda: The Politics of Oil and Money*, Dan Briody, John Wiley & Sons, 2004, page 150. For description of Suite 8f (Brown's private hotel suite) and the "Suite 8F Crowd," see pages 132–141.
52. See *Halliburtons Brown and Root is One of the Major Components of the Bush-Cheney Drug Empire* by Michael Ruppert. Online: <http://www.fromthewilderness.net/free/ciadrugs/bush-cheney-drugs.html>. See also, *Opening Remarks of Michael Ruppert for the Senate Select Intelligence Committee* (<http://www.fromthewilderness.net/ssci.shtml>).  
 See Brown and Root entry from Wikipedia ([http://en.wikipedia.org/wiki/Kellogg,\\_Brown\\_and\\_Root](http://en.wikipedia.org/wiki/Kellogg,_Brown_and_Root)).  
 See Halliburton entry from Wikipedia (<http://en.wikipedia.org/wiki/Halliburton>).
53. See *Federal Bureau of Prisons Weekly Report* ([https://www.bop.gov/research/research\\_and\\_reports.jsp](https://www.bop.gov/research/research_and_reports.jsp)).
54. See *Anderson Guilty* ([http://money.cnn.com/2002/06/13/news/andersen\\_verdict/](http://money.cnn.com/2002/06/13/news/andersen_verdict/)).
55. See *Charity Lends a Hand to Prisons With Murky Off-the-Books Deals* by Joseph T. Hallinan (Wall Street Journal, May 1, 2002). Online: <https://www.prisonpolicy.org/scans/prisonaccounting.shtml>.

56. Allegations have been made that the prison system works on a bonding system that bonds each prisoner. The author does not know if such a system exists and, if it does exist, how it works.
57. For more on public subsidies for private prisons see *Jail Breaks, Economic Subsidies Given to Private Prisons* (<http://www.goodjobsfirst.org/sites/default/files/docs/pdf/jailbreaks.pdf>) and *The Real Costs of Prison Project* (<http://realcostofprisons.org/>).

## **The Clinton Administration: Progressives for For-Profit Prisons**



Much has been written about the use of the War on Drugs to intentionally disenfranchise poor people and engineer the centralization of political and economic power in the U.S. and globally, including an explosive rise in the U.S. prison population. The purpose of this story is not to repeat this fundamentally sound thesis. For those who are interested in more on this topic, I would refer you to my article and audio seminar “Narco Dollars for Beginners” as well as Michael Woodiwiss’ book *Organized Crime and American Power* (University of Toronto Press, 2001) and their associated bibliographies.<sup>58</sup>

What most people miss is the extent to which the day-to-day implementation of this intentional centralism is deeply pervasive and therefore deeply bipartisan. It receives the promotion and support from all political and social spectrums that make money by running government through the contractors, banks, law firms, think tanks and universities that really run the government. My intention for this story is to make clear how the system really works. A system in which a small group of ambitious insiders — who more often than not were educated at Harvard, Yale, Princeton and the other Ivy League schools — enjoy centralizing power and advantaging themselves. Paradigms of Republican vs. Democrat or Conservative vs. Progressive have been designed for obfuscation and entertainment. An endless number of philosophies and strains of religious and “holier than thou” moralism are really put on and taken off like fresh make-up in the effort to hide from view a deeper, uglier face. One person who may have described it more frankly during the Clinton years was the former Director of the CIA, William Colby, who writing for an investment newsletter in 1995 said:

“The Latin American drug cartels have stretched their tentacles much deeper into our lives than most people believe. It’s possible they are calling the shots at all levels of government.”

The Clinton Administration took the groundwork laid by Nixon, Reagan and Bush and embraced and blossomed the expansion and promotion of federal support for police, enforcement and the War on Drugs with a passion that was hard to understand unless and until you realized that the American financial system was deeply dependent on attracting an estimated \$500 billion-\$1 trillion of annual money laundering. Globalizing corporations and deepening deficits and housing bubbles required attracting vast amounts of capital.

Attracting capital also required making the world safe for the reinvestment of the profits of organized crime and the war machine. Without growing organized crime and military activities through government budgets and contracts, the economy would stop centralizing. The Clinton Administration was to govern a doubling of the federal prison population.<sup>59</sup>



Whether through subsidy, credit and asset forfeiture kickbacks to state and local government or increased laws, regulations and federal sentencing and imprisonment, the supremacy of the federal enforcement infrastructure and the industry it feeds was to be a Clinton legacy.

One of the first major initiatives by President Bill Clinton was the Omnibus Crime Bill, signed into law in September 1994. This legislation implemented mandatory sentencing, authorized \$10.5 billion to fund prison construction that mandatory sentencing would help require, loosened the rules on allowing federal asset forfeiture teams to keep and spend the money their operations made from seizing assets, and provided federal monies for local police. The legislation also provided a variety of pork for a Clinton Administration vogue constituency — Community Development Corporations (CDCs) and Community Development Financial Institutions (CDFIs). The CDCs and CDFIs became instrumental during this period in putting a socially acceptable face on increasing central control of local finance and shutting off equity capital to small business.

The potential impact on the private prison industry was significant. With the bill only through the house, former Attorney General Benjamin Civiletti joined the board of Wackenhut Corrections, which went public in July 1994 with an initial public offering of 2.2 million shares. By the end of 1998, Wackenhut's stock market value had increased almost ten times. When I visited their website at that time it offered a feature that flashed the number of beds they owned and managed. The number increased as I was watching it — the prison business was growing that fast.

However, the Clinton Administration did not wait for the Omnibus Crime Bill to build the federal enforcement infrastructure. Government-wide, agencies were encouraged to cash in on support in both Executive Branch and Congress for authorizations and programs — many justified under the umbrella of the War on Drugs — that allowed agency personnel to carry weapons, make arrests and generate revenues from money makers such as civil money penalties and asset forfeitures and seizures. Indeed, federal enforcement was moving towards a model that some would call “for profit” faster than one could say “Sheriff of Nottingham.”

On February 4, 1994, U.S. Vice President Al Gore announced Operation Safe Home, a new enforcement program at HUD. Gore was a former Senator from Tennessee. His hometown of Nashville was home of the largest private prison company, Corrections Corporation of America (CCA). He was joined at the press conference by Secretary of the Treasury Lloyd Bentsen, Attorney General Janet Reno, Director of Drug Policy Lee Brown and Secretary of HUD Henry Cisneros who said that the Operation Safe Home initiative would claim \$800 million of HUD's resources. Operation Safe Home was to receive significant support from the Senate and House appropriations committees. It turned the HUD Inspector General's office from an auditor of program areas to a developer of programs competing for funding with the offices they were supposed to be auditing — a serious conflict of interest and built-in failure of government internal controls.

According to the announcement, Operation Safe Home was expected to “combat violent crime in public and assisted housing.” As part of this program, the HUD Office of Inspector General (OIG) coordinated with various federal, state and local enforcement task forces. Federal agencies that partnered with HUD included the FBI, the Drug Enforcement Agency (DEA), the Bureau of Alcohol, Tobacco and Firearms (ATF), the Internal Revenue Service (IRS), the Secret Service, the U.S. Marshal's Service, the Postal Inspection Service, the U.S. Customs Service, the Immigration and Naturalization Service (INS) and the Department of Justice (DOJ). The primary performance measures reported in the HUD OIG Semi-Annual Performance Report to Congress for this program are the total number of asset forfeitures/seizures, equity skimming collections and arrests. Subsequent intra-agency efforts such as the “ACE” program sponsored by DOJ and initiated by U.S. Attorney's Offices, working with the DOJ Asset Forfeiture Fund, HUD OIG and HUD Office of General Counsel promoted revenue generating activities as well.

Behind the scenes what all this meant was big budget increases for DOJ and the portions of the agencies that were focused on profitable enforcement and the War on Drugs. Big budget increases meant big contract budget increases as government outsourced more and more work. In “Prisons for Profit: A special report; Jail Business

Shows Its Weaknesses,” Jeff Gerth and Stephen Labaton in the New York Times in November 1995 describe the political appointees in the Clinton Administration who were successful at overcoming the natural intelligence of the career civil service at DOJ:

“In the middle of last year, the White House sent its proposal to privatize prisons to the Justice Department, where it was greeted with a frosty response, according to officials involved in the discussions.

To help overcome the resistance of senior officials at the Justice Department and the Bureau of Prisons, the plan’s architect at the White House, Christopher Edley Jr., asked Mr. Gore’s office to turn up the heat.

Mr. Edley, an associate director of the Office of Management and Budget, enlisted the aid of Ms. Kamarck, Mr. Gore’s senior policy adviser overseeing his government review. She then called her friend, Ms. Gorelick, the Deputy Attorney General, who oversees the day-to-day operations of the Justice Department.

I convinced Jamie to do more of it,” Ms. Kamarck recalled.

Cornell Corrections was one of the beneficiaries of Chris Edley, Elaine Kamarck and Jamie Gorelick’s efforts. According to Cornell’s 1996 Prospectus (the offering document provided to investors) filed with the SEC, after building a capacity of approximately 1100 beds over a five year period, Cornell in a nine month period was suddenly blessed with a feeding frenzy of new contracts, contract renewals and contract acquisition approvals that nearly tripled their capacity — all from the Federal Bureau of Prisons at the Department of Justice.

The acquisition of the Big Spring, Texas facilities from MidTex, signed in February of 1996 and closed in July 1996 brought on board Charles J. Haugh to be Cornell’s Director of Secure Institutions as of May 1997. Haugh had most recently been the Executive Director of MidTex. From 1963 to 1988, Haugh had served in numerous capacities for the Federal Bureau of Prisons at DOJ, including Special Assistant to Director Administrator of Correctional Services Branch, Associate Warden, Chief Correctional Supervisor and Correctional Officer.

**Contract Awards, Renewals and Acquisition Approvals  
to Cornell Corrections by DOJ, September 1995 to April 1996**

Date	Location	Prisoner Capacity	Type
9/95	Oakland	61	Pre-Release
11/95	San Diego	50	Pre-Release
12/95	Salt Lake	58	Pre-Release
1/96	Houston	94	Pre-Release*
2/96	San Francisco	81	Pre-Release
2/96	Big Spring, Texas	1305	Secure
3/96	Santa Barbara	25	Pre-Release
4/96	El Monte, California	52	Pre-Release
	TOTAL	1726	

Note: \* This location is named the Peter A. Liedel Community Center after Cornell board member and Dillon Read officer Peter A. Liedel.

Gerth and Labaton in “Prisons for Profit” describe who in the Clinton Administration got it done:

“Federal officials say they are comfortable with letting private companies run Federal prisons because the industry has become mature, gaining experience running state and local jails. But Federal officials have also grown comfortable with the prison industry because its ranks now include many former colleagues as senior and other law-enforcement officials have taken positions at private corrections companies, Washington’s latest revolving door profession.

The industry leader is the Corrections Corporation of America, a 12-year-old company based in Nashville. Some of the company’s officials are former Federal prison employees, and the company’s director of strategic planning, Michael Quinlan, headed the Bureau of Prisons in the Bush Administration.

Another industry leader is the Wackenhut Corrections Corporation of Coral Gables, Florida. Its directors include Norman A. Carlson, Mr. Quinlan’s predecessor as the director of the prisons bureau, and Benjamin R. Civiletti, a former Attorney General.

The Acting Attorney General in the first months of the Clinton Administration, Stuart Gerson, is on the board of Esmor Correctional Services of Sarasota, Fla. Four months ago, the Immigration

and Naturalization Service, a unit of the Justice Department, canceled its contract with Esmor after an uprising at its detention center in Elizabeth, N.J. An investigation by immigration officials concluded that Esmor, trying to cut costs, had failed to train guards, some of whom beat detainees.

The revolving door is beginning to work both ways. Not only has the private sector turned to former Federal officials, the Government has also started to look to industry leaders for aid in developing plans to hand new prisons over to private management.

Mr. Crane, a general counsel at the Corrections Corporation in the 1980s, was retained briefly as a consultant by the Bureau of Prisons to help write a model contract that is going to be used to hire the company to run the Federal prison in Taft.

The Mr. Crane who they have hired to develop the contract is the same Mr. Crane who arranged for the prisoners to be shipped from North Carolina to Rhode Island to save Cornell Corrections and Dillon Read's municipal bond buyers.

The outpouring of contracts from the Department of Justice to Cornell was very significant. When Cornell did its IPO in October of 1996, I estimate it had an implied "per bed" or "per prisoner" valuation of \$24,241. Valuing the company at the IPO price, the total company value was \$81 million. Without the contracts from the Federal Bureau of Prisons, the company value would have been approximately \$39 million, assuming the company could have held a \$24,241 per prisoner multiple or come to market at all — both unlikely in my opinion. The increase in total valuation of stock held by Dillon and its funds based on these assumptions would have been a minimum of \$18.5 million. In short, the Dillon Read officers and directors invested in Cornell experienced a more than double in the increase in their value of their personal holdings of Cornell stock as a result of six months of contract decisions by DOJ and its agencies.

Deputy Attorney General Jamie Gorelick, who according to the New York Times article had overseen the new policy of prison privatization, left DOJ in 1997. She then became a Vice Chair of Fannie Mae, a "government sponsored enterprise." This means it is a private company that enjoys significant governmental support. Fannie

Mae buys mortgages and combines them in pools. They then sell securities in these pools as a way of increasing the flow of capital to the mortgage markets.

The reader can appreciate why Wall Street would welcome someone as accommodating as Gorelick at Fannie Mae. This was a period when the profits rolled in from engineering the most spectacular growth in mortgage debt in U.S. history.<sup>60</sup> As one real estate broker said, “They have turned our homes into ATM machines.” Fannie Mae has been a leading player in centralizing control of the mortgage markets into Washington D.C. and Wall Street. And that means as people were rounded up and shipped to prison as part of Operation Safe Home, Fannie was right behind to finance the gentrification of neighborhoods. And that is before we ask questions about the extent to which the estimated annual financial flows of \$500 billion–\$1 trillion money laundering through the U.S. financial system or money missing from the US government are reinvested into Fannie Mae securities.

Contributor	Date	Amount	Recipient
David Niemiec	10/29/1996	(\$250)	Weld, William F
Franklin Hobbs	10/24/1996	\$1,000	Weld, William F
Franklin Hobbs	10/23/1996	(\$2,000)	Weld, William F
Peter Flanigan	10/22/1996	\$450	National Repub. Senatorial Committee
Peter Flanigan	10/16/1996	\$500	Hutchinson, Tim
John Haskell	10/14/1996	\$500	National Repub. Senatorial Committee
Peter Flanigan	10/3/1996	\$500	Cubin, Barbara
David Niemiec	10/3/1996	\$5,000	National Repub. Congressional Committee
John Haskell	9/13/1996	\$1,000	RNC/Repub Nat. State Elections Committee
David Niemiec	8/30/1996	\$1,000	Molinari, Susan
John Haskell	8/29/1996	\$15,000	RNC/Repub Nat. State Elections Committee
Peter Flanigan	8/12/1996	\$1,000	RNC/Repub Nat. State Elections Committee
David Niemiec	8/7/1996	\$1,000	Paxon, Bill
Peter Flanigan	8/5/1996	\$500	Weld, William F
Peter Flanigan	7/31/1996	\$40,000	RNC/Repub Nat. State Elections Committee
Peter Flanigan	5/28/1996	\$1,000	Sessions, Jeff
John Haskell	5/17/1996	\$500	Livingston, Jeffrey
David Niemiec	5/1/1996	\$5,000	National Repub. Congressional Committee
Peter Flanigan	4/30/1996	\$5,000	Republican National Committee
David Niemiec	4/30/1996	\$15,000	Republican National Committee
John Birkelund	4/19/1996	\$1,000	Dole, Bob
David Niemiec	3/21/1996	\$5,000	National Repub. Congressional Committee
John Haskell	3/8/1996	\$365	New York Repub. Campaign Committee

*Continued on next column*

*Continued from previous column*

Contributor	Date	Amount	Recipient
Peter Flanigan	2/29/1996	\$250	Cubin, Barbara
George Wiegers	2/26/1996	\$1,000	Alexander, Lamar
Franklin Hobbs	2/23/1996	\$1,000	Weld, William F
Kenneth Schmidt	2/21/1996	\$500	Alexander, Lamar
David Niemiec	2/12/1996	\$250	Weld, William F
Peter Flanigan	2/2/1996	\$500	New York Republican County Committee
Peter Flanigan	1/29/1996	\$250	Miller, James C III
John Haskell	1/26/1996	\$1,000	Smith, Gordon
Peter Flanigan	1/23/1996	\$1,000	Smith, Gordon
Peter Flanigan	1/10/1996	\$1,000	Weld, William F
Peter Flanigan	1/2/1996	\$1,000	National Repub. Senatorial Committee
Peter Flanigan	12/13/1995	\$15,000	RNC/Repub. Nat. State Elections Committee
Franklin Hobbs	12/9/1995	\$1,000	Malcolm Forbes
Peter Flanigan	12/6/1995	\$4,500	Republican National Committee
David Niemiec	11/22/1995	\$5,000	Republican National Committee
John Haskell	11/10/1995	\$1,000	Boschwitz, Rudy
John Haskell	11/7/1995	\$1,000	Alexander, Lamar
John Haskell	10/3/1995	\$200	Millard, Charles
John Haskell	8/31/1995	\$15,000	Republican National Committee
Peter Flanigan	7/31/1995	\$500	Thompson, Fred
Franklin Hobbs	7/13/1995	\$1,000	Alexander, Lamar
David Niemiec	5/5/1995	\$5,000	National Repub. Congressional Committee
Peter Flanigan	3/22/1995	\$500	New York Repub. County Committee
John Birkelund	3/9/1995	\$1,000	Alexander, Lamar
John Birkelund	3/7/1995	\$1,000	Time Future Inc
Peter Flanigan	2/25/1995	(\$1,000)	Gramm, Phil
Peter Flanigan	2/22/1995	\$15,000	Republican National Committee
Peter Flanigan	2/14/1995	\$1,000	Dole, Bob
Peter Flanigan	1/27/1995	\$250	Alexander, Lamar
Peter Flanigan	1/25/1995	\$2,000	Gramm, Phil

\* Preliminary, Subject to Change For data, see [www.opensecrets.org](http://www.opensecrets.org) Donor Lookup

It is important before closing this description of Cornell's extraordinary good fortune with the Federal Bureau of Prisons and DOJ in the fall of 1995 and the spring and summer of 1996 to provide some additional context. During this period, America was in the middle of a Presidential election. Bill Clinton and Al Gore were running for their second term. Dillon Read was a traditionally Republican firm, with the largest Dillon investors in Cornell giving generously to the Republican Party as well as to the Dole-Kemp campaign, whose campaign manager, Scott Reed, had been Kemp's chief of staff at HUD and then Executive Director of the Republican Party. The corporate ancestry and relations of Cornell — Bechtel, Houston, their auditor, Arthur Anderson's Houston office, their attorney, Baker Botts, and

their construction company, Halliburton/KBR — are ties all deeply associated with the Bush family and Republican camp.

If you want to see a bi-partisan system at work, follow the money. In the middle of a Presidential election, a Democratic administration engineered significant equity value into a Republican firm's back pocket. If you step back and take the longer view, however, what you realize is that many of the players involved appear to have connections to Iran Contra and money laundering networks. A surprising number of them went to Harvard and other universities whose endowments are significant players in the investment world. And as it turned out, while the U.S. prison population was soaring from 1 million to 2 million people and US government and consumer debt was skyrocketing, Harvard Endowment was also growing — from \$4 billion to \$19 billion during the Clinton Administration. Harvard and Harvard graduates seemed to be in the thick of many things profitable.

## Notes

58. See *Narco Dollars for Beginners* by Catherine Austin Fitts (<http://www.narconews.com/narcodollars1.html>) and *Organized Crime and American Power: a History* by Michael Woodiwiss.
59. See *Prison Nation: The Warehousing of Americas Poor*, edited by Tara Herivel and Paul Wright, page 72.
60. After 9–11, when Nick Bradys old friend Governor Tom Kean (Brady lead his transition team when he was elected Governor of New Jersey) chaired the 9–11 Commission, Jamie Gorelick was chosen as a Commissioner. Reports at that time describe her role at DOD and DOJ.



# Hamilton Securities Group



I left the Bush Administration in 1990, persuaded that digital technology and the Internet could be used by entrepreneurs to create new wealth in an investment model that created alignment between global investors and the land, environment and people. If we financed places with equity instead of debt, we could create a way for global investors to profit from reducing consumption of scarce resources, integrating new technology into our infrastructure, healing the environment and improving my rule of thumb for the health of a community — the Popsicle Index.<sup>61</sup> The Popsicle Index is the percentage of people in a place who believe a child can leave their home and go to the nearest place to buy a popsicle or snack and come home alone safely.<sup>62</sup>

When I was a little girl growing up in West Philadelphia, the Popsicle Index was close to 100 %. The Dow Jones was 150. Today, in my old neighborhood the Popsicle Index has fallen about 90 % to 10 % while the Dow Jones has risen more than sixty times to over 10,000. In short, we have a win-lose relationship between investors



*The Hamilton Securities Group offices won an award from the American Institute of Architects for Advanced Technology Facility Design. (Photo courtesy The Hamilton Securities Group)*

and communities. In addition, we also have a win-lose relationship between government and communities. For more than fifty years we have had steadily rising government budgets for programs and enforcement (often justified on the theory that they will make the Popsicle Index go up) and a steadily falling Popsicle Index.

In 1991, at the same time that Dillon was bankrolling the Cornell Corrections start-up, I started an investment bank and financial software firm in Washington called The Hamilton Securities Group. Hamilton was named after Alexander Hamilton, one of the key drafters of the U.S. Constitution. While I served as Assistant Secretary of Housing-FHA Commissioner at HUD, I tried on numerous occasions to persuade Secretary of HUD Jack Kemp and his staff not to propose new policies that would result in the abroga-



*In 1995, Hamilton Securities integrated telephone and computer systems in an open office design. Whether at a desk, in a conference room or in the kitchen, Hamiltonians and network members — many educated and experienced in information technology — could access state of the art technology, software tools and a T1 Internet line. (Photos courtesy The Hamilton Securities Group)*

tion of government contracts or contractual obligations with respect to financial assets. I had a deputy who always reminded me that Alexander Hamilton had gone through a similar process of ensuring that the government did not illegally abrogate its obligations and debts when he was the first Secretary of the Treasury of the United States — and that Hamilton had always prevailed. Numerous Alexander Hamilton quotes became part of our way of cheering ourselves up in the midst of cleaning up nauseating levels of corruption. Sayings like “A promise must never be broken.”

One of The Hamilton Securities Group’s goals was to map out how the flows of money worked in the U.S. and create software tools that would make this information accessible to communities. We believed that the way to re-engineer government was for citizens to have access to the information about the sources and uses of taxes and government spending and financing in their communities, and

to participate in the process of making sure that these investments were managed to restore our neighborhoods to a “Popsicle Index” of 100 %. Transparency is essential for private markets to work and for government investment to be economically productive, accountable to those who fund it and managed according to the laws that are supposed to govern such investment. Otherwise, we will veer toward subsidizing private interests that are powerful politically or forceful, including through dirty tricks and economic warfare, as opposed to those that are productive.

After I started The Hamilton Securities Group, I was approached by Nick Brady, still Secretary of Treasury, to serve as a Governor of the Federal Reserve. When I declined, John Sununu, then White House Chief of Staff, had me appointed to the board of Sallie Mae, the corporation that helps to provide financing for student loans. While on the board of Sallie Mae, I was taken aside by the Chairman who explained that it was essential for me to ask Nick to sponsor me for membership in the Council on Foreign Relations (CFR). When I said that this was not something I felt comfortable doing, he said, quite alarmed in a generous and caring manner, “You don’t understand, if you don’t join the Council, you will be out for good.”

I did not join the CFR and in retrospect — after years of watching how the CFR and its members operate — believe I made a sound decision. My dream was to find solutions. That required getting in the trenches to prototype money maps, tools and transactions. Prototyping of this type requires high degrees of trust with diverse networks — in communities and financial markets alike. Some of these networks would not welcome a central banker or members of organizations like the CFR that provide the intellectual smokescreen for the centralization of financial data and flows and economic and political power.

Over time I was increasingly shocked by the speed and ease with which many intelligent and seemingly competent members of the CFR appeared to eagerly justify policies and actions that supported growing corruption. The regularity with which many CFR members would protect insiders from accountability regarding another appalling fraud surprised even me. Many of them seemed delighted with the advantages of being an insider while being entirely indif-



*Catherine's home in Woodley Place, Washington, D.C. was sold to help finance Hamilton Securities. (Photos courtesy Catherine Austin Fitts)*

ferent to the extraordinary cost to all citizens of having our lives, health and resources drained to increase insider wealth in a manner that violated the most basic principles of fiduciary obligation and respect for the law. In short, the CFR was operating in a win-lose economic paradigm that centralized economic and political power. I was trying to find a way for us to shift to a win-win economic paradigm that was — by its nature — decentralizing.

The Hamilton Securities Group was financed with the money I made as a partner of Dillon Read and the sale of my home in Washington and then financed internally with reinvested profits from operations. Several years after starting, we won a contract by competitive bid to serve as the lead financial advisor to the Federal Housing Administration FHA at HUD. As a result, I had the opportunity to serve the Clinton Administration in the capacity of President of The Hamilton Securities Group in addition to having served as



Assistant Secretary of Housing-FHA Commissioner in the first Bush Administration.<sup>63</sup>

One of our assignments for HUD was serving as lead financial advisor for \$10 billion of mortgage loan sale auctions. Using on-line design books<sup>64</sup> and our own analytic software tools as well as bidding technology from Bell Laboratories we adapted for financial applications, we were able to significantly increase HUD's recovery performance on defaulted mortgages, generating \$2.2 billion of savings for the FHA Mutual Mortgage Insurance and General Insurance Funds.

While we plowed all of our profits back into the expenses of building databases and software tools and into banking a community-based data servicing company, we were still profitable, generating \$16 million of fee revenues and \$2.3 million of net income in 1995.<sup>65</sup>

While the loan sales were a great success for taxpayers, homeowners and communities, it turned out that they were a significant threat to the traditional interests that fed at the trough of HUD programs, contracts and related FHA mortgage and Ginnie Mae, Fannie Mae and Freddie Mac mortgage securities operations.

For example, if you illuminated the sources and uses of government resources on a neighborhood by neighborhood basis, you would see that government monies were spent in ways that created fat stock market and personal profits for insiders at the expense of more productive outsiders who are providing most of the tax and other resources used. Insiders could include big developers and property management companies that specialized in HUD-subsidized properties like then Harvard Endowment-owned National Housing Partners (NHP) and their affiliated mortgage banking operations like NHP's Washington Mortgage (WMF), or for investment bankers like Dillon Read or Stephens, Inc. who issued municipal housing bonds for agencies like the Arkansas Development and Finance Agency (See "Narco Dollars in the 1980s—Mena Arkansas" above). When I suggested to the head of HUD's Hope VI public housing construction program during the Clinton Administration that she could spend \$50,000 per home to rehab single family homes owned by FHA rather than spending \$250,000 to create one new public housing apartment

in the same community, she got frustrated and said “How would we generate fees for our friends?”

Our efforts at The Hamilton Securities Group to help HUD achieve maximum return on the sale of its defaulted mortgage assets coincided with a widespread process of “privatization” in which assets were, in fact, being transferred out of governments worldwide at significantly below market value in a manner providing extraordinary windfall profits, capital gains and financial equity to private corporations and investors. In addition, government functions were being outsourced at prices way above what should have been market price or government costs — again stripping governmental and community resources in a manner that subsidized private interests. The financial equity gained by private interests was often the result of financial, human, environmental and living equity stripped and stolen from communities — often without communities being able to understand what had happened or to clearly identify their loss. This is why I now refer to privatization as “piratization.”

One of the consequences was to steadily increase the political power of companies and investors who were increasingly dependent on lucrative back door subsidies — thus lowering overall social and economic productivity. Hence, the doubling of FHA’s mortgage recovery rates from 35 % to 70–90 % ran counter to global trends and ruffled feathers. FHA, with Hamilton’s help, was requiring investors like Harvard Endowment to pay full price for assets while it appeared that they and investors like them were engineering progressively deeper and deeper windfall discount prices as part of government privatization programs elsewhere in the U.S. and globally. A Federal False Claims Act lawsuit against Harvard and journalist coverage regarding their role as a USAID government contractor in Russia illuminated the extent of the windfall profits that they and members of their networks were able to engineer at the expense of the Russian people, investors and the American people.<sup>66</sup> A criticism that I now have that I did not understand at the time was that even efficiently and honestly executed privatization transactions such as the HUD loan sales policies which insist on open competition at the highest price run the risk of advantaging players who were the most successful at laundering money for the “black budget.” All solutions

to this problem bring us back to the importance of place-based transparency of government resources and the importance of investing in the equity of small businesses and small farms.

Things took an even darker turn when we started Edgewood Technology Services, a data servicing company in a largely African-American residential community in Washington, D.C.<sup>67</sup> Our investment in Edgewood gave us the ability to develop a skilled dedicated workforce that could help us build much more powerful databases and software tools. It also helped us understand the investment opportunity to train people working at minimum wage jobs or living on subsidies to develop more marketable skills and earning power by doing financial data servicing and software development.

From the financial information that emerged from our portfolio strategy work for HUD and from our investment in Edgewood, we discovered that it was less expensive to train people to do these jobs than to fund their living on government subsidies indefinitely, let alone going to prison. For example, a woman with two children living in subsidized housing in Washington, D.C. on welfare and food stamps cost the government \$35–55,000 or more. In 1996, the General Accounting Office (GAO) published a study showing that on average total annual expenditures for federal, state and local prisoners was over \$150,000 per prisoner. Presumably this included all overhead and capital costs but did not include the costs of supporting minor children of such prisoners. If government funded the care of her two children while she was in prison, those costs would be in addition.

What we found at Edgewood was that there was a portion of the work force that, due to obligations to children and elderly parents, was not able to commute. Some of these people could be a productive work force working near their home and developing computer and software skills at their own pace. If training was combined with the creation of jobs, the economics of training people to do these jobs were sustainable and with proper screening and management could be profitable for the private sector. The potential savings to the public sector was astonishing — not to mention the potential improvement in quality of life for cities, suburbs and rural communities. With government leadership and large corporations actively working to move jobs abroad, people in all areas of the U.S. would need these



kinds of new skills and jobs. Moreover, small businesses would need access to the kinds of venture capital and financial equity we were proposing to invest in community venture capital. That meant that communities needed to circulate more deposits and savings internally rather than depositing and investing their funds in large banks and corporations that used those funds to win local market share away from small businesses and farms.

During this period, The Hamilton Securities Group helped HUD develop a program to permit owners of HUD-subsidized projects to treat some of the costs of community learning centers as “allowable costs” that could be funded from property cash flows. This allowed apartment building operations in communities experiencing welfare reform, cutbacks in domestic programs and unemployment from jobs moving abroad to provide facilities and programs that could help residents improve their ability to generate income. It encouraged linkages between private real estate managers and community colleges and other organizations committed to helping people learn new skills.

As I traveled and researched around the country, it became apparent that data servicing jobs like those we were prototyping at Edgewood were highly competitive with jobs in the illegal economy. In other words, data servicing jobs paying \$8–10 per hour and offering health care benefits and the opportunity to improve skills had the potential to attract a surprising number of people away from dealing drugs, prostitution and other street crime. The Hamilton Securities Group’s primary competition for the younger multi-racial portion of this work force appeared to be organized crime and the industries dependent on the continuation of organized crime activities — including enforcement and private prisons.

Meanwhile, The Hamilton Securities Group’s growing software and database infrastructure about public and private resource flows in communities indicated that the vast majority of government subsidies were either not necessary or not economic — whether welfare and HUD subsidies or prisons and the huge and growing infrastructure of community and social development and private real estate and government contractors that they supported. There was a much more economic way for government to reduce domestic

subsidies and crime. Billions of dollars of government investment had a negative return on investment. We were paying millions of people — whether on welfare or government contracts or HUD property subsidies — to do things that were not productive. Change those expenditures to a positive return on investment, and extraordinary improvements in productivity were possible. There was much work needed to be done that warranted investment — from repairing our infrastructure to rebuilding communities. As part of the potential opportunities, with both the private sector and federal government predicting very significant increases in the need for data servicing support and other jobs that could be outsourced through telecommunications, there appeared to be a significant opportunity. We shared our data and results with HUD, The Department of Health and Human Services (HHS), Congress and the Office of Management and Budget at the White House, and with leaders within the real estate and community development industries.

The initial response was very positive from a number of quarters, particularly those people most concerned with the growing federal debt and issues of productivity. I will never forget one of our meetings with a senior White House official. We showed him our initial estimates of the savings that were possible from potential reduced subsidy expenditures as well as lower default rates on federal mortgage and loan programs as a result of increased employment and income in low and moderate communities. He was ecstatic about the potential to save billions while reducing poverty — all recently made possible by new technology. He and many other government officials — when they saw the initial estimates emerging from the loan sales and our aggregates of the extraordinary amounts of federal monies being wasted by place — realized the potential when a negative financial return on investment is reengineered to a positive return on investment in a place.

Private investment leaders were also enthusiastic. During one presentation, the head of portfolio strategy for one large corporate fund said with astonishment, “This is terrific. We can save the country and make a fortune doing it.” Making a fortune was a good thing. One of our biggest concerns was achieving a sufficient investment performance on pension fund capital to ensure that retirement ben-

efits were adequately funded. Hamilton was proposing a financial model that would also help fund retirement obligations as a result of pension funds profiting from the wealth created by reducing poverty.

Others were not so positive, including special interests whose business had become managing “the poor” and who would be out of a business if new tools and opportunities were to significantly decrease the number of people who were poor. Many of these were traditionally powerful Democratic constituencies, including private for-profits, foundations, universities and not-for-profit agencies that had built up a significant infrastructure servicing and supporting programs to house, feed and supervise poor people. If people were no longer poor, what was their purpose? When we made a presentation to a group of leading foundations, in partnership with a Los Angeles entertainment company interested in using entertainment skills to make training fun, the head of low-income programs at Fannie Mae told me that it was the most depressing presentation he had ever seen. It implied that the poor did not need his help — that his life and work had no meaning. It appeared he did not want to end poverty. His personal meaning was derived from poverty continuing, if not growing. Real estate interests that were hoping to gentrify neighborhoods as a result of welfare reform were also not pleased. They would make more money turning over populations rather than helping the current population improve without moving. Their allies were enforcement teams like the HUD OIG that won funding and generated revenues from helping to get one group out, so another group could be moved in.

We were warned that the HUD Inspector General’s office had a very negative response to the “neighborhood networks” model of community learning centers, with one of the enforcement team members referring to such efforts as “computers for niggers.” Essentially, the vision we were proposing was in competition with their enforcement business, which consisted of dropping 200 person “swat” teams into a neighborhood to round up and arrest lots of young people who were in the wrong place at the wrong time and could not afford an attorney. This required a fundamentally different approach and philosophy. One model proposed helping the people in

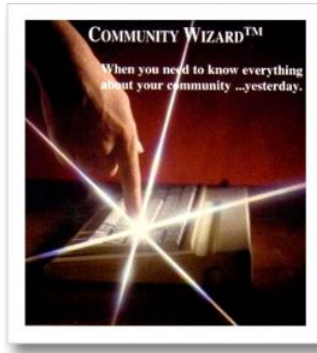


a place improve. The other proposed rounding them up and pushing them out so that new people could be moved in.

The highly successful HUD loan sales had also run into a problem with the staff of the HUD Inspector General's Office. According to HUD staff, the HUD OIG staff wanted the HUD loan sale staff to withdraw loans from sale portfolios so they could pursue civil money penalties against the building owners. If the loans were sold, it would be better for the FHA fund and for building residents and the surrounding communities. However, it would make less money for the "Sheriff of Nottingham" business in HUD OIG. The IG and General Counsel staff were apparently indifferent to overall best interests of the government on a government wide basis let alone taxpayers and communities.

Years later, when HUD Inspector General Susan Gaffney was asked during a deposition what the recovery rates were on HUD's defaulted mortgage portfolio before, during and after the loan sale program that The Hamilton Securities Group pioneered, she said she had no idea. Her attitude suggested that this was not an important piece of information. Which suggests that she found something that had billions of dollars of impact on the FHA Funds each year to be of no interest. The focus in federal enforcement was on activities that made money and garnered funding support and headlines directly for the enforcement teams. This "for-profit" philosophy was surprisingly blatant. I was reminded of the Congressman who jumped up from dinner to cast his vote in appropriations committee and as he rushed off said to me, "Let's face it, honey, I'm only here to protect my shit."

In late 1995, The Hamilton Securities Group began work on Community Wizard, a software tool designed to facilitate community Internet access to all public data and some private data on local resource use, including federal tax, expenditures and credit data. The initial response to the tool from Congress, HUD and our technology networks was astonishing. People were ecstatic to realize that they did not have to continue to live and work in the dark financially. It was a relatively easy thing for new software tools to help people learn about the flow of money and resources in their community. Additional software tool development also resulted in numerous tools to analyze subsidized housing in a place-based



*Community Wizard Brochure (Photo courtesy The Hamilton Securities Group)*

context, including detailed pricing tools that combined significant databases on government rules and regulations with all of our pricing data from the various loan sales, with databases about mortgage, municipal and stock market financing of homebuilding and home ownership. Such tools would allow people to take a positive and proactive role in insuring that government resources were well used. Such tools would allow investors to improve the performance of local investment — particularly venture and equity investment in small businesses and farms.

There was only one problem. If communities had easy access to this data, the pro-centralization team of Washington and Wall Street would be in trouble. Everything from HUD real estate companies to private prisons would be shown to make no economic sense — other than to generate private profits and capital gains for insiders. And billions of government contracts, subsidies and financing would be shown to make no economic sense — other than to generate private profits and capital gains for insiders. Indeed, communities were better off without many of these activities and funding. Through our software, private citizens would see the cost of decades of accumulated “fees for our friends.”

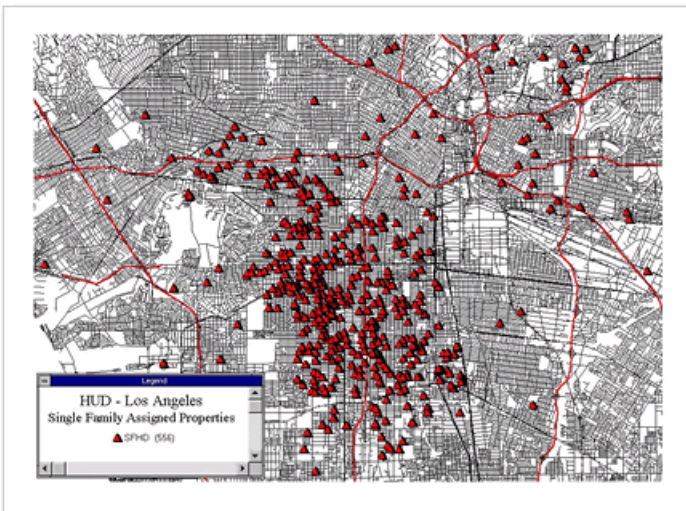
A case in point was a meeting I had with a former partner of Dillon Read who I had hoped to recruit to Hamilton in 1996. He came to our offices and during my presentation of our plans for community venture, told me that the situation was hopeless and

that our tools would make no difference. I powered up Community Wizard and our software tools on the monitors and asked him where he lived. He said “Bronxville, New York.” I had one of my team print out from our databases a list of federal expenditures in his neighborhood. When he saw the first item, he exploded with rage, “\$4 million last year for flood insurance? That is ridiculous. That is corrupt!” \$4 million of flood insurance sounded pretty innocent to me and I said, “why is that corrupt?” He said, “Bronxville is on a hill. I have lived in Bronxville for many years and I have never seen or heard of a flood.” It is typical that someone with years of experience in a place can spot potential waste and reengineering opportunities much faster when presented with detailed government financial information than someone who does not know the place.

As the former Dillon Read partner started to read through the details of the annual expenditures, he became more and more upset. The next day we were scheduled to speak by conference call after he returned to New York. I called and called at the appointed time but the line was busy. When I finally got through, he said he had been on the line with the Deputy Mayor of Bronxville for hours going through the data we had provided him. He said, “All this corruption is going to stop.” I said, “I thought you said it was hopeless.” And then he said something to the effect of “that was until I got the numbers for my neighborhood.” He understood that the corruption is funded one neighborhood at a time. If each neighborhood cuts off or reengineers the flow of wasteful or corrupt government funds, the situation can transform in a significant way nationally and globally. You have to cut off the money to the bad guys at the root. And he had realized how much money per person was being wasted when he saw the waste on a human scale where he could both see how the resources could be properly used and could do something about it.

This was, however, before we even addressed the question: “Who was bringing in narcotics and where was all the money from the trafficking and other illegal activities going?” If enough people stopped dealing drugs and taking drugs, then who needed more prisons and all these enforcement agencies and War on Drugs contractors? And how did all of this connect with the stock market and the mortgage markets and the fraud in those markets?

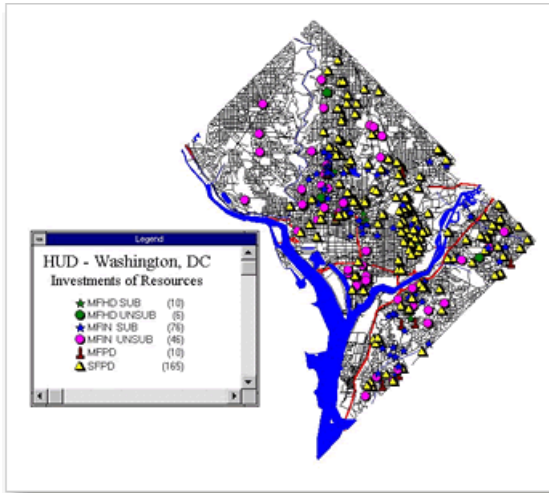
Ask and answer those questions — as communities would now be able to start to do with tools like Community Wizard and our tools — and much Iran-Contra style narcotics trafficking, the private prison industry and the “Sheriff of Nottingham-style” enforcement programs so in vogue at the White House, DOJ and HUD OIG might just be dead in the water. Unfortunately, that might have profound implications for the existing financial market as many corporate and government securities depended on the continued flow of wasted government expenditures.



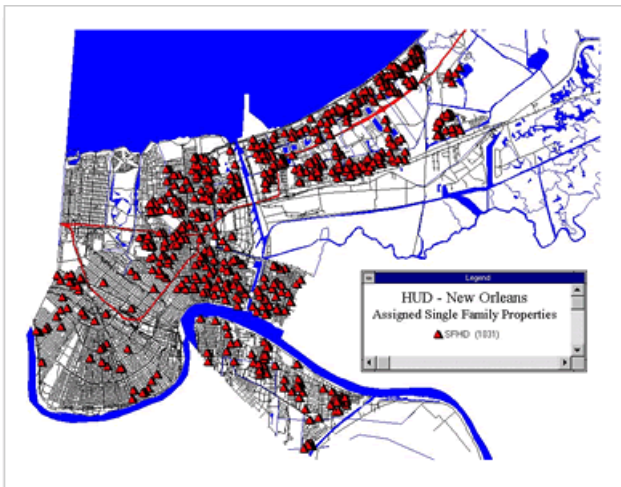
*The Map of South Central Los Angeles, California (Map courtesy The Hamilton Securities Group)*

As part of our efforts, we started to publish maps on the Internet of defaulted HUD mortgages in places with significant defaulted mortgage portfolios and to encourage HUD to offer place-based sales that would allow bidders to bid on different types of HUD-related mortgages and properties in one place. If successful, it would permit us to also create bids that optimized total government performance in a particular place — including assets from other agencies as well as contracts, subsidies and services.





*The Map of Washington D.C. (Map courtesy The Hamilton Securities Group)*



*The Map of New Orleans (Map courtesy The Hamilton Securities Group)*

One of the maps we put up in the spring of 1996 showed the properties which were financed with defaulted HUD single-family mortgages in South Central Los Angeles, California. The map showed

significant HUD defaults and losses in the same area as the crack cocaine epidemic described by Gary Webb in *Dark Alliance*. Such heavy mortgage default patterns are symptoms of a systemic and very expensive problem — including systemic fraud. This could occur, for example, in situations such as those in which mortgages were being used to finance homes above market prices with inflated appraisals (one of the patterns of HUD fraud documented by the *The Sopranos* TV show) or where defaulted mortgages or foreclosed properties were being passed back to private parties at below market values, or where these types of mortgage fraud were supporting mortgage securities (such as those issued by Ginnie Mae, Freddie Mac and Fannie Mae) that did not have real collateral behind them. This is the type of mortgage fraud that launders profits in a way that can multiply them by many times. Los Angeles was also the area with the largest flow of activities in the Department of Justice’s Asset Forfeiture Fund. Whether drug arrests and incarcerations, legal support for HUD foreclosures and enforcement or asset seizures and forfeitures — these maps were illuminating areas that were big business for “Sheriff of Nottingham-style” operations.

## Notes

61. For more about the Popsicle Index and the Solari model, see *Solari & the Rise of the Rule of Law*. Online: <https://library.solari.com/wp-content/uploads/2015/SolariRiseRuleLaw.htm>.
62. *A Conversation About the Popsicle Index* by Catherine Austin Fitts. Online: <http://www.scoop.co.nz/stories/HL0301/S00117.htm>.
63. See Personal Experience at FHA/HUD. Online: <https://library.solari.com/wp-content/uploads/2003/fhalist.htm>.
64. For an example of one of the single family design books see <https://dillonreadandco.com/gideon/legal/background/DesidnBk/Home.htm>.
65. See *How the Money Works: The Hamilton Securities Group and Its Subsidiaries*. Online: <https://dillonreadandco.com/wp-content/uploads/2009/How%20The%20Money%20Works.PDF>.

66. See *The Myth of the Rule of Law* (<https://www.dunwalke.com/gideon/q301.pdf>). – See Interview with Greg Palast (<https://dillonreadandco.com/gideon/privatization030402.html>.)
67. See *The Story of Edgewood Technology Services*. Online: <http://www.scoop.co.nz/stories/HL0207/S00101.htm>.

# A Note on Protecting the Brand with Dirty Tricks



The process and technology of compromising and controlling honest business and government leaders and journalists — or destroying them when they can not be controlled — are closely guarded secrets known mostly to those who inhabit the covert world or, such as myself, are privileged to have survived their initiation and real world training program.<sup>68</sup> To understand how the process works and the extraordinary resources invested in such dirty tricks first requires an appreciation of the importance of “brand” to the management of organized crime as it is practiced through Wall Street & Washington.

The Wikipedia online encyclopedia defines “brand” as:

“...the symbolic embodiment of all the information connected with a product or service. A brand typically includes a name, logo and other visual elements such as images or symbols. It also encompasses the set of expectations associated with a product or service which typically arise in the minds of people. Such people

include employees of the brand owner, people involved with distribution, sales or supply of the product or service, and ultimately consumers.”

A successful venture capitalist like John Birkelund would tell you that a great brand can make or break a company and its stock market value.

The supremacy of the central banking-warfare investment model that has ruled our planet for the last 500 years depends on being able to combine the high margin profits of organized crime with the low cost of capital and liquidity that comes with governmental authority and popular faith in the rule of law. Our economy depends on insiders having their cake and eating it too and subsidizing a free lunch by stealing from someone else. This works well when the general population shares in some of the subsidy, grows complacent and does not see the “real deal” on how the system works. However, liquidity and governmental authority will erode if the general population becomes aware of how things really work. As this happens, they begin to understand the power of innovative technology and re-engineering of government resources to create greater abundance both for themselves and other people. As this happens, they lose faith in the myth that the current system is fundamentally legitimate. This jeopardizes the financial markets that depend on fraudulent collateral and practices to continue to work. It also jeopardizes the wealth and power of the people who are winning with financial fraud.

In short, transparency blows the game and cannot be allowed. No expense will be spared to insure that the insiders — at the expense of the outsiders — control financial data. As Nicholas Negroponte, founding Chairman of the MIT Media Lab, once said, “In a digital age, data about money is worth more than money.”

As a consequence, extraordinary attention and sums of money are invested in affirming the myth and appearance of legitimacy. This includes creating popular explanations of why the rich and powerful are lawful and ethical and the venal poor, hostile foreigners, crafty mobsters and incompetent and irresponsible middle class bureaucrats are to blame for the success of narcotics trafficking, financial fraud and other forms of organized crime.

If the normal successful retail industry — for example, women's clothing or cars — has an advertising and marketing budget of — let's just pick a number of say 10 % of revenues — then what do we think that an estimated \$500 billion–\$1 trillion of annual U.S. money laundering flows will spend to protect its market franchise? Working with our number of 10 %, how do we think \$50–100 billion would be spent to protect the brand — particularly when governmental budgets can be used to fund the effort?

As a result, extraordinary amounts of money and time are spent destroying the credibility of those who illuminate what is really going on. All of this despite the obviousness of the economic reality that those whose wealth is growing the most must have an economic relationship to the business generating the most profit. Or, as in the words of John Gotti, Jr., in response to allegations that the Gotti crime family was dealing drugs, “Who can compete with the government?”

Only when you understand the value of the brand can you understand the extraordinary investment and criminal methods used to stop and suppress our software product Community Wizard and try to frame The Hamilton Securities Group and myself.

## Notes

68. For details on some of the specifics of modern day “crucifixions” see, *Anatomy Of A SWAT From A Lawyers Perspective* by Lucille Compton (<http://www.scoop.co.nz/stories/HL0504/S00241.htm>).

See *The Swat List—Audits, Investigations, Inquiries, Leads, Conflicts of Interest, Harassment and Surveillance by The Hamilton Securities Group, Inc.* (<https://dillonreadandco.com/gideon/legal/audits.html>).

See *The Professional Paranoid* by H. Michael Sweeney, 1998.

## “You are Going to Prison” — 1996



Though a fictional movie, *Enemy of the State* with Will Smith and Gene Hackman shows how targeting a person works in Washington, D.C. Will Smith plays a Washington lawyer who is targeted in a phony frame-and-smear campaign by U.S. intelligence agency personnel who are afraid that he has evidence of their assassination of a Congressman. The spook types have high-speed access to every last piece of data on the information highway — from Will's bank account, to his telephone conversations, to his exact location — and the wherewithal to destroy his career and threaten his life.

The organizer of an investment conference once introduced me by saying, “Who here has seen the movie *Enemy of the State*? The woman I am about to introduce to you played Will Smith's role in real life.”

One day I was a wealthy entrepreneur with a beautiful home, a successful business and money in the bank. The next day I was hunted, business assets seized, living through some eighteen audits and investigations, a smear campaign directed not just at me but also members of my family, colleagues and friends who helped me, and nine years of highly personalized litigation against The Hamilton Securities Group. For many years, I and those helping me lived with serious physical harassment and surveillance at the hands of mostly unseen, dark forces. Events such as home break-ins, stalking,



*Will Smith in Enemy of the State*

poisonings, having houseguests followed, friends, colleagues and family warned to not associate with me, a dead animal left on the doormat, and worse became commonplace.<sup>68</sup>

The problems started at the end of 1995 and relentlessly evolved into significant investigation and litigation in 1996.<sup>69</sup> Both frontal and covert attacks came in waves that made no sense to me until we started to map out in chronological form the parallel efforts to suppress Gary Webb’s “Dark Alliance” story, and the timing of stock market profit taking by investors in HUD property managers and private prison companies such as Cornell Corrections. There was a war going on for the rich corporate cash flows determined by the federal budget — between those who made money on building up of communities and a peace economy, and those who made money on the failure of communities and a war economy. As stock market prices and the Dow Jones Index rose, this economic warfare grew in fierceness. For example, a comparison of how DOJ handled The Hamilton Securities Group — a firm that helped communities succeed — versus how it dealt with Enron — a company that criminally destroyed retirement savings and communities — underscores much about the system’s true intentions.<sup>70</sup>



In March 1995, the first billion-dollar HUD loan sale was a significant success. The performance stunned both traditional HUD constituencies and Wall Street. *Barron's* published an article, "Believe It or Not, HUD Does Something Right for Taxpayers" (Jim McTague, April 10, 1995). Many were caught off guard by the success of the sale, including the prices that resulted from the combined ingenuity of the investment banking and software technology involved. It established the team at FHA, with The Hamilton Securities Group as lead financial advisor, as significant leaders in authentic reengineering, as opposed to what sounded to me like the press release reengineering coming from Al Gore and Elaine Kamarck's Office of Reinventing Government.

A hint of the trouble to come was the response from Mike Eisenson, head of the Harvard Endowment's private equity portfolio. Mike, later to become known for his role in financing George W. Bush's oil company, Harken Energy, was responsible for Harvard's investment along with Harvard board member DynCorp Chairman Pug Winokur in National Housing Partnerships (NHP), one of the largest HUD property management companies. As we were preparing to bid the first billion dollar loan sales, Mike picked up his phone when I called him and said to me "Fuck you!" He then proceeded to explain that he hated our bidding process — the only way Harvard could win was by paying more money than the other bidders. One of the reasons that this was a problem was that NHP would be forced to compete for its defaulted mortgages and would be held to market standards on property management fees or would lose management business on properties where HUD transferring the mortgage gave the new owner the right to transfer the property management. NHP was said to be Mike's single biggest investment. To sell it at a profit, he needed to do NHP to do an IPO. That meant NHP needed more government insider deals, not less.

The bid process I had created was pitting large and small real estate, mortgage and securities investors against each other in a manner that significantly increased competition relative to traditional bidding practices. This resulted in HUD attracting significant new investment interest in buying their defaulted mortgages and significantly higher recoveries on those mortgages. As a result, in approximately \$10

billion of loan sales lead by The Hamilton Securities Group, HUD was able to generate \$2.2 billion in savings to the FHA Fund. Later audits confirmed that the loan sales had a positive impact for communities in which the properties were located.

One of the many ironies of the loan sales was that J. Roderick Heller III, Chairman and CEO of NHP had asked me to start Hamilton to serve as lead investment bank to NHP. When I joined Rod and Mike at the Harvard Club in the early 1990's to sign the contract, they tried to significantly change the terms of the deal and essentially abrogated Rod's verbal contract. If we had proceeded to help NHP as originally planned, we would not have served as lead financial advisor to HUD/FHA. If the Harvard private equity group resented us helping the government regulator of the largest investment in their portfolio, they had no one to blame but themselves.

Another indication of the trouble to come was that I started to receive bizarre e-mails from Tino Kamarck, the husband of Elaine Kamarck who ran Gore's Office of Reinventing Government at the White House. I had met Tino, who was then #2 at the Export Import Bank and later to be Chairman, when he worked on Wall Street but did not know him well. Out of the blue and by e-mail, he expressed extraordinary and inaccurate notions of my lifestyle and personal habits and proposed that he and I have an affair. I suspected at the time that he had ulterior motives. Sex in Washington, D.C. rarely has anything to do with sex — it's usually about dirty tricks and dirty politics. One of the inspirations for my starting my own firm had been twenty minutes of listening to Jack Kemp, Secretary of HUD while I was Assistant Secretary, order me to lengthen my skirts. This meeting had nothing to do with my skirts. I suspected that it was an unsuccessful attempt by Jack to get me to lose my temper. I was running the FHA money too cleanly. Despite my offer to move elsewhere in the Administration, Jack preferred to force me out in a manner that could be blamed on me.

To give a sense of the interconnectedness of things, one of our problems appeared to be Jonathan Kamarck, who was on staff in the Senate appropriations subcommittee that was such a significant supporter of HUD's Operation Safe Home and was uncomfortable with the impact of the HUD loan sales on traditional real estate interests.

Jonathan told me that he was Tino's cousin and so presumably was close to both Tino and Elaine Kamarck. By the time the allegations against The Hamilton Securities Group were discredited and Harvard Endowment had reaped large profits cashing out of their HUD related investments, Elaine was working for Harvard and Tino was working for a real estate firm in Boston that had intimate ties with Harvard and had managed to snag a contract with HUD to do some of the work that The Hamilton Securities Group had been doing. Years later I visited with one of Jonathan's colleagues on the Senate appropriations subcommittee who had been promoted to chief of staff to the subcommittee chair, Senator Kit Bond, who expressed concern that "HUD was being run as a criminal enterprise." When only months later the subcommittee engineered a large increase in HUD's appropriations, I was reminded of what Bill Moyers, former White House Press Secretary, had said on the CIA's alliance with the Mafia, "Once we decide that anything goes, anything can come back to haunt us."

The politics took a serious turn when someone from the HUD Inspector General's Office reported that they were in a meeting with Andrew Cuomo, then Assistant Secretary of Community Development at HUD and soon to be Secretary, and the HUD Inspector General Susan Gaffney. Cuomo reported that he was arranging to get rid of The Hamilton Securities Group and me. Cuomo was considered to be very close to Al Gore and his White House office and efforts to "reengineer government." Within months, it was reported to me by Nic Retsinas, then Assistant Secretary of Housing, that the White House had ordered him not to hire The Hamilton Securities Group on the next round of contracts — an order which he said he ignored. Later, an associate of the Assistant Secretary of Administration, the appointee who oversees the contracting HUD office, reported to me the same White House orders.

Notwithstanding the orders from on high to the contrary, in January and April of 1996 a new HUD/FHA contract and task order were awarded to The Hamilton Securities Group under which HUD was to pay Hamilton a base of \$10 million a year for two years to serve as the FHA's lead financial advisor. Our successes — from profitable HUD/FHA contract awards to analysis generated by software and

database innovations that had Alan Greenspan asking for briefings from our analytics team for the Federal Reserve staff—was a surprise to some who had thought our commitment to technology would not make a significant difference in marketplace transactions and bottom line dollars and sense.

This was a period of risk and transition for many. Dillon Read and John Birkelund were recovering from the unexpected failure of the firm's lead investor, Barings. After helping the Dillon partners buy the firm back from Travelers in 1991, Barings had collapsed as the result of an Asian trading scandal in early 1995. With Dillon as lead investors, Cornell Corrections was losing money. Former Dillon Chairman and Treasury Secretary, Nick Brady, was learning about the difficulties of starting up his own firm, Darby Overseas Investments, Ltd, in Washington, D.C. The Clinton team was wondering what would happen to them if the Republican takeover of Congress in the 1994 elections translated into their being thrown out in the 1996 elections. Mike Eisenson's compensation was constrained by publicity regarding salaries paid by Harvard Management and only later was he inspired to start his own firm (with — imagine this — a contract from Harvard Management that paid \$10 million a year — the same as The Hamilton Securities Group's HUD contract.) One can only wonder what was going on behind the scenes at the CIA and DOJ after the Memorandum of Understanding was rescinded in August 1995. Presumably, the rescission left the CIA obligated to report all narcotics trafficking to DOJ and required DOJ to see to it that the CIA satisfied such obligations. Hence, any transparency of the kind that Hamilton was creating with its software tools could significantly increase the criminal liabilities of CIA, DOJ and their contractors. When people are afraid or managing rising risk, they are sometimes jealous of a start-up's success and frustrated by their inability to openly insist that newcomers respect traditional market relationships, let alone illegal, covert lines of authority and cash flows.

In the late spring of 1996, I had dinner at a National Housing Conference event with Scott Nordheimer, a HUD developer who had been pursuing business with DOJ's Federal Bureau of Prisons. Scott had recently gotten out of prison as a result of a securities

fraud conviction and believed that the future for our data servicing business was in prisons. He tried very aggressively to persuade me that the opportunities in prisons were significant — in contrast to the job-creating opportunities of our community-based model, which he said would not be “politic.” When I declined Scott’s invitations to meet with the Federal Bureau of Prisons, I suspect that he went ahead and gave DOJ our data servicing business plan. He was soon to become very successful in HUD’s Hope VI program. This was a matter of some controversy as HUD was forcing out tenants who had a felony record while allowing the building to essentially be owned and managed by partnerships with a convicted felon in the lead.<sup>71</sup>

At the dinner in the late spring of 1996, Scott looked quite pleased with himself and explained that a decision had been made to frame me and that I was in serious trouble. He said, “Well, we tried to have you fired through the White House but that did not work, so now the big boys have gotten together and [decided] you are going to prison.”

The other board members of The Hamilton Securities Group and myself had been extremely careful in the way that we had built and managed the company. We had seen other firms targeted with government dirty tricks and had done everything in our power to ensure that we could withstand corrupt audits and trumped-up, political investigations. I responded to Scott’s dire predictions, “It will never work, Scott. We are too clean.” Scott replied, “You don’t get it. The fix is in. There is nothing you can do.” That was the first time I sensed that it was a matter of great personal desire for some one or group to see me in a prison cell and that some aspect of this was personal.

On August 6, 1996, Hamilton received the first subpoena in what became years of subpoena warfare by the HUD Inspector General (investigating under delegated authority by DOJ.) At the time, I did not know that DOJ was holding secret hearings in Federal district court as a result of a *qui tam* filing in June 1996 by Ervin & Associates, in which Hamilton was falsely accused of civil and criminal violations. The investigation was conducted under the pretext of a “*qui tam* lawsuit” — a lawsuit brought by a private party as a bounty

hunter for the government looking to make 15–30 % of the government “damages” (which could be trebled) recovered from a private party found to have made “false claims” against the government. The delegation of subpoena authority to HUD was used by the government to circumvent the requirement to disclose this to the targets of the *qui tam*, including The Hamilton Securities Group.

Ervin & Associates was founded by John Ervin, a former employee of Harvard’s HUD property management company, NHP. Ervin had won contracts to service defaulted and coinsured HUD mortgages and in 1994 won a contract to collect financial statements for HUD-supported apartment buildings. Through these contracts, Ervin had a rich flow of data on HUD-assisted and -financed, privately-owned apartment buildings. In a later deposition, Ervin testified that he was able to refer cases worth many millions of dollars for civil money penalties to the HUD OIG. In short, he claimed to be a part of the profit-making business of the HUD OIG’s Operation Safe Home. As HUD disposed of more and more mortgages through the loan sales, Ervin’s business diminished. Presumably, at some point, this may have diminished his ability to generate profitable leads and revenues for HUD OIG.

The first subpoena was the beginning of a two-year period during which I was not allowed to know of the existence of the *qui tam* lawsuit that resulted in the destruction of my company and a four-year period during which I was not allowed to read or hear the allegations made against my company and me or know who made them. It was five years before I had access to transcripts of sealed court hearings (unattended by me or my counsel, of course) in the *qui tam* case. It was seven to eight years before Ervin and the government were required to put forward evidence attempting to support their baseless claims and before The Hamilton Securities Group and our attorneys had the opportunity to refute the false charges in a court of law sufficient to shut down the smear campaign being used against me as an investment banker in the market place. Throughout this period, both the HUD Inspector General and private parties shared bits and pieces of the supposedly sealed allegations repeatedly with both the press and members of Congress.

Four days after we received our first subpoena, on August 10th,

1996, Jack Kemp, the Secretary of HUD when I was Assistant Secretary, announced he was the Republican candidate for Vice President. Jack was considered someone who would be effective at persuading women and minorities to support the Republican ticket. The reality of Kemp's real philosophies and history were much darker and much less inclusive. Initially at the request of my attorneys, I was later to document some of my experiences with Kemp's darker underside, including his efforts to provide subsidies illegally to a project reported to be developed by Andrew Cuomo when Andrew was an attorney in New York helping to raise money for his father, Mario Cuomo, then the Governor of New York.<sup>72</sup>

Eight days later, on August 18th, 1996, Gary Webb's "Dark Alliance" story broke in the *San Jose Mercury News* implicating the CIA and, ultimately, DOJ in complicity to traffic in narcotics. This narcotics trafficking had occurred during the Iran-Contra period when Bush was Vice President and Oliver North as staff were in charge of the National Security Council. Bush's close friend and supporter Nick Brady and partner John Birkelund at Dillon Read were leading investment banking for RJR Nabisco, which according to the European Union was complicit in laundering significant profits for global narcotics cartels and mafia at this time. Bill Clinton was Governor and Hillary Clinton was a partner at the Rose Law firm in Arkansas where a portion of the revenues from the Mena operation were allegedly laundered through the state housing agency. The very same Arkansas agency was ultimately governed by Governor Clinton and served as bond counsel by the Rose Law Firm. Stanley Sporkin at that time was serving as the General Counsel of the CIA while the now-infamous Memorandum of Understanding with DOJ was crafted. If you follow the likely cash flows in and out of the alleged Mena and Arkansas state housing bond operations and the alleged narcotics trafficking and HUD mortgage defaults in South Central Los Angeles, and the allegations surrounding the events and subsequent cover ups, there was an uncomfortable closeness of networks between those in Webb's story and those in power.

I had not read or heard about the "Dark Alliance" allegations at the time. An expression of the extraordinary compartmentalization of our society, the members of my team who later confided that they

had been aware of the story, had not mentioned it to me. They did not see the connection between the threat posed by our leadership in reengineering government or providing community access to software tools and databases about federal resources by place, and government complicity in narcotics trafficking and related HUD fraud alleged to be laundering the proceeds.

I was buried in the workload avalanche of running a company while dealing with subpoenas and a smear campaign unleashed initially by a team of reporters from *U.S. News & World Report*. I did not notice in early October when the Washington Post published the “results” of its “independent” investigation into Gary Webb’s allegations, saying that there was insufficient evidence to support Webb’s claims. I was also unaware that while the White House was trying to have my contracts ended, Elaine Kamarck in Vice President Al Gore’s Office at the White House was busy working with DOJ Deputy Attorney General Jamie Gorelick to make sure that the private prison industry was blessed with oodles of contracts.

While I and my colleagues endured multiple subpoenas and smear campaigns and Gary Webb was in the process of defending his story at the *San Jose Mercury News* (later to lose his job the following year), Dillon Read filed a registration statement with the SEC for Cornell’s initial public offering on July 17th, amending it on August 26th, September 10th, and September 30th with a final prospectus filed on October 4, 1996. This was good news for Dillon Read and its investors. Thanks to the successful efforts of the Clinton Administration to pass new crime legislation and ensure DOJ bureaucracy support for outsourcing contracts to run federal prisons to private prison companies — including a gush of contracts to Cornell from the fall of 1995 to the spring of 1996 — Dillon Read’s Cornell stock purchased at an average price between \$2–3 per share, was now worth \$12 a share, a 400–600 % increase. In addition to their stock profits, Dillon pocketed big underwriting fees as well as the lead investment bank arranging the stock offering. In nine months, the Clinton Administration’s increase in contracts and acquisition of entities with contracts supporting 1,726 prisoners had literally made the company. The IPO reflected a stock market valuation of \$24,241 per prisoner. What that means is that every time HUD’s Operation Safe



Home dropped swat teams into a community and rounded up 100 teenagers for arrest, the potential value to the stockholders of the prison companies that managed the juvenile facilities and prisons was \$2.4 million. Operation Safe Home could easily afford to do so as a result of significant increases in appropriations arranged that summer and fall through the HUD IG Susan Gaffney's biggest congressional supporters — Jerry Lewis (Republican-San Bernadino, California), Chairman of the House appropriations committee, and Senator Kit Bond (Republican-Missouri), Chairman of the Senate HUD appropriations subcommittee.

All that was needed for prison privatization to work was the suppression of truth — about who was really bringing in the drugs and why it was essential for citizens to not see or understand the real deal on "how the money worked" in the places in which they lived and worked. If there had been a map of the real deal about how the money works in communities and in government, along the lines of the software being developed by Hamilton when the *qui tam* lawsuit put us out of business, the private prison industry might not have gotten off the ground. If one were to document the true criminality or the true economic waste within the system, it was pretty apparent that the real criminals and the real financial drain were not the kids being rounded up by HUD's Operation Safe Home and not the owners and employees of The Hamilton Securities Group.

Always ready with the best of spin, Hillary Clinton published *It Takes a Village in September* while Bob Rubin, as Secretary of Treasury (at this writing a senior executive in the Office of the Chairman at Citigroup), talked about the importance of economic development in the inner city. Rubin's former firm, Goldman Sachs, one of the largest bidders on the HUD loan sales, had been one of the largest investment bankers in Arkansas during the Mena period. Linda Ives was the courageous mother of an Arkansas teenager killed by police in August 1987 when he and a friend apparently accidentally encountered a cocaine drop at the Mena operation. Ives, working with journalist Mara Levitt, persisted in illuminating many of the events surrounding her son's death — initially ruled a suicide — and the corruption in Arkansas.<sup>73</sup> Ives could tell us why it takes an entire

village to raise a child when leaders like Hillary Clinton and Bob Rubin and their partners and colleagues are making money in the vicinity.

I have found that, just when things look their darkest, something happens that can transform the course of events. On November 15, 1996, CIA Director John Deutch was confronted with alleged evidence of CIA narcotics trafficking before a large audience of citizens and media cameras. Deutch was there to address Garry Webb’s “Dark Alliance” allegations — which described CIA complicity. The confrontation was later memorialized in the award winning online video by the Guerilla News Network, “Crack the CIA.” Deutch stated on camera that Webb’s allegations would be investigated by the CIA Inspector General, leading to Congressional hearings. Those hearings included the one right after Hamilton’s office and records were taken over by the court.

It would take me two years of standing in the face of an onslaught of enforcement terrorism and terrifying physical harassment and surveillance before I was to see the videotape of that event and find and read Gary Webb’s work. That was when I began the education through which I would come to understand why transparency of neighborhood financial flows was sufficiently threatening to the stability of the global financial system such that powerful interests might insist on the destruction of The Hamilton Securities Group and our software tools.

## Notes

69. See Litigation section at Solari. Online: <https://dillonreadandco.com/gideon>.

70. For a detailed comparison of DOJ’s handling of the investigation of Hamilton with the investigation of Enron, see *The Real Deal About Enron: An Interview with Catherine Austin Fitts* by Daniel Armstrong. Online: <http://www.scoop.co.nz/stories/HL0304/S00031.htm>.

71. See *Common Denominator* stories by John DeVault: *Convicted swindler in city housing deals* ([http://thecommondenominator.com/052101\\_news1.html](http://thecommondenominator.com/052101_news1.html)); *DCHA tenants ask to manage complex* (<http://www>.

[thecommondenominator.com/070201\\_news3.html](http://thecommondenominator.com/070201_news3.html)); *Metro miscue?*  
([http://thecommondenominator.com/102201\\_news1.html](http://thecommondenominator.com/102201_news1.html)).

72. *Kemp Tapes—Recollections of Working in Bush I* by Catherine Austin Fitts. Online: <https://library.solaris.com/jack-kemp-1935-2009/>.

73. See *Boys on the Tracks* by Mara Leveritt.

# Unanswered Questions About Andrew Cuomo

“HUD is Being Run as a Criminal Enterprise”



*When Andrew Cuomo ran for the Democratic Party’s nomination for Governor of New York in 2002, press reports indicated he was concerned that voters would associate him with the mob.*

In 2000, three and a half years after Andrew Cuomo became Secretary of the Department of Housing and Urban Development (“HUD”), I met with a senior staff assistant to the Chairman of one of the

appropriations committees for HUD. When I asked what was going on at HUD, the staff assistant said, “HUD is being run as a criminal enterprise.” I replied, “I don’t disagree.”

Cuomo’s reign at HUD was not the first time that HUD had been run by a New Yorker with ambitions for higher office. From 1989–1990, I served as Assistant Secretary of Housing and Federal Housing Commissioner in the first Bush Administration and watched Jack Kemp, a former Congressman from Buffalo, try to balance the politics of getting ahead with the needs of citizens and communities at a federal agency in which special interests had traditionally had the upper hand.

At the beginning of the Clinton Administration in 1993, Kemp was replaced by former San Antonio mayor, Henry Cisneros, who recruited a new team of HUD political appointees, including Andrew Cuomo as Assistant Secretary of Community Planning and Development.

After leaving HUD in 1990, I had started an investment bank and financial software developer, The Hamilton Securities Group. In September 1993, under Cisneros, Hamilton was hired by the Federal Housing Administration (FHA), the mortgage insurance arm of HUD, in a competitive bid process to serve as lead financial advisor. Hamilton’s responsibilities included designing and implementing a \$10 billion loan sale program between 1994 and 1997 and providing portfolio strategy support for what was then a \$400 billion portfolio of mortgage insurance-in-force, mortgages and real estate.<sup>74</sup>

A few weeks after Clinton’s re-election in November 1996, Cisneros resigned to manage the results of a Department of Justice investigation into his disclosure regarding payments to his former mistress. He was replaced by Andrew Cuomo after an unexpected federal investigation regarding HUD grants removed the Mayor of Seattle from consideration.<sup>75</sup> In one short period, the Department of Justice knocked out the Secretary and the leading contender for Secretary, paving the way for Andrew Cuomo.

The following year, Cuomo fired Hamilton in a highly political manner, canceling the loan sales program on the false pretext that HUD could not do loan sales without Hamilton. Creating political air cover for Cuomo’s cancellation were allegations filed by a litigious

HUD contractor who was subsequently showered with a generous contract and settlement by HUD under Cuomo. The contractor's allegations were the basis of a combined HUD Inspector General and Department of Justice investigation which, like the investigation of the Mayor of Seattle, came up empty.

One of the chief beneficiaries of Cuomo's ascendancy to Secretary and the subsequent cancellation of the loan sales were the developers, owners and managers of apartment buildings that were subsidized by HUD and often financed through FHA and Ginnie Mae. Ginnie Mae is the HUD unit which guarantees securities issued to finance pools of mortgages insured by FHA. Many of these apartment buildings had been originally financed through tax shelter syndications.

The largest HUD subsidized portfolio at the time was the one owned by Insignia, chaired by Andrew Farkas. On September 5, 2006, as Andrew Cuomo was running for the democratic nomination for Attorney General of New York, Wayne Barrett published "Andrew Cuomo's \$2 Million Man" in the *Village Voice*.<sup>76</sup> Barrett reported that Cuomo's compensation from Farkas's company, Island Capital, in 2004 and 2005 totaled \$1.2 million and that Farkas family members and business associates had donated \$800,000 to Cuomo's campaigns since he left HUD. Barrett describes Cuomo's role as Secretary of HUD in approving an out-of-court settlement with Insignia (regarding litigation alleging a HUD subsidy being improperly used to pay kickbacks) shortly before Insignia's sale to AIMCO (Apartment Investment And Managing Company) in 1998.

With Insignia valuations reflecting the benefits of its settlement of the kickback litigation, the cancellation of the HUD loan sales and related policies increasing the private value of HUD subsidized portfolios, Farkas sold out to AIMCO in 1998 for \$910 million<sup>77</sup>, described by his attorney as a "fantastic price."<sup>78</sup>

A question that remains unanswered is whether the price of the Insignia sale to AIMCO in 1998 was simply fantastic or whether – given the pattern of events around it – it was inflated with government resources and decisions arranged in a criminal manner.

This question raises a second question – whether the \$2 million that Farkas and his network have paid to Cuomo and his campaigns since then represent a kickback from the Insignia sale to AIMCO and

whether Cuomo's compensation is simply fantastic or something more.

In 1995, HUD officials asked Hamilton to help them define their options related to their portfolio of subsidized apartment buildings. HUD had provided significant amounts of "project-based" subsidies to fund these apartment buildings. A project-based subsidy is one that funds and is attached to a building as opposed to tenant-based vouchers that fund payment of rents by a tenant. Essentially, a project-based subsidy goes to the building owner and manager. A tenant-based voucher can move with the tenant from building to building. Many of the apartment buildings supported by expiring HUD project-based subsidies had been financed with mortgages insured by FHA and enjoyed the financial benefits of a variety of federal tax benefits.

There were a significant number of apartment buildings in the HUD subsidized portfolio that had project-based subsidy contracts expiring during the second half of the 1990's. Federal decisions as to whether to renew expensive project-based subsidy contracts or instead offer more cost effective tenant vouchers, whether to refinance existing mortgages or auction them if they defaulted and whether or not some partnerships would be subject to recapture of prior tax benefits would have a dramatic impact on the profitability of companies like Insignia. Data supplied by HUD to Hamilton at the time showed that the tenant population in question was primarily women and children with high percentages of elderly and minority. A significant number were drawing on welfare, health care and other federal payments.

As the debate and the budgetary implications of the expiring contracts on HUD- subsidized apartment buildings developed, I received an unexpected call at Hamilton from Andrew Farkas. He explained that it was essential that all subsidies go to the owners of the properties in the form of "project-based" assistance. He said that if the subsidy were used to fund tenant vouchers that the tenants would simply use the voucher to buy drugs (the mechanics of exactly how this would transpire were unclear) and then their children would go homeless. I was so taken aback by his tone that I suggested to him that portraying his tenants as people who were not worthy of

government funding might not be the best way to argue his case for project-based subsidy. He seemed quite displeased with my suggestion.

If Farkas was not happy with Hamilton's advice as lead financial advisor, he was not the only one. It was our job to regularly estimate or quantify the impact of HUD's decisions on the federal budget and on communities. Our work was identifying the price that HUD was paying to fund projects in ways that served special interests rather than satisfied objective criteria of financial performance regarding government investment and the health of our housing infrastructure and communities. This financial transparency was causing some government leaders to reconsider their options, while others remained committed to politics as usual.

After Insignia, NHP (a non-profit organization providing quality affordable multi-family housing for low and moderate-income families) was the second-largest HUD subsidized owner and manager until it was also purchased by AIMCO. At a dinner of the National Multi-Housing Council in early 1996, NHP's chairman was clear with me. Renewal of expiring long-term HUD subsidy contracts were important to NHP's profits. The federal government was morally obligated to subsidize him and other HUD landlords, regardless of the cost to taxpayers or performance for communities relative to more economically sound options. Performance was irrelevant compared to the long-term profits "promised" to HUD insiders. He would not say exactly who had made these "promises."

In 1996, I took the pricings on the HUD defaulted mortgage portfolio to staff of HUD's Hope VI public housing construction program. I explained that HUD had substantial single-family inventory in those same communities. Empty single-family homes could be bought and repaired at a fraction of the price of new construction of public housing by private developer. The HUD official said, "but then how would we generate fees for our friends?"

Our estimates at that time indicated that the federal government was spending \$55,000 a year for a woman and 1.8 children (on average) to live in HUD-subsidized private housing with welfare and food stamps in high-cost areas in a manner such that they would, and indeed could, never become taxpayers and get off the dole. Our



analysis showed that the federal government was spending more per person to fund the HUD-housed poor than the annual average income of the American taxpayer who was being asked to fund the rising cost of the debt issued to pay for this.

HUD was spending \$150–250,000 per unit to build Hope VI public housing while HUD-foreclosed homes that could be bought and fixed up for \$50,000 were available a block away. We were paying large corporations \$35–150 dollars an hour to do things that people who lived in those neighborhoods – given advances in information and telecommunications technology – could be trained to do. The implications were enormous: theoretically, at least, there was the opportunity, using more accurate place-based information, to place public finances on a sounder footing in which the tax payers' investment returns were positive. The potential savings across the federal budget were in the billions.

As the economics of various choices became clearer, tension emerged between HUD landlords and special interests looking for a new and richer round of “fees for our friends” and a new generation of reformers who saw an opportunity to reinvigorate America's workforce and communities in the face of globalization and the movement of jobs and pension fund capital to countries with younger, more productive populations.

The HUD landlords were best described by a statement made to me by Dick Ravitch, chairman of the AFL-CIO housing trust and a HUD developer from New York, over dinner at the Jockey Club: “As long as I can get government subsidies, what do I care if people have education or jobs?” Traditional interests were committed to using government subsidies and financing to ignore fundamental issues of productivity. While this would enrich private interests, it would accelerate the issuance of increasing amounts of federal mortgage and Treasury debt, weakening the federal credit and committing future generations to an impossible debt burden.

The reformers were exemplified by the HUD loan sales team who had succeeded in more than doubling the recovery rates on defaulted HUD loans from 35 % to 70–90 %, generating \$2.2 billion of funding for HUD and deficit reduction. Later audits would indicate that these methods were better for communities than HUD's traditional meth-

ods. However, these higher recoveries were coming out of the profits of companies like NHP and Insignia at a time when investors were making windfall profits on privatizations globally. Lower profits on HUD-related properties then multiplied through to a lower value of their stock.

I was pretty sure where Andrew Cuomo stood in all of this. As reported by Lucy Komisar in “Fees for Our Friends”, available on her website, “The Komisar Scoop:”<sup>79</sup>

Inspector General audit chief Chris Greer was in a meeting with Cuomo and HUD IG Susan Gaffney. Cuomo told them that he was planning to get rid of Fitts and Hamilton Securities. Greer recalled, “It had to do with some audits we were doing. There were proposals that would affect a bunch of folks in New York that had a lot of money and who could help Cuomo. One proposal was called ‘mark to market’ and had to do with the Section 8 [rental subsidies] program. I was managing all the multi-family programs at the time. Cuomo wanted to do away with what we tried to put in place, the ‘mark to market’ program. It would have killed a HUD tax-avoidance program....

Greer pointed out, “If there had been ‘mark to market,’ it would treat the HUD Section 8 program like private mortgages in private industry and market them at their true values. You wouldn’t have inflated subsidies, and you would have had more subsidies to give more people. Or you would save tremendous amounts of money that could be used for other purposes. Billions of dollars. Hamilton was a driver on that along with a couple of other folks in HUD. But Cuomo didn’t do it. Money was wasted on these mortgages, the money that went into the fat cats’ pockets.”

He added, “Cuomo clearly had no use for Austin Fitts. The fights with Fitts were political. Everything Cuomo did was political; he was a totally political animal. He ran the CDP [Community Development Program] block grant in HUD for a long time and fixed the system so awards would be made to places he wanted them made to for political reasons, primarily in New York, because he had his eyes on going back and running for governor.”

Sometime after being told by Greer that Cuomo, still Assistant Secretary of Community Planning and Development, had indicated that he was planning on getting rid of me and Hamilton, I learned that

Cuomo had referred a complaint on the loan sales to the HUD Inspector General. The subsequent investigation was short and found nothing. That's when John Ervin started to make noise.

### **John Ervin Targets HUD Loan Sales**

John Ervin was the founder of Ervin & Associates, a HUD contractor that was servicing defaulted HUD multifamily mortgages. Ervin's business was shrinking as the loan sale program sold off the mortgages and HUD no longer needed a contractor to service them. Hired while Kemp was Secretary, Ervin's relationship with HUD deteriorated during Cisneros's time until HUD fired Ervin for default related to contract performance.

John Ervin, during his Hamilton Securities deposition. (Video courtesy The Hamilton Securities Group)

In mid-1996 Ervin filed two lawsuits, one against HUD and the other, a *qui tam* lawsuit<sup>80</sup> filed under seal, against Hamilton and several successful loan sale bidders. Both lawsuits alleged corruption in the loan sale program and were accompanied by extensive lobbying of Congress and the Washington press by Ervin. The *qui tam* investigation was delegated by the Department of Justice to the HUD Inspector General Susan Gaffney, continuing until 2001.<sup>81</sup>

I had been informed by the head of FHA in early 1996 that he ignored a White House request that he not award a new contract to Hamilton. At the time of Ervin's secret filing against Hamilton in mid-1996, Scott Nordheimer, a multifamily developer active in both assisted housing and Hope VI housing, had informed me at a housing industry dinner that I would be the target of a frame, saying, "Well, we tried to have you fired through the White House but that did not work, so now the big boys have gotten together and [decided] you are going to prison." Nordheimer was a convicted felon whose associated success in winning HUD development grants during Cuomo's period at HUD became controversial as tenants with felony records were being evicted from HUD-funded developments.<sup>82</sup>

In October, 1997, with Ervin's and Gaffney's efforts creating an environment supportive of "reforming" Cisneros's financial reforms, Cuomo fired Hamilton for the convenience of the government, using as a pretext a mistake that a subcontractor had made (and which

had been reported voluntarily to HUD almost a year before) on two highly profitable and successful loan sales, and withheld payment of \$2.2 million owed to Hamilton.

The litigation between Ervin, Hamilton and HUD was finally settled in 2006 after Hamilton's insistence on trials resulted in Ervin and HUD ending up empty-handed with nothing to show for a decade-long fishing expedition other than the mistake Hamilton had voluntarily reported long before we were fired and which had no cash impact on HUD. Meanwhile, Hamilton had produced evidence indicating foul play by HUD, including an affidavit of a HUD Inspector General auditor who had been pressured to falsify her results and left the agency when she would not.<sup>83</sup>

So where would Ervin get the money to finance such an operation? In 1997, one reporter who interviewed Ervin at his office reported to me that he had a staff of 17 people working full-time on the litigation and related campaigning. While all the sources of Ervin's financing remains an unanswered question, we do know that HUD/Ginnie Mae under Cuomo awarded Ervin contracts in 1998 while Ervin was suing HUD.<sup>84</sup> As a former Assistant Secretary, I can affirm how unusual it is to give contracts to a contractor who was fired for default, has no special skills and is suing the agency. We also know that HUD agreed to a \$2MM settlement with Ervin in 2000 at the end of Cuomo's tenure at HUD after Ervin's allegations had been proved false and our attorney was adamant that there was no need for HUD to pay Ervin anything, let alone millions. As Cuomo exited HUD to run unsuccessfully for Governor of New York, I was left to deal with a well-financed Ervin for another five years.

### **Disappearing Pricing Data**

In 1994, Hamilton was retained by NHP to value its multifamily portfolio and related property management business in anticipation of NHP's selling stock to the public. In the process, Hamilton created a detailed simulation of NHP's apartment buildings and related tax shelter partnerships and mortgage financings that gave us insight into the impact of various federal policies on the financial value of privately owned HUD- subsidized multifamily portfolios.

The following year, with significant data provided by HUD, we

reviewed the impact of various federal policies on the entire HUD-subsidized portfolio. Then, in 1996, we developed, priced and helped HUD sell several portfolios of mortgages collateralized by partially and fully-subsidized HUD apartment buildings. Using this data and extensive publicly available databases, we built a suite of software tools that illuminated the value of HUD portfolios as well as the flows of government investment in places and the land, real estate and other assets it impacted.

Using Hamilton's pricing infrastructure, it would have been possible in early 1998 to quickly value how much of Insignia's \$910 million sale to AIMCO, agreed to on March 17, 1998, reflected increases in values resulting from Cuomo's decisions to cancel the loan sales, settle Insignia's litigation and change expiring contract policies to favor owners. Except for one problem. At the time of our firing by Cuomo in late 1997, HUD's contracting office had required that HUD data, including publicly available data, be scrubbed from Hamilton's computers. Then Hamilton's entire pricing and digital infrastructure was moved under court control the week before Insignia's sale to AIMCO at the request of HUD's Inspector General. Many years later, when the court returned control of Hamilton's inventory, many of the most valuable software tools were mysteriously missing.

Insignia was far from the only company cashing out during this period or the only interest threatened by illumination of government housing and mortgage data and government investment by place. During this time, numerous companies profiting from the large flow of government subsidies, financing and enforcement actions associated with poor people and poor communities, including private prison companies, were doing a brisk business. This was the early stage in the largest housing and mortgage market bubble in history combined with rising prices in the stock market. There were numerous companies and government agencies benefiting from a combination of insider information and the absence of transparency of government investment by place<sup>85,86</sup>

How many others who benefited from the destruction of Hamilton's software tools and databases have financed Cuomo and his campaigns since he left HUD? This is another question about Andrew Cuomo that has yet to be answered. However, the subsequent

decline in HUD finances while Cuomo was Secretary is well documented.

### **Missing Money**

The federal fiscal year for 1999 started in October 1998, the month that AIMCO reported closing its purchase of Insignia and HUD engineered Ginnie Mae contracts to John Ervin, providing \$800,000 in contract payments to Ervin over the next two years.

HUD failed to produce audited financial statements that year. Its opening balance from fiscal 1998 required undocumentable adjustments of \$17 billion. To force the books to balance in 1999 required \$59 billion in undocumentable adjustments.<sup>87</sup> For its audit in 2000, Cuomo's last year in office, HUD declined to make public the amount of undocumentable adjustments required to balance the books.<sup>88</sup>

HUD's inability to produce audited financial statements in 1999 was attributed to HUDCAPS, a system installed and operated with the help of AMS, a contractor who had been paid \$206 million since 1993. In contrast to Cuomo's treatment of Hamilton, AMS was not fired, nor were payments due AMS withheld. Research to date shows no record of AMS or its employees being investigated as a result of the HUDCAPS failures and the extraordinary level of undocumentable adjustments to HUD's books.

Not surprisingly, HUD's rental assistance programs remained on the high-risk list maintained by the Congressional auditor, the General Accounting Office, which is now called the General Accountability Office (GAO).<sup>89</sup>

These events raise another disturbing question about Andrew Cuomo. Why did HUD finances melt down under Cuomo's leadership and what, if anything, does that have to do with the billions flowing to large HUD landlords from the government and the stock market, and the millions now flowing back to Andrew Cuomo and his campaigns years later?

### **The Heart of the Matter**

In 1997, members of my team working with HUD (now led by Cuomo) asked me to authorize Hamilton helping HUD to prepare its next budget using assumptions on the multifamily portfolio that

were known to be false. For example, we were to presume that HUD's apartment portfolio would not be impacted by welfare reform legislation that had been enacted the year before. As federal data indicated that high concentrations of tenants in privately-owned HUD-subsidized housing in large urban areas were getting federal welfare and/or food stamp subsidies, this made no sense. Our assessment was that the combined assumptions that HUD wished to use would make it easier for private owners to displace tenants in a way that would leave the tenants out in the cold without vouchers, while appropriations were preserved to fund project-based subsidies for HUD landlords.

At one point, the Hamilton team leader for our work with HUD came over to my house to try to persuade me that we should help HUD do this. He said that if we did not help HUD with the budget, he was concerned that we would be fired. We agreed that HUD was probably going to persuade the Office of Management and Budget (OMB) that they could trust the budget, because Hamilton helped prepare it; hence, my concern that our involvement would be used to perpetuate a fraudulent budget. I asked him to define the value of our contract in terms of an acceptable level of children going homeless or dying. How many children should we help be forced to the streets so that we could keep our contract? Suddenly, he stopped and said something like, "Why am I doing this? So what if we lose our contract? We have better things to do in our life than be a party to murder." To which I replied, "Now you have it."

I tell this story to remind the reader that we have become a society where the most dangerous serial killers who stalk our land kill with a pen and not with a sword. The most important unanswered question about Andrew Cuomo's time at HUD goes beyond how or why he and his agency engineered gains into Andrew Farkas, John Ervin and so many other private pockets. The more important question is how many people went without basic necessities because Cuomo diverted resources away from honest taxpayers and the people that HUD was created to serve. How many children in New York and around the country went homeless or worse because vouchers or job training were not available?

This is the most important unanswered question.

### Attorney General of New York

Last month, while traveling outside of the US, I declined to read the materials on an investment, because the jurisdiction of the non-disclosure agreement that I was asked to sign was a state in the United States known for significant corruption in its enforcement and court system. In a highly competitive global market, why bother taking risk related to US corruption? The investment group understood completely and quickly delegated the agreement to a foreign entity, permitting me to sign under the jurisdiction of the country I was visiting. It is a country known for its lawfulness. They informed me that I was not the only person to make such a request.

It may sound like a little thing, until you realize the growing number of investors around the world who do not want to be exposed to the banana republic style corruption now perceived to be epidemic in the United States.

New York is the center of the financial markets in the United States. The health of these markets depends on investors' faith in the integrity of their governance. The perception that the lead New York regulator is a politician who exploits the power of his or her office for personal ambition and finances will impact the flow and pricing of capital throughout the United States.

My recommendation, to both New Yorkers and members of the US financial and legal establishment concerned with America's ability to attract capital in global markets, is that they ensure that the unanswered questions relating to Andrew Cuomo's dealings with Andrew Farkas and Insignia and any other HUD-related special interests that have financed him and his campaigns be investigated and answered before Andrew Cuomo is permitted to hold public office again.

### Notes

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78. See *Andrew Cuomo's \$2 Million Man* by Wayne Barrett, with special reporting by Alex Altman and Alicia Lozano, Village Voice, September 5, 2006. Online: <http://www.villagevoice.com/news/andrew-cuomos-2-million-man-6426912>.
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84. For copy of FOIA disclosure on HUD/Ginnie Mae Contract Awards to John Ervin, October 1998, see <http://www.dunwalke.com/resources/foia.htm>.
85. See the other chapters of this book.

86. See *Where is the Collateral? Part I and II* by Chris Sanders, Sanders Research Associates, October 28, 2003. Online: [http://www.whereisthemoney.org/S00223\\_collateral.htm](http://www.whereisthemoney.org/S00223_collateral.htm).

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87. See Statement of Susan Gaffney, Inspector General, Department of Housing and Urban Development, before the House of Representatives Committee on Government Reform Subcommittee on Government Management, Information and Technology March 22, 2000. Online: <http://www.whereisthemoney.org/59billion.htm>.

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## Enforcement Terrorism — 1997



By the time Bill Clinton and Al Gore were sworn in for their second term in January 1997, the first wave of investigation and smear campaign had failed to do anything other than affirm that The Hamilton Securities Group was doing a great job for the government and the government team at FHA was doing a great job for citizens. Consequently, 1997 settled into the first of eight grinding years of enforcement terrorism — the inexhaustible resources and often invisible weaponry that the “Sheriff of Nottingham” uses to exhaust the target’s resources and to turn over investigation personnel, judges and false witnesses who failed to frame the target while throwing more “mud” up on the judicial, whisper campaign and media “wall” looking for anything that might stick.

To get a sense of the level of professionalism involved, the HUD OIG started to interview all of Hamilton's employees and HUD staff, with many interviews starting off with questions regarding my personal sexual habits. This is a technique used to start false rumors and destroy businesses when the absence of evidence gives enforcement teams nothing to go on. As described by one member of the HUD OIG staff, when there is no evidence of any wrongdoing, the intimation of certain sex practices can still get an indictment from a Washington, DC grand jury. My feedback indicated that the Hamilton employees overwhelmed them with facts and did not fall prey to the smear tactics.

The turnover started at the top. Secretary of HUD Henry Cisneros left HUD to face charges tried before Judge Stanley Sporkin that he had lied to the FBI regarding how much money he had given his mistress. I had worked at HUD when the allegations regarding pedophilia at the White House and the so-called "Franklin Cover Up" had exploded onto the front page of the Washington Times. One of my deputies had taken me aside when I was being pressured by Kemp to do illegal funding awards to warn me that Kemp was involved in sexual activities this scandalous.<sup>90</sup> The notion of Cisneros facing criminal charges for legal financial transactions between consenting adults while Kemp had been chosen by the Republicans to run for Vice President seemed a bit upside down. When you considered that Hamilton was being run out for ensuring that the government got fair market value for its assets, poor people had an opportunity to earn money legally without government subsidies or engaging in narcotics trafficking and street crime and communities had access to government financial information, things made more sense.

If anything, the wave of investigatory assaults on Hamilton and the team at FHA seemed to be a pretext for Cuomo to take over the agency and convert it to the service of enforcement, gentrification and housing bubbles. Cuomo had many ties to the enforcement community. His father had been Governor of New York, his ex-wife Kerry (they were separated in 2003 and subsequently divorced) was a Kennedy, whose father Bobby Kennedy had been Attorney General and whose uncle, Senator Ted Kennedy from Massachusetts, home



of Harvard University, was a senior member of the Senate Judiciary Committee.

If Cuomo was going to rise to higher political office and help his close ally Al Gore become President, he needed to get credit for being a leader in re-engineering government. He needed to do it in a way that attracted the support of \$500 billion–\$1 trillion of annual money laundering flowing through the U.S. financial system. If the Bush sons as Governors could be expected to have Texas and Florida sewn up, that meant Al Gore, Hillary Clinton and the Democrats would need to win the money and votes in California and New York during the 2000 campaign. It turns out, this meant getting rid of the people who were leading authentic re-engineering. In April 1997, Hamilton received notice that our ongoing contract would be rebid — a process expected to take some time. In the meantime, Cuomo was competing with the HUD OIG to see who could integrate more revenue generating enforcement goals, War on Drug activities and DOJ partnerships into HUD programs and budgets faster.

Jamie Gorelick left the Department of Justice in January and then moved to Fannie Mae as a Vice Chair — a title held by Franklin Raines who had joined the Administration as head of the Office of Management & Budget (OMB) in the fall of 1996. Gorelick at Fannie Mae and Raines at OMB (later to return to Fannie Mae as Chairman) were to play leading roles with former Goldman Sachs partner Robert Rubin, Larry Summers and former (and subsequent) Arnold & Porter partner Jerry Hawke (whose son, Dan Hawke, was Ervin's attorney) at the U.S. Treasury, Alan Greenspan at the Federal Reserve, and Andrew Cuomo at HUD in engineering the largest housing and mortgage bubble in history. They shared a mutual silence as \$4 trillion went missing from HUD, DOD and other government accounts for which the U.S. Treasury and New York Federal Reserve Bank and its member banks — as depository for the U.S. Treasury — were responsible.<sup>91</sup> Gorelick would later leave Fannie Mae to become a partner of Wilmer, Cutler & Pickering, then led by Lloyd Cutler who had served as White House Counsel in the Clinton Administration after the death of Vince Foster. Cutler had been a board member of NHP, Harvard's HUD property management company.

Given the efforts underway with numerous legislation and treaties

designed to intentionally shift American jobs abroad, the simultaneous effort by the same governmental and financial system leadership to encourage Americans to take on increasing amounts of debt without warning them that their income was likely to fall brought new meaning to the old expressions “fraudulent inducement” and “predatory lending.” As a result, Americans lived beyond their means. With many using their home equity to maintain their standards of living, equity slowly and invisibly drained out of moderate and middle income communities into private hands through Fannie Mae and other large financial institutions that led the explosion in the mortgage and mortgage securities markets.

In October 1996, Jeffrey H. Smith rejoined Arnold and Porter after serving as General Counsel of the Central Intelligence Agency from May 1995 to September 1996. Director of the CIA John Deutch resigned in December 1996 after his embarrassing confrontation regarding CIA drug dealing in the now infamous town hall meeting in Los Angeles.<sup>92</sup> At the meeting, Deutch committed publicly to an investigation by the CIA’s Inspector General, Frederick Hitz, of the “Dark Alliance” allegations regarding CIA complicity in narcotics trafficking. The publication of this report in two volumes was to have an impact on the course of events in 1998.<sup>93</sup> For her service to the U.S. intelligence community, Jamie Gorelick received a Director of Central Intelligence Award from the CIA in 1997.<sup>94</sup>

The most significant turnover impacting The Hamilton Securities Group was behind closed doors. It was the transfer of the *qui tam* lawsuit (still filed in secret and unknown to us) from Judge Charles Richey who had warned that he was reluctant to give DOJ extensions of the seal (which kept the lawsuit secret) without evidence of wrongdoing. According to press reports, Judge Richey contracted a fast-acting cancer and died. Ervin’s *qui tam* was turned over in early 1997 to Judge Stanley Sporkin, the former General Counsel of the CIA when the Memorandum of Understanding between DOJ and CIA had been crafted.<sup>95</sup>

The dirty tricks employed by Judge Sporkin, DOJ, HUD OIG and Ervin’s attorneys throughout the *qui tam* have been described in more details in other articles.<sup>96</sup>

Highlights include:

- Sporkin insisted that he had never received filings by The Hamilton Securities Group, even though my attorneys reported to me that they had a receipt of delivery signed by his office.
- The allegations in the *qui tam* lawsuit tracked allegations made in a separate filing by Ervin against HUD that was filed before another judge in Federal District Court. In sealed hearings in the *qui tam*, DOJ attorneys for years argued that there was real merit to the allegations, which justified more time for them to investigate. In open court in the other action, DOJ attorneys took the position that the allegations were baseless. Hence, DOJ attorneys took opposite positions in the two courts — one open and one in secret — and Sporkin supported these actions. The transcripts show the DOJ attorneys reminded him that they could not consolidate the case under one judge because that would prevent them from taking opposite positions in the two cases.
- The public document was used by HUD OIG and private parties to lobby Congress and the media to smear Hamilton. One reporter from the Washington Post told me that the HUD Inspector General had personally assured them that Hamilton was guilty of criminal violations and that John Ervin had mailed documents to them that could fill up half an office, floor to ceiling. She said that she believed that the Washington Post was only one of many publications and she only one of many, many reporters who had been the target of such a mailing campaign. She reported that in late 1997, Ervin had a staff of 17 people at Ervin & Associates working full time on the litigation.
- Despite no evidence of any wrongdoing brought forward by Ervin as well as after multiple investigations and full access to all the parties and documents needed for years by the government, Sporkin nonetheless extended the seal (by law a *qui tam* authorizes only a 60 day investigation) into a four-year fishing expedition. This ended only when my colleagues and I launched a website in 2000 with the story of what was happening and made hundreds of supporting documents accessible through the Internet. When, after five years, transcripts of Sporkin's hearings were unsealed, critical transcripts were mysteriously missing.
- Under the *qui tam* statute, if the party accused of wrongdoing

is subpoenaed, they are required to be informed that they are a target of a *qui tam*, even though the complaint is still under seal. In our case, DOJ and Sporkin took the position that DOJ could circumvent this disclosure provision by delegating the subpoena issuance to HUD OIG.

My favorite Sporkin quote was his retort from the bench when one of our attorneys pointed out that the law and a recent Supreme Court case clearly indicated that a filing we had made in Superior Court could not be moved over to Sporkin's court and control in Federal District Court — that Sporkin had no legal right or basis to do what he was doing. Sporkin said something to the effect of "I disagree with the law and if you have a problem with that, take it up with Congress."

When it comes to describing the treatment of The Hamilton Securities Group and myself by Judge Sporkin and DOJ and HUD attorneys, it is essential to underscore how lucky I have been. I had the knowledge and control to ensure that Hamilton was run according to very high standards. Hamilton had been blessed with a very strong team — starting with an outstanding Chief Financial Officer and excellent contract leadership for our work at HUD. I had an excellent reputation in the marketplace. I had personal wealth and family support to ensure that I had attorneys, food, clothing and shelter. With the presence of a strong legal team and resources over a long period, many private and public witnesses and honest officials in government and the judicial system were able to help — often at great risk to themselves. I had a wonderful church and tremendous spiritual support. And over time I connected with thousands of people around the world trying to illuminate corruption and build community. So I am alive, I am fully intact and I am not alone. That is more than I can say about the millions of children and innocent adults worldwide who have been destroyed, killed and incarcerated by the drug running, weapons trading and cover ups made possible with the help of the same type of extraordinary legal and harassment skills I faced. Among them was Gary Webb, who died in December 2004 from gunshot wounds to the head — ruled a suicide.

With Jamie Gorelick gone from DOJ, much of the work at DOJ

continued under the jurisdiction of Frank Hunger, Al Gore's brother-in-law, who was head of the civil division, and the new Deputy Attorney General, Eric Holder. Holder had come over from the Washington, D.C. U.S. Attorney's office which was the lead office with the day-to-day lead responsibility for DOJ on Ervin's *qui tam*. Holder continued the policies of support for Operation Safe Home, the War on Drugs and prison privatization and helped arrange Marc Rich's pardon at the end of the Clinton Administration before joining Covington & Burling. Frank Hunger was also to join Covington & Burling after helping run Al Gore's unsuccessful presidential campaign in 2000.

Al Gore's former chief of staff Jack Quinn resigned as White House Counsel at the end of 1996 and returned to his old law firm, Arnold & Porter. He was replaced by former (and later) Covington & Burling partner Charles Ruff in early 1997. (Quinn was later to return to visibility when he assisted the Gore campaign in 2000 and helped to engineer Arnold & Porter client Marc Rich's White House pardon.)<sup>97</sup> Ruff, a former Watergate prosecutor and top Justice Department official was the Washington D.C. Corporation Counsel who had critical background to help the Clinton Administration engineer the federal takeover of many aspects of the Washington, D.C. government, including the local courts and prison system. The former Assistant U.S. Attorney, Judith Hetherton, who was leading the Hamilton investigation as HUD OIG General Counsel had worked for Ruff. Ruff, like Gorelick, had served as President of the D.C. Bar Association. After her efforts to frame The Hamilton Securities Group failed, Heatherton became staff to the Ethics Committee at the D.C. Bar Association.

The federal takeover of the District of Columbia began in August 1997 with the Balanced Budget Act and the National Capital Revitalization and Self Government Improvement Act of 1997. This was the beginning of a wave of gentrification in the District, with easy mortgage finance encouraging people to move back in from the suburbs or young people and immigrants to buy new homes. The law also provided for private prison capacity that would result in, among other things, a request for proposal by the Federal Bureau of Prisons in February 1998 that Cornell would win in 1999 for 1,000

people for ten years, or a total award of \$342 million. In a significant leadership position was Senator Lauch Faircloth, a Republican retired hog farmer from RJR's home base of North Carolina, who as chair of the DC appropriations subcommittee had taken a significant interest in demanding investigations of Hamilton Securities and the HUD loan sales. The Federal takeover was a pork fest for HUD real estate developers under Andrew Cuomo's leadership. The flood of developers cashing in on HUD Hope VI projects, with Scott Nordheimer in a leading position was well underway.<sup>98</sup>

While the HUD Operation Safe Home SWAT team round ups continued to create the need for private prison capacity at taxpayer expense,<sup>99</sup> and government officials and Wall Street board members played musical chairs, inventing new ways of handing out contracts and financing the housing bubble, private companies were cashing in on their resulting good fortune:

- Cornell Corrections increased their revenues and capacity thanks to DOJ's Federal Bureau of Prison and several state governments.<sup>100</sup>
- Dillon Read exercised their options to purchase additional shares in Cornell Corrections.
- In the summer of 1997, Dillon Read's partners and investors, led by John Birkelund, sold Dillon Read to the Swiss Bank Corporation, which merged the following year with UBS, the largest Swiss bank.
- With HUD policies reversed by Cuomo to those in favor of traditional private and not-for-profit real estate constituencies, Harvard Endowment and Pug Winokur's Capricorn Investment sold NHP, the large HUD property manager to AIMCO, a large Denver HUD property manager.
- Pug Winokur's firm Capricorn Holdings, an investor with Harvard in NHP, a leading HUD property management company, sold a significant portion of their controlling position in DynCorp, an important HUD and DOJ contractor, with Pug stepping down from Chairman of the Board of DynCorp to remain a member of the board and Chairman of the Compensation Committee, the board committee that recommends compensation for senior

management as well as compensation policies for the corporation.<sup>101</sup>

### **Dyncorp**

A few words are appropriate to describe DynCorp and its former Chairman and lead investor, Herbert S. “Pug” Winokur. Pug and his investment operation Capricorn Holdings were later to come under scrutiny when Pug resigned from the Harvard Corporation board at a time of controversy regarding his role as board member and chairman of the Finance Committee of Enron. Pug was serving on the board when Enron went bankrupt, after a period during which Harvard Endowment (where Pug was also on the board) was aggressively and profitably selling Enron stock. This raised questions as to whether the Endowment had the benefit of “insider information.” The extent of Harvard’s investments in Capricorn and its funds, if any, are unknown. On several occasions, Harvard and Capricorn have invested side by side.

Pug’s company Capricorn Holdings was based in Greenwich Connecticut. He and John Birkelund were long time board members of NacRe, a reinsurance company based in the Greenwich area that Dillon had been instrumental in helping to start. Breaking with the pattern of Dillon leaders being from New Jersey, John Birkelund lived in Connecticut and seemed very much part of the group in and around Greenwich. This group included Robert G. Stone, Jr., considered a leading light for many years behind the Harvard Endowment, particularly its oil and gas portfolio that invested in Harken Energy, a company made famous by George W. Bush’s role and stock profits. Like many other people in this story, both Birkelund and Winokur shared membership in the Council on Foreign Relations.

When Capricorn Holdings reduced its investment position in 1997, DynCorp appeared to be doing well. In addition to significant information systems contracts and subcontracts for DOJ and HUD, including lead contractor with a \$60 million per year contract on the DOJ Asset Forfeiture Fund (working with the U.S. Marshals who manage forfeited assets for DOJ’s Asset Forfeiture Fund), DynCorp won new systems and litigation support contracts from DOJ in 1995 and 1996. This included the Justice Consolidated Network (J-Con)

contract to run the consolidated network systems for parts of Justice. According to Inslaw President Bill Hamilton, DynCorp had been one of the successor contractors on managing the PROMIS system after DOJ had stolen it from Inslaw.

**COVER STORY**

# DynCorp Disgrace



**Conduct unbecoming:** Americans were seen in Bosnia as defenders of the children, as shown here, until U.S. contractors began buying children as personal sex slaves.

**Employees of the corporation have been buying and selling women and young girls for sex while working under contract for the United States.**

By KELLY PATRICK O'MEARA

**M**iddle-aged men having sex with 12- to 25-year-olds was too much for Ben Johnston, a hulking 6-foot-5-inch Texan, and more than a year ago he blew the whistle on his employer, DynCorp, a U.S. contracting company doing business in Bosnia.

According to the Racketeer Influenced Corrupt Organization Act (RICO) lawsuit filed in Texas on behalf of the former DynCorp aircraft mechanic, "in the latter part of 1999 Johnston learned that employees and supervisors from Dyn-

Corp were engaging in perverse, (legal and inhumane behavior [and] were purchasing illegal weapons, women, forced passports and [participating in] other immoral acts. Johnston witnessed co-workers and supervisors literally buying and selling women for their own personal enjoyment, and employees would brag about the various ages and talents of the individual slaves they had purchased."

Rather than acknowledge and reward Johnston's effort to get this behavior stopped, DynCorp fired him, forcing him into protective custody by the U.S. Army

February 4, 2002

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Courtesy: Kelly O'Meara, Insight Magazine



One of the contractors chosen with DynCorp to provide litigation support to DOJ was CACI, the leading provider of Geographic Information Systems to the federal government. Richard Armitage, a high-ranking official at Defense during the Reagan Administration and at the State Department during the Bush II Administration, was a consultant and member of CACI's board from 1999 to 2001.

After DynCorp personnel were later the subject of several lawsuits related to pedophilia and sex slave trafficking in partnership with local mafia in Eastern Europe,<sup>102</sup> Armitage as a senior official at the U.S. State Department would write a letter in support of large new sole source contracts to DynCorp based on the theory that a company should not lose contracts as a result of the conduct of a few employees. In short, sex slave trafficking and pedophilia in its ranks did not prevent DynCorp from winning significant new contracts, including a \$500 million sole-source contract to run police, enforcement, courts and prisons in Iraq.

Letter from Deputy Secretary Richard Armitage re: Award of Sole Source Contract to DynCorp to Provide Police, Judiciary and Prisons in Iraq:

I came to look into DynCorp when I was contacted years later by a retired member of CIA covert operations who alleged that:

- (i) DynCorp was helping to manage the PROMIS software system through its J-Con System at DOJ; and
- (ii) the project manager for DynCorp on the J-Con contract had falsified evidence against me using the PROMIS system and that is what got the investigation against The Hamilton Securities Group and me going. I e-mailed the project manager at DynCorp, however he never responded.

It is hard to find reliable information on the PROMIS software system and alleged successor systems. However, I believe that understanding the use of such digital information weaponry and its ability to compromise private and public financial and banking systems (including transactions such as the HUD loan sales) as well as governmental enforcement and military systems is integral to under-

standing the manipulation of the US federal credit and financial markets and the centralization of political and economic power.

\*

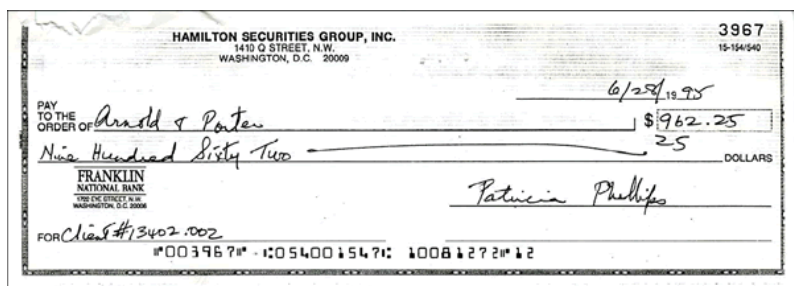
\*   \*

In the meantime, Gary Webb had problems of his own. After extraordinary efforts by the corporate media to try to discredit his story,<sup>103</sup> he was demoted by the San Jose Mercury News in the summer of 1997 and then left the paper in December 1997 to work on his book, *Dark Alliance*, which was published the following year.

The fall of 1997 was an intense time in Washington, D.C. given fundraising and Whitewater investigations that would continue to distract from Mena and South Central LA narcotics trafficking allegations and use sex between consenting adults in the Oval Office to blossom the following year into the Clinton impeachment proceedings. On September 18th, Cornell Corrections announced its next public offering with Dillon Read (renamed SBC Warburg Dillon Read since its purchase by the Swiss Bank Corporation) as the lead senior manager. The offering proceeded on October 10th, raising \$57.3 million at a price of \$19 5/8 per share, a 64 % increase from the first offering in October 1996, a year before. This implied a value of \$25,962 per person in Cornell's jails and facilities — a significant portion derived from the Federal Bureau of Prisons and U.S. Marshals, both at DOJ.

On October 14th, then-HUD Secretary Andrew Cuomo fired Hamilton with no notice, seized monies owed to The Hamilton Securities Group for work already performed and launched a concerted smear campaign. At the same time, a variety of dirty tricks, including through Hamilton's bank, auditor and insurance companies, drained our resources. In November, an amount equivalent to our remaining contract authority — approximately \$10 million — was awarded to HUD OIG's Operation Safe Home by special appropriation by the Senate HUD appropriation subcommittee. Legal action to try to stop HUD's seizure of Hamilton's monies and illegal investigatory leaks ended up in Stanley Sporkin's court — giving the former general counsel of the CIA another chance to use his skills to protect criminal enterprise. As a result, all of Hamilton's efforts to support

responsible management of HUD's programs or to create tools and jobs for communities came to an end.



**Arnold & Porter:** *When we caught our bank engaging in dirty tricks, they used Arnold & Porter partners to threaten me. I was surprised to be threatened by a firm that had worked for Hamilton as well.*

I had to smile when we ended up with new attorneys the following year. One assured me that Sporkin would love what we were doing for community transparency and job creation. They had heard him in the meetings of attorneys speaking about the inner city. They insisted he very much cared about young people in the inner city. By then I had learned to just smile and not try to explain about how it was that despite everyone caring so much in conversation about the Popsicle Index going up, for some mysterious and inexplicable reason it just kept going down.

## Notes

90. See introduction to *The Kemp Tapes* recorded by Catherine Austin Fitts. Online: <https://library.solari.com/jack-kemp-1935-2009/>.
91. See *Missing Money—Articles and Documents*. Online: [http://www.solari.com/learn/articles\\_missingmoney.htm](http://www.solari.com/learn/articles_missingmoney.htm).
92. See Transcript of the Meeting and links for video excerpts at <https://library.solari.com/jack-kemp-1935-2009/>.
93. See articles on the CIA Inspector General reports and the House investigation in the CIA & Drugs archives at *From the Wilderness*. Online: <http://www.fromthewilderness.net/free/ciadrugs/hostages.html>.

94. See the list of honors and awards in Jamie Gorelicks resume at Wilmer Cutler. Online: [http://www.wilmerhale.com/jamie\\_gorelick/](http://www.wilmerhale.com/jamie_gorelick/).
95. See the *Stanley Sporkin Hotseat*. Online: <http://whereisthemoney.org/hotseat/stanleysporkin.htm>.
96. See Hamilton Litigation section at <https://dillonreadandco.com/gideon>.
97. See materials on Jack Quinns role in Marc Richs pardon at <http://www.nytimes.com/2008/11/22/opinion/22lardner.html>.
98. Katharine Graham, owner of the *Washington Post* published her autobiography, *Personal History* in June 1997. On page 623 she writes,

“Along with a very able, inspiring, and determined younger partner, Terry Golden, I have helped launch an early-childhood education project in the Anacostia section of Washington, D.C. Though the project has grown larger than I had envisioned, it concentrates on two housing projects, Frederick Douglass Community Homes and Stanton Dwellings, and aims at helping mostly single and unemployed partners be involved in the education of their children. We have raised enough money to help create a community service center for parents, with a small daycare unit for up to fifteen infants, a new school for one hundred Head Start children from the ages of two to four. Our hope is that this is a public/private endeavor that can be replicated in other areas of the district as well as elsewhere.”

Terry Golden is a Marriot executive who is the head of the Federal City Council and is chair of the board of the Convention Center. The two projects mentioned are managed by Gene Ford who puts Scott Nordheimer in the lead to redevelop them under the Hope VI program. Several years later, Nordheimer reported to Fitts that he has over 70 people working for him on HUD development projects. Among other projects, he is got the services contract on the Washington Convention Center. The Convention Centers remaining neighborhood residence was overcome with an Operation Safe Home raid of the community

with over 200 personnel and press that was Washington Times and aol.com front headlines. Graham also mentions how well the Washington Post stock has done. She does not describe where all the money comes from—and does describe Warren Buffets investment.

99. See HUD Inspector General Semi-Annual Reports to Congress for performance reports and statistics on Operation Safe Home arrests, cash seizures and civil money penalties. Online: <https://web.archive.org/web/20111209003905/http://www.hud.gov:80/offices/oig/reports/index.cfm>.
100. Growth came from a 516-person expansion at the Big Spring facilities acquired in 1996 as well as several state governments. Between May and September 1997, Cornell acquired Abraxas, a provider of juvenile services, which gave Cornell an additional aggregate capacity of 1,400 children detainees in Pennsylvania, Ohio, Delaware and the District of Columbia.
101. See *Pug Winokur Data Dump*. Online: <https://web.archive.org/web/20061111151414/http://www.newsmakingnews.com:80/catharvardpugdd.htm>.
102. See links for *DynCorp Disgrace* and other stories by Kelly Patricia OMeara on allegations against DynCorp employees regarding sex slavery and human trafficking, see CSC DynCorp and the *Economics of Lawlessness* (<http://www.scoop.co.nz/stories/HL0304/S00158.htm>).
103. For a complete description of the efforts to discredit Webb, see Alexander Cockburn and Jeffrey St. Clairs, *Whiteout: The CIA, Drugs and the Press*, Verso, 1999.

# Dillon Read – Cashing Out on Cornell



When Cornell Corrections listed its shareholders with investments of greater than 5 % in its proxy statement filed with the SEC in March 1998, Dillon Read was no longer listed. Making the assumption that Dillon Read and its various funds and officers and directors cashed out at or between the second Cornell offering in October 1997 and early 1998 when this proxy was filed, we can pause in the telling of our story to estimate the total profits to Dillon and their investors. We should first note that it appears that Dillon sold their shares at a historical high for Cornell's stock price.

While Dillon was not required to disclose their total investment banking revenues and investment profits on Cornell Corrections between 1991 and 1998, I estimate Dillon's total profits for their stock investment in Cornell to have been \$6.7 million for Dillon employees who invested and \$19.4 million for the investors in Dillon's funds, which also included Dillon officers and directors. This represented an annual return on investment of approximately 35–45 %. These are the kind of profits you get when you buy stock for a price of \$3.8 million and several years later sell that stock for \$29.9 million – or an almost 800 % increase on your investment. In addition, I estimate that Dillon also generated at least \$6 million in fees for investment banking and investment advisor services. This results in an estimated total of \$32.1 million in profits for Dillon, its leaders and its investors over a seven-year period.

## Cornell Historical Stock Prices

1996	High	Low
Fourth Quarter (from October 3)	\$12 3/4	\$8 7/8
<b>1997</b>		
First Quarter	\$11 5/8	\$9
Second Quarter	\$18	\$9
Third Quarter	\$16 3/4	\$14 7/16
Fourth Quarter	\$20 3/4	\$15 3/4
<b>1998</b>		
First Quarter	\$24 5/8	\$19 1/4
Second Quarter	\$25 7/16	\$18 1/2
Third Quarter	\$21 1/16	\$8
Fourth Quarter	\$19	\$11
<b>1999</b>		
First Quarter	\$19 7/8	\$13

Source: Yahoo! Finance



Cornell Corrections historical price graph Courtesy: Cornell Companies Inc.

### **An Example of How to Estimate “Prison Pop”**

Dillon Read’s Estimated Total Profits on Cornell Corrections: \$32.1 Million

**Profit #1:** Estimate of Dillon Read Profits on Stock Investments: \$26.1 Million — Return on Investment (ROI) for Dillon Investors of Est. 35–45 % — Representing 8X Increase on Investment

**Explanation:** Cornell’s October 1996 Prospectus describes Dillon and its funds as having a stock position of 1,359,863 shares. Dillon’s April 1997 Cornell 13-D filing describes shareholdings of 1,191,864 shares and an original cost of \$3,359,736. The difference appears to be a distribution of shares to the Concord partners in early 1997. We assume that this distribution was 168,000 shares and for purposes of estimating cost, assume their average purchase price on these shares was \$2.75 average cost per share for all existing shareholders (Dillon managed funds and employees were approximately 44 % of existing shareholders) in Cornell’s October 4, 1996 Prospectus. (A prospectus is the document provided to investors that describes the company and its securities.)

Dillon did not appear to sell shares in the October 4, 1996 or the October 10, 1997 offering, yet was not shown as a holder of 5 % or more in the March 9, 1998 proxy. (A proxy is the annual filing soliciting annual shareholder votes that describes the stock holdings of officers and directors as well as any holder known to the company to have 5 % or more of the outstanding shares.)

For purposes of estimation, we are assuming that stock options can be treated as shares and Dillon and partners to whom they distributed shares sold their various positions between October 10, 1997 and March 1997 at or between the first quarter high of \$24 — shown in Cornell’s 1998 10K — or the offering price in October 1997 of \$19.625. As a result, we assumed an average sales price of \$22.

Under these assumptions, total proceeds would have been \$29,916,986. Profits would have been these amounts, less the costs of \$3,821,736, or \$26,095,250 in capital gains (stock profits). Of this amount, the officer and director personal positions of 335,233 shares (including options) would have been proceeds of \$7,375,126 less costs of \$652,999.99 (\$2.15 per share shown in SEC filings breakdown for costs of the



different Dillon positions – which differs by slight amounts than the total of the stock costs listed for the 32 Dillon officers and directors listed as shareholders at Exhibit E in the April 1997 13-D filing), generating estimated profits for officers and directors directly of \$6,722,126.

Actual profits will differ from these estimates based on such factors as different timing of investments, sales or stock and option costs.

**Profit #2:** Estimate of Dillon Read Fees (Underwriting Spreads) on 2 Stock Offerings: \$3 Million.

**Explanation:** Total underwriting spreads were \$7.5 Million assuming the 30-day option to sell additional shares were exercised. Dillon Read as lead manager would have made the largest portion of all the underwriters in the underwriting syndicates. The underwriters spread is the discount on the purchase price given to the underwriters who buy at the discounted price and then attempt to sell the securities at the higher stated offering price.

**Profit #3:** Estimate of Dillon Read Secondary Market Profits on Market Making in Cornell Stock: \$1 Million.

**Explanation:** When I was at Dillon we often made more money on trading the securities after the initial offering than we did on the initial offering. Because we had placed many of the securities when they were first sold, investors would come to us to buy and sell the shares in the future. Dillon was not traditionally strong in the equity area, so I am assuming a conservative number in this category. Actual profits could be higher.

**Profit #4:** Estimate of Dillon Fees (Underwriting Spreads) on \$30,106,000 Rhode Island Port Authority Municipal Bonds for Donald C. Wyatt Facility & Secondary Market Profits on Market Making in the Bonds: \$500,000

**Explanation:** The Harvard design case study indicates the underwriting discount on the municipal bond offering was \$451,325 with Dillon Read and Fleet handling the underwriting.<sup>104</sup> Dillon would have made a percent of the underwriting discount and profits on the

subsequent aftermarket trading in the bonds. We are assuming that Dillon did not lose money when Cornell had trouble making debt service payments. (See the New York Times story of Al Gore's office arranging prisoners to be shipped to Rhode Island so that the Cornell revenues would be sufficient to cover debt service on the municipal bonds issued to finance the facility.) The bondholders presumably would have included the investors Dillon and Fleet sold the bonds to.<sup>105</sup>

**Profit #5:** Dillon Read Private Placement Fees: \$500,000

**Explanation:** Cornell had a large credit facility from ING, the Dutch insurance company that took over Barings, and in the process became Dillon's lead outside investor. It is likely that Dillon arranged for this financing for Cornell and, if so, would have been paid a fee. A "private placement" is done privately between a company and an investor rather than offered to the public.

**Profit #6:** Dillon Fees Associated with Venture Fund Asset Management: \$1 Million

**Explanation:** Dillon would have charged fees in connection with its raising and management of the Concord, Concord Japan and Lexington Funds. If their fees included a % of the capital gains on the fund and its investments, the Dillon fees related to Cornell investments could have been much greater than this estimate.

**Total Profits:** Total Estimated Profits: \$32.1 Million

### **Profits on Cornell**

I remember reading some of the Carlyle Group's marketing material about their success in leveraged buyouts of companies that did lots of contracts and business with the federal government. They claimed to have achieved annual investment returns of 35 %, in the range of the returns that I estimate Dillon to have made on Cornell Corrections. If you understand the story of Cornell Corrections, you will get a good understanding of the type of investment that achieves 35 % investment returns for private investors on the stocks

of companies that enjoy growth in government contracts and the fruits of “privatization.”

It is imperative in understanding investments like these to look not just at the companies involved, but to look through to the individuals who make the critical decisions. In Dillon Read’s case, the key leaders were also personal investors. We do not know if, as sometimes happens in cases like this, the firm financed or arranged financing for their purchases in an arrangement where, in essence, they can buy for “no money down.” An estimate of their personal profits is as follows:

*Estimated Personal Profits of Seven Largest Dillon Direct Investors \* \$22 Est. Sales Price \*\**

Dillon Investor	Shares	Options	Amount	Profits
John P. Birkelund	39,579	3,736	\$96,990.16	\$773,748
John Haskell, Jr	36,730	3,505	\$85,382.75	\$722,677
David W. Niemiec	35,018	3,279	\$76,989.51	\$693,406
Fritz Hobbs	30,455	2,803	\$56,986.04	\$613,024
George A. Wiegers	28,176	2,571	\$44,988.85	\$574,883
Peter Flanigan	28,178	2,687	\$48,781.40	\$571,134
Kenneth M. Schmidt	24,778	2,454	\$35,622.38	\$509,494

\* Does not include potential bonus and compensation resulting from other profits on Cornell Corrections. Treats options as shares for purposes of estimate. Options are included in share numbers.

\*\* Average of high lows used in the sales price estimates of \$24–19 5/8.

To generate these profits for Dillon and the Dillon leadership at a stock market valuation of \$25,962 (the value “per bed” at the time of the October 1997 offering) when Dillon had invested when Cornell had no prisons and prisoners, the following table on the next page estimates how many people had to go to prison for an extended period:

Another useful calculation is to look at the how many taxpayers will have to work their entire lives to pay the taxes for this many people to be imprisoned. Let’s assume that the average taxpayer pays \$150,000 of federal taxes in an entire lifetime. Based on the

*Estimated Number of People Incarcerated for Extended Period to Generate Dillon Stock Profits*

Dillon Partner	people in prison
John P. Birkelund	34
John Haskell, Jr.	31
David W. Niemiec	30
Fritz Hobbs	26
George A. Wiegers	24
Peter Flanigan	24
Kenneth M. Schmidt	21
All Dillon Read Investments	1,152

General Accounting Office’s (now the General Accountability Office, the Congressional Auditor) study in 1996 that indicated the total annual federal, state and local system expenditures per prisoner were approximately \$154,000. That means that ten taxpayers would have to work their whole lives to pay for one prisoner with a mandatory sentence of ten years. On this basis, the following table estimates how many people would have to work their whole lives to pay the taxes to fund the incarcerations necessary to generate Dillon’s profits on Cornell Corrections.

*Estimated Number of People Working Their Entire Lives to Pay Taxes to Fund Prisoners Incarcerated for Extended Period to Generate Dillon Stock Profits*

Dillon Partner	Taxpayer Lives
John P. Birkelund	340
John Haskell, Jr.	310
David W. Niemiec	300
Fritz Hobbs	260
George A. Wiegers	240
Peter Flanigan	240
Kenneth M. Schmidt	210
All Dillon Read Officers and Directors Investing	11,523

Cornell's March 1998 proxy filed with the SEC inspires some additional questions regarding the source of funds that bought Dillon Read out at a price that generated tens of millions of profit on their venture investment. There are several new large shareholders listed:

J&W Seligman	
100 Park Avenue New York	5.7 %
Alliance Capital c/o the Equitable Companies	
1290 Avenue of the Americas New York	5.5 %
AMVESCAP	
11 Devonshire Square London	5.3 %

When Cornell Corrections filed its 1999 proxy the following year, AMVESCAP and Alliance were each up to 9 % of the outstanding shares.

Based on the foregoing filings, it is fair to assume one way or another these investors were helpful in making it possible for Dillon Read to cash out at or near a market high in Cornell's stock price.

John Haskell,<sup>106</sup> the second largest personal investor among the Dillon officers and directors was a board member of Equitable. Alliance Capital was soon to become much more visible as a result of its role in using Florida pension funds to buy Enron stock when one of its executives and Lockheed Martin board members, Frank Savage, was also on Enron's board and member of its finance committee.<sup>107</sup>

However, in the category of "it's a small world" was the relationship of Cornell's largest European shareholder AMVESCAP to RJR. In 1999, AD Frazier, President and CEO of INVESCO joined the board of R. J. Reynolds Tobacco Holdings. The press release describes Frazier as a member of the Board of Directors of INVESCO's parent AMVESCAP.

RJR's 2003 Proxy, filed after the European Union lawsuits were filed list INVESCO as the third largest shareholder with 5.6 % of outstanding shares. RJR's 2004 Proxy lists INVESCO in London as having 11 % and INVESCO North American Holdings as owning 11 %. RJR's 2005 Proxy lists INVESCO in London with 6.3 % and AMVESCAP in London with 6.32 %.

Which means that when one of RJR Nabisco's former lead investment bankers, Dillon Read, and its investors made in the range of \$30 million cashing out of a private prison company, they were cashed out directly or indirectly by one of RJR Nabisco lead investors.

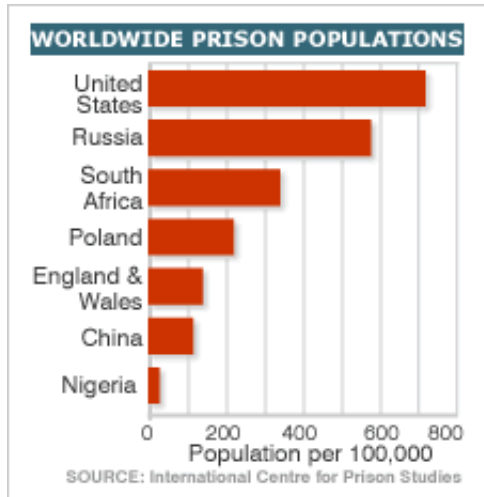
I wonder what the ghost of Barry Seal would say about what that might all have to do with the alleged \$5 billion of drugs he pumped through a little airport in Arkansas, and who was responsible to reinvest that money. I wonder what Lou Gerstner, Henry Kravis and George Roberts as CEO and lead investors in RJR would say if given truth serum about who may be responsible for reinvesting the dirty money allegedly laundered with RJR cigarette sales.

### **Brown University: Cashing Out on Cornell Corrections**

In Cornell's prospectus when Dillon Read led its second stock offering on October 10, 1997, Brown University's Third Century Fund was listed as a shareholder with 88,818 shares, of which 28,818 shares were to be sold through the offering. John Birkelund, Chairman and CEO of Dillon Read, was a long time trustee of Brown University. The price on the 1997 offering was \$19 5/8 per share. If Brown's average profit was the difference between the 1997 price and the 1996 offering price of \$12 per share, it would have generated a profit in a year's time of \$677,237. Brown's return on investment under these assumptions would have been a smashing 63.5 %. If it had sold when the stock peaked after the offering at or around the time that Dillon appears to have sold out, it would have been higher.

The number of people who needed to be imprisoned for many years to generate such investment profits based on the foregoing assumptions was 67 people. An estimate of the number of men and women in the U.S. who would have to work their whole life to pay the taxes to imprison those 67 people would be 670 people.

Brown University also benefited from John Birkelund's success at Dillon Read — including from Cornell Corrections — presumably through his donations and fundraising for the school — a primary function of a trustee. Typically, funding a "chair" at a university requires a donation greater than a million dollars — even several million. According to Brown's website, there is a John P. Birkelund Professor of History at Brown, Omer Bartov.



Professor Bartov is an expert in genocide. His publications listed on Brown's website include:

- In God's Name: Genocide and Religion in the Twentieth Century, edited volume with P. Mack (Berghahn Books, 2001).
- Mirrors of Destruction: War, Genocide, and Modern Identity (Oxford UP, 2000)
- The Holocaust: Origins, Implementation, Aftermath, edited volume (Routledge, 2000)
- Murder in Our Midst: The Holocaust, Industrial Killing, and Representation (Oxford UP, 1996)

For the Fall 2005 semester Professor Bartov taught a course called "Modern Genocide and Other Crimes against Humanity." The course description is as follows:

"The emergence, evolution, varieties, and underlying causes of and confrontations with genocide and other crimes against humanity in the 20th century: genocide in colonial empires, Ottoman Turkey, Nazi Germany, Cambodia, and Rwanda; killing of the handicapped, wartime massacres, mass crimes of Communism, and 'ethnic cleansing'; the role of racism in and moral arguments

about crimes against humanity; and policies of retribution and restitution.”

Professor Bartov also serves on the Brown University Slavery and Justice Committee whose mission is described on the University’s website as follows:

“Welcome to the website of Brown University’s Steering Committee on Slavery and Justice. The committee was appointed in 2003 by President Ruth Simmons and charged ‘to organize academic events and activities that might help the nation and the Brown community think deeply, seriously, and rigorously about the questions raised’ by the national debate over slavery and reparations. As an institution whose early benefactors included both slave traders and pioneering abolitionists, Brown has an intimate relationship to the history of American slavery. This history gives us, in the president’s words, ‘a special opportunity and a special obligation’ to contribute to this ongoing debate.”<sup>108</sup>

A 2003 press release regarding one of Professor Bartov’s articles describes his work as follows:

“Throughout the last century, the scholarly community played a prominent role in providing the rationale and supplying the know-how and personnel for the perpetration of state-directed mass violence, according to new research by a Brown University historian. Omer Bartov, the John P. Birkelund Distinguished Professor of European History, cited incidents of ethnic cleansing, genocide and terrorism which were legitimized and supported by academics in his paper “Extreme Violence and the Scholarly Community,” published in the current issue of the *International Social Science Journal*. “We must recall that scholars and intellectuals have not infrequently found themselves at the forefront of support for mass crimes and inhumanity and have often distinguished themselves by their extraordinary political blindness and moral callousness,” Bartov wrote. “We ignore its implications at our peril.”

From a survey of Professor Bartov’s research online there is no indication of what his thoughts are regarding Brown’s quick profits on Cornell Corrections or possible sources of funds to support a



John P. Birkelund Professorship in European History and the facts and circumstances of John Birkelund's fortune — including fees and profits from RJR Nabisco and Cornell Corrections.

Professor Bartov was contacted by e-mail at [Omer\\_Bartov@brown.edu](mailto:Omer_Bartov@brown.edu) for comment in late November 2005 and has not yet replied.

## Notes

104. Harvard Design School Case Study ([http://www.dunwalke.com/resources/documents/Events/Harvard\\_Case\\_Study\\_940101-014.pdf](http://www.dunwalke.com/resources/documents/Events/Harvard_Case_Study_940101-014.pdf)).
105. An article by Jeff Gerth and Stephen Labaton in the *New York Times* in November 1995, *Prisons for Profit: A special report; Jail Business Shows Its Weaknesses* describes the problems that Cornell ran into on its Rhode Island facility—one which had been financed with municipal bonds issued by Dillon Read:

“Two years ago, the owners of the red cinder-block prison in this poor mill town threw a lavish party to celebrate the prison's opening and show off its computer monitoring system, its modern cells holding 300 beds and a newly hired cadre of guards.

But one important element was in short supply: Federal prisoners.

It was more than an embarrassing detail. The new prison, the Donald W. Wyatt Detention Facility, is run by a private company and financed by investors. The Federal Government had agreed to pay the prison \$83 a day for each prisoner it housed. Without a full complement of inmates, it could not hope to survive.

So the prison's financial backers began a sweeping lobbying effort to divert inmates from other institutions. Rhode Island's political leaders pressed Vice President Al Gore while he was visiting the state as well as top officials at the Justice Department to send more prisoners. Facing angry bondholders and insolvency, the company, Cornell Corrections, also turned to a lawyer who was then brokering prisoners for privately run institutions in search of inmates.

The lawyer, Richard Crane, has done legal work for private corrections companies and Government penal

agencies. He put the Wyatt managers in touch with North Carolina officials. Soon afterward, 232 prisoners were moved to Rhode Island from North Carolina, and Mr. Crane was paid an undisclosed sum by Cornell Corrections.”

See (<https://www.nytimes.com/1995/11/24/us/prisons-for-profit-a-special-report-jail-business-shows-its-weaknesses.html?pagewanted=all>).

106. The Virtual Foundation describes Haskell, an Advisory member as follows: After graduating from the U.S. military academy at West Point in 1953, Mr. Haskell served in a number of armor branch units in the U.S., Austria, and Germany. In 1958, he received an MBA from Harvard University’s Graduate School of Business Administration and later worked as an Associate at Dillon, Read & Co. from 1958 to 1961. He subsequently went to France, where he reopened and managed the Dillon Read European office from 1961 to 1966. From 1964 to 1975 he served as Vice-President of Dillon Read, and from 1975 to 1999 as its Managing Director. In May of 2000, Dillon Read & Co. changed its name to UBS Warburg LLC. He is presently a Senior Advisor at UBS Warburg in the area of Corporate Finance, and is a member of the Board of Directors of AXA Financial, Inc.; The Equitable Life Insurance Society of the United States, Inc.; Pall Corporation; Belgian-American Educational Foundation; French Institute Alliance Française (President/Board of Trustees); the American Society of the French Legion of Honor; and Security Capital Corporation. He has been decorated with several honors throughout his career, including the Legion d’Honneur and L’Ordre National.
107. See Mel Martinez Hotseat, links on Enron. Online: <http://www.wheretheismoney.org/hotseat/mel/bush2000.htm#Bush2000>.
108. See Brown University Steering Committee on Slavery and Justice. Online: [http://www.brown.edu/Research/Slavery\\_Justice/index.html](http://www.brown.edu/Research/Slavery_Justice/index.html).

## Financial Coup d'Etat — 1998



*Photo: Richard Grasso (chairman and chief executive of the New York Stock Exchange from 1995 to 2003) hugging a FARC Commander in 1999 in a rebel village in Colombia. At this time, the GAO reported that FARC had assumed control of a majority market share of the Colombian cocaine trade. (Photo courtesy LaRouche Campaign)*

The Hamilton Securities Group had a subsidiary charged with taking our data as it developed on individual transactions and portfolio strategy assignments and using it to develop a new approach to investment. We sought to help investors understand the impact of their investments on people and places and on a wider society as a strategy to identify opportunities to lower risks and enhance investment returns.<sup>109</sup> This included understanding how to reduce the dependencies of municipalities and small business and farming on debt and increase their ability to finance with equity. Indeed, easy, subsidized access to equity financing is one of the reasons that large companies have grown so powerful and taken over so much

market share from small businesses. Access to equity investment for small business and farms would result in a much healthier economy and much more broad-based support for democratic institutions.

We were blessed with an advisory board of very capable and committed pension fund leaders. In April 1997, we had an advisory board meeting at Safeguard Scientifics where the board chair led a venture capital effort. I gave a presentation on the extraordinary waste in the federal budget. As an example, we demonstrated why we estimated that the prior year's federal investment in the Philadelphia, Pennsylvania area had a negative return on investment. It was, however, possible to finance places with private equity and then reengineer the government investment to a positive return and, as a result, generate significant capital gains. Hence, it was possible to use U.S. pension funds to increase retirees' retirement security significantly by investing in American communities, small business and farms — all in a manner that would reduce debt and improve skills and job creation. This was important as one of the chief financial concerns in America at that time was ensuring that our retirement plans performed financially to a standard that would meet the needs of beneficiaries and retirees. It was also critical to reduce debt and create new jobs as we continued to move manufacturing and other employment abroad. If not, we would be using our workforce's retirement savings to finance moving their jobs and their children's jobs abroad.

The response from the pension fund investors was quite positive until the President of the CalPers pension fund — the largest in the country — said, "You don't understand. It's too late. They have given up on the country. They are moving all the money out in the fall (of 1997). They are moving it to Asia." He did not say who "they" were but did indicate that it was urgent that I see Nick Brady — as if our data that indicated that there was hope for the country might make a difference. I thought at the time that he meant that the pension funds and other institutional investors would be shifting a much higher portion of their investment portfolios to emerging markets. I was naive. He was referring to something much more significant.

The federal fiscal year starts on October 1st of each year. Typically the appropriation committees in the House and Senate vote out

their recommendations during the summer. When they return from vacation after Labor Day, the various committees reconcile and a final bill is passed in September. Reconciling all the various issues is a bit like pushing a pig through a snake. Finalizing the budget each fall can make for a tense time. When the new bill goes into effect, new policies start to emerge as the money to back them starts to flow. October 1st is always a time of new shifts and beginnings. In October 1997, the federal fiscal year started. It was the beginning of at least \$4 trillion going missing from federal government agency accounts between October 1997 and September 2001. The lion's share of the missing money disappeared from the Department of Defense accounts. HUD also had significant amounts missing. According to HUD OIG reports, HUD had "undocumentable adjustments" of \$17 billion in fiscal year 1998, and \$59 billion in 1999. The HUD OIG refused to finalize audited financial statements in fiscal year 1999, refused to find out the basis of the undocumentable adjustments or to get the money back and refused to disclose the amount of undocumentable adjustments in subsequent fiscal years.<sup>110</sup> The HUD OIG continued to invest significant resources in persecuting Hamilton during this time.



Courtesy: New Yorker Magazine

The contractor who was blamed for the missing money at HUD was a financial software company named AMS. My old partner, Steve Fenster, the Dillon Read banker who led the firm's effort in the Campeau leveraged buyout of the Federated Department Stores which had gone bankrupt (See my description expressing my concerns to Steve regarding this deal in "A Parting of the Ways" earlier in this story), had been a board member of AMS until his death in 1995, when he was replaced by Walker Lewis, a board member affiliated with Dillon Read and now, as Chairman of Devon Value Advisors, a consulting partner to Pug Winokur and Capricorn Holdings. With \$17 billion and \$59 billion missing from HUD, Secretary Cuomo never fired AMS or seized their money. Indeed the AMS Chairman Charles Rossotti was appointed IRS Commissioner and given a special waiver to keep his AMS stock. As a result, he profited personally when HUD kept AMS on its contractor payroll and new task orders were awarded to AMS by the IRS. As IRS Commissioner, he oversaw the responsibilities of the IRS criminal investigation division that plays a special role with respect to money laundering enforcement during the period when \$4 trillion went missing from the Federal government. When Rossotti left government service, he joined Lou Gerstner at The Carlyle Group.

If we assume that the \$17 billion went missing at HUD during 1998 on an even basis — that is, \$1.4 billion a month, \$63.6 million per week day, \$7.9 million per working hour — by the summer of 1998, approximately \$14 billion would have been missing from HUD alone, not counting other agencies. Where did it go? Was it financed with securities fraud using Ginnie Mae or other mortgage securities fraud or fraudulently issued U.S. Treasury securities? These are important questions. Interestingly, this was also a period in which some of the most powerful firms in Washington, D.C. or with Washington ties were having remarkably good luck raising capital. Indeed, the period of missing money coincided, not surprisingly with a "pump and dump" of the U.S. stock market and a significant flow of money into private investors' hands.

### **Pump and Dump**

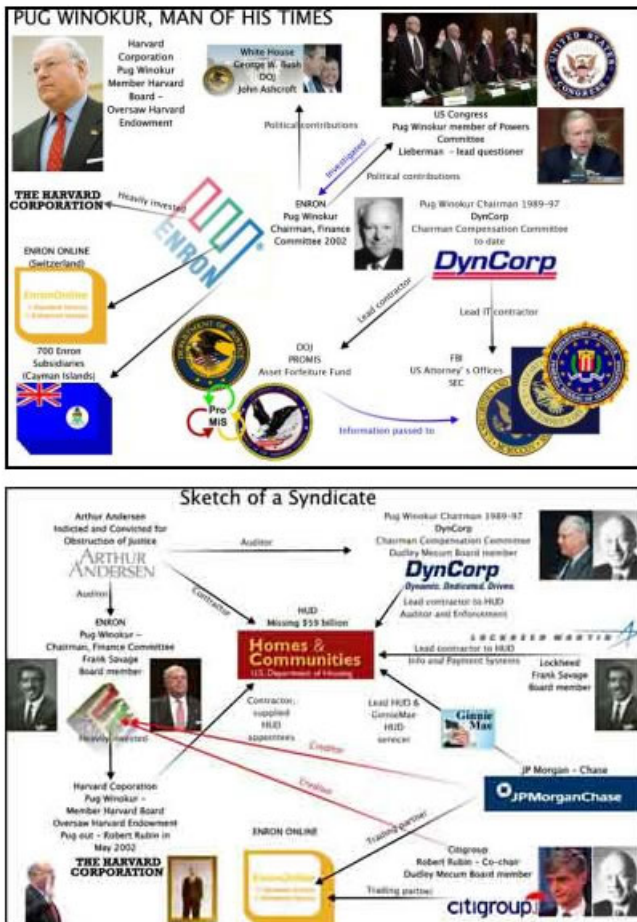
Adapted from Wikipedia, the free encyclopedia

The financial fraud known as “pump and dump” involves artificially inflating the price of a stock or other security through promotion, in order to sell at the inflated price. This practice is illegal under securities law, yet it is particularly common.

Let’s look at some examples. Cornell Corrections was far from the only company to raise funds during this period and Dillon Read far from the only investor to cash out. Indeed, in the scheme of things, Dillon Read’s investment in Cornell Corrections can be described as a financially modest in size — albeit highly successful in percentage terms — venture investment. For example, Dillon’s investment and profits look tiny when compared to the billions that KKR was investing in RJR. Whether large or small, I would argue that both investments are highly informative regarding the real corporate business model prevailing in the US and globally.

In the summer of 1998, Carlyle Group announced that it had closed its European Fund with \$1.1 billion. By the end of the decade Carlyle had more than a dozen funds with close to \$10 billion under management. In the meantime Enron, transacting with Wall Street, was enjoying a rush of good luck with offshore partnerships and growing revenues from “the new economy.” Enron’s leaders included a “Who’s Who” of government contracting. Pug Winokur was the chairman of the Enron finance committee. Pug was also an investor and board member in DynCorp, who was running critical and highly sensitive information systems for DOJ, HUD, HUD OIG and the SEC. Arthur Anderson, Enron & DynCorp’s auditor, (also Cornell Correction’s auditor) was a major contractor at HUD. Frank Savage, a board member of Lockheed Martin, the largest defense contractor that at the time was paid more than \$150 million a year to run the HUD information systems, was also on Enron’s board and finance committee. Enron and HUD shared all the same big banks — Citibank, JP Morgan-Chase — and Wall Street firms. Winokur was on the board and invested with the Harvard endowment, a large investor in Enron. The attorney representing his firm on SEC documents, O’Melveny and Myers, a prominent Los Angeles firm, was reported to be the lead firm helping Al Gore during the 2000 election. Harvard University was a HUD contractor and major source of HUD, Treasury

and White House officials. The Harvard Endowment was a major investor in HUD real estate and mortgage operations along with Pug Winokur and his investment company. Harvard employees were one of the largest groups of lifetime contributors to Bill Clinton. Harvard was also a source of appointees for OMB, DOJ, SEC, DOD and other agencies throughout the government.<sup>111</sup> During the Clinton Administration the Harvard Endowment rose from approximately \$4 billion to almost \$20 billion, an astounding performance.





To repeat a critical point made earlier in our initial discussion of the leveraged buyout business that has engineered a takeover of America's economy — money is like the Pillsbury Doughboy. When you squeeze down on one part — it pops up someplace else. While we do not yet know the truth of who now has \$4 trillion (or some other very large actual amount of cash and/or fraudulently issued securities) of undocumentable transactions indicating extraordinary amounts missing from the U.S. government or trillions more that disappeared out of pension funds and retail investors stock holdings during this period, we do know who has growing financial resources. We also know the extent to which extraordinary enforcement resources were used to target many of the honest people.

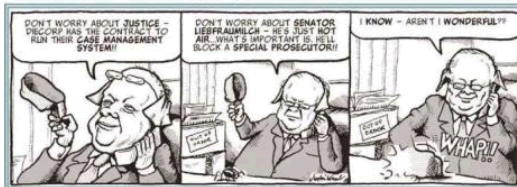
On December 18, 1997, the CIA Inspector General delivered Volume I of their report to the Senate Select Committee on Intelligence regarding charges that the CIA was complicit in narcotics trafficking in South Central Los Angeles. Washington, D.C.'s response was compatible with attracting the continued flow of an estimated \$500 billion–\$1 trillion a year of money laundering into the U.S. financial system. Federal Reserve Chairman Alan Greenspan in January 1998 visited Los Angeles with Congresswoman Maxine Waters — who had been a vocal critic of the government's involvement in narcotics trafficking — with news reports that he had pledged billions to come to her district. In February Al Gore announced that Water's district in Los Angeles had been awarded Empowerment Zone status by HUD (under Secretary Cuomo's leadership) and made eligible for \$300 million in federal grants and tax benefits. At the same time, the existence of Hamilton's software tools and databases would have posed a significant risk if my team and I had become aware of the "Dark Alliance" story. The fastest way to connect the dots would have been for me and my teammates to have looked at the maps of high HUD single family defaults contiguous to areas of significant narcotics trafficking that we had posted on the Internet and then use the Hamilton Securities software tools and databases to dig deeply into government financial flows in the same areas, including patterns of potential mortgage and mortgage securities fraud.

The destruction, suppression and theft of our software tools, databases and computer system was arranged by a series of events between

**Mr. GLOBAL:** *At the world headquarters of DieCorp, 'Bugs' Enokra lays out the plan to solve the Enrotten problem....*



**Mr. GLOBAL:** *The Cover-Up plan unfolds...*



**Mr. GLOBAL:** *Loose ends are tied up...*



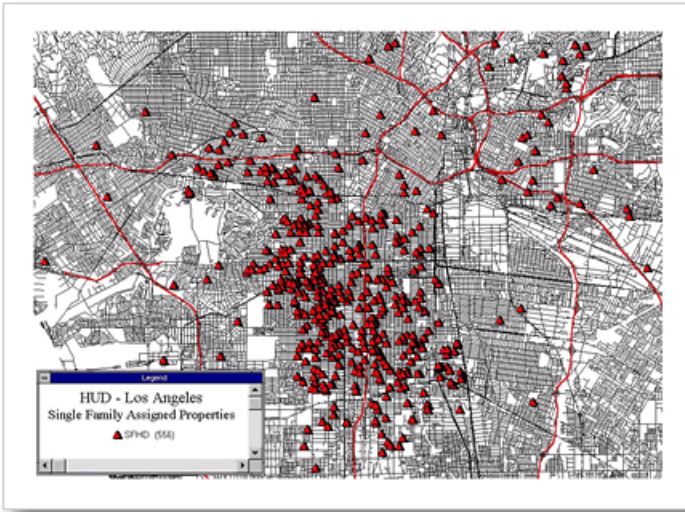
**Mr. GLOBAL:** *And before Senator Liebfräumlích's Government Affairs Committee... hearings, the pièce de résistance...*



**Mr. GLOBAL:** *The world's most august deliberative body deliberates...*



Sanders Research highly recommended 'Mr. Global' comic strip by Justin Ward and Chris Sanders:



*The Map of South Central Los Angeles, California (Map courtesy The Hamilton Securities Group)*

late 1997 and early 1998 that was so orchestrated throughout government, media and members of the Council of Foreign Relations that I would never have believed it if I had not lived through it.<sup>112</sup> The Washington Post mysteriously killed a story about what was happening to The Hamilton Securities Group at the last minute — just as they had done with the Mena story in 1995. Our errors and omission insurance carrier suddenly refused to pay our attorneys, who withdrew from representation of The Hamilton Securities Group.

I sold my interest in our family farmland to my uncle to try to get new attorneys to manage the assault of legal and investigatory workflow coming our way. The HUD OIG then called my uncle, apparently trying to persuade him that I was a criminal, and sent four HUD OIG and FBI agents to his home in New Hampshire at night with a subpoena. Their pretext was that they needed to review the family financial records for the farm to see if I had been entertaining government employees at this “vacation resort.” In time they would come to understand that no government officials had ever joined me



***Hayes Farm**, purchased by Catherine's maternal grandparents on their honeymoon and passed down through the generations, has a panoramic view of Mt. Washington and the Presidential Range in the White Mountains of New Hampshire — but no electricity. (Photos courtesy Catherine Austin Fitts)*

at the farm and that the farm did not have electricity and depended on an outhouse for “basic” functions.

Judge Sporkin ruled against us in our efforts to get HUD to pay us immediately monies owed for work performed and then, for no legitimate reason, authorized our digital records and papers to be seized. On March 8, 1998, a court representative with a team of HUD OIG and FBI investigators landed in our offices and took them over. All copies of all documents whether in our office or in our homes and personal possessions were turned over. We were not allowed to keep copies of anything. We had been ordered by HUD to wipe all HUD databases from our server — most of which were available to the public by law — and certify that they had been wiped clean. We were told we could get copies or excess items of what had been turned over back quickly. In fact, with the exception of one server and a few computers, it took many years to recover any of our files. By the time our most critical files were returned to our control, our

most valuable software tools had “disappeared” while under court control.

We were later to discover that DOJ was using CACI as a litigation support contractor on our case. CACI was the leading supplier of Geographic Information Systems software and services to the U.S. government who later was in the headlines as a result of their connections to the prison at Abu Grahbi in Iraq. This begs the question whether DOJ was paying our competitor to help themselves to our proprietary software and databases. Some time after our entire digital infrastructure was taken over, DOJ came out with a geographic information systems mapping tool to help support increased community policing and enforcement product. You had to wonder if this was the “Sheriff of Nottingham’s” answer to Community Wizard — rather than using software to allow citizens to understand what government was doing, why not use software to provide increased surveillance of citizens by government.

While in possession of our offices, the HUD OIG investigators took empty shredding bins, filled them up with trash and then — from a separate floor — found and added corporate accounting files and then staged photo-taking by the HUD IG General Counsel, Judith Hetherton, who then sent us a letter alleging obstruction of justice as evidenced by our “throwing out” corporate accounting records. We were saved by a property manager who witnessed this charade and decided to help us out after he saw the intentional — and very disgusting — trashing of the The Hamilton Securities Group offices and was touched by our efforts to clean it up. The property manager had come to the U.S. from Latin America—presumably to find freedom from lawless government. One of our attorneys went into the office when the federal investigators were there and came out shaking. He said to me, “My parents left Germany to get away from these people. Now they are here. Where do I go?”

Meanwhile, as soon as The Hamilton Securities Group’s digital and paper records and tools were under court control, computers auctioned off and websites taken down, Congress held surprise hearings on March 16, 1998 on Volume I of the CIA Inspector General’s Report on Gary Webb’s “Dark Alliance” allegations about government involvement in cocaine trafficking. The CIA Inspector General

during these hearings disclosed the existence of the Memorandum of Understanding between the CIA and DOJ that had been created in 1982. Sporkin, the judge who had just engineered the destruction of Community Wizard and our digital infrastructure and had the carcass under his control, was the CIA General Counsel when that MOU was engineered.

There was one small glitch. When we were next allowed in our offices one evening in mid-March, we took the main server and brought it back to my home. The next day, a HUD auditor was stunned to see it gone — he assumed that everything would be wiped clean and sold. He asked where the server was and one of my partners said, “we took it last night.” At which point the HUD auditor said, “You can’t do that. My instructions are you are not allowed to have any of the knowledge.” He then could not come up with a rational reason or lawful basis as to why that was so and why The Hamilton Securities Group was to be denied access to its own property.

While the private prison companies were booking more contracts and billions of dollars were going missing from HUD, I spent the next months slugging through hundred-hour work weeks managing some eighteen audits, investigations and inquiries and twelve different tracks of litigation while struggling under the drain of significant physical harassment and surveillance and an ongoing smear campaign.

Information was dribbling out which ultimately would provide relief. Congresswoman Waters read the Memorandum of Understanding between the CIA and DOJ into the Congressional Record in May. Then in June, Gary Webb published his book *Dark Alliance*. I saw a brief piece pooh-pooing it in a corporate magazine and realized that somehow this might help explain the insanity that I was dealing with and could not understand.

After reading *Dark Alliance*, I started to study the extraordinary moneymaking business that DOJ and agencies like HUD had built in enforcement that really only made sense if in fact the government was entirely complicit in narcotics trafficking and related mortgage and mortgage securities fraud. I started to realize the extent to which private information systems and accounting software companies like

DynCorp and AMS were taking control of government agencies behind the scenes — thus creating the conditions for billions of dollars to disappear from government accounts. Then I started to research private prison companies when a banker from our bank — whose colleagues' behavior had been egregious and I believe criminal towards us—told me how much money they were making in Washington D.C. gentrification and private prisons. This was a theme that kept repeating itself during this period. Private prisons were the next “big thing” and were going to be “real money makers.” It was not just Scott Nordheimer who had tried to persuade us of this. When I had met with several senior partners of Coopers & Lybrand in late 1994, they assured me that I should shift my focus from communities to prisons — that the future was in enforcement and prisons.

In September, I discovered that DOJ owned a prison business company, the Federal Prison Industries, marketed by the name of UniCor. It markets federal prison labor to federal agencies. It turns out that Edgewood Technology Services, a Hamilton Securities Group brainchild and investment, was a potential competitor with DOJ's own prison company for federal data servicing contracts. UniCor's website indicated that they had a growing data servicing business with a focus on Geographic Information Systems (GIS) software products — the same as Edgewood Technology Services. It made me wonder if Scott Nordheimer had given DOJ and its Federal Bureau of Prisons our business plan despite my insistence that we were not interested in prison opportunities. I called the head of the data-servicing group in UniCor, who was amazed to hear the story I told him. He said something to the effect of: “That makes no sense. Most people end up in prison because they cannot get good jobs. It is much more expensive to have them working in prison than not come here in the first place.” He was eager to meet with me, as he was interested in helping good data servicing workers find jobs when they left prison. I told him to check with his superiors and that I would love to meet with him. He never called me back.

### **Federal Prison Industries**

The Department of Justice's profits from prison labor grew along with the growth of federal prisoners — the vast majority of whom

were non-violent offenders. An April 12, 2004 story in Government Executive magazine, *Prison labor program under fire by lawmakers, private industry*, by K. Daniel Glover shows the rise of DOJ's prison sales and labor force as more arrests and incarcerations are good for business.

Year	Number of Factories	Sales (Millions)	FPI Workers	Total Inmates	Product Groups
1985	71	\$238.9	9,995	36,042	4
1990	80	\$343.2	13,724	57,331	5
1995	97	\$459.1	16,780	90,159	5
2000	105	\$546.3	21,688	128,122	5
2001	106	\$583.5	22,560	156,572	8
2002	111	\$678.7	21,778	163,436	8
2003	100	\$666.8	20,274	172,785	8

Source: Federal Bureau of Prisons, quoted at

<http://www.govexec.com/dailyfed/0404/041204nj1.htm>

A report from The Center for Public Integrity in September 2004 reported that the Federal Prison Industries was the 72nd largest defense contractor with \$1.4 billion of contracts between 1998–2003, describing it as follows:

“Federal Prison Industries, also known as UNICOR, uses federal prisoners to manufacture a wide variety of products including furniture, clothes and electronic equipment. It also provides administrative services such as data entry and bulk mailing. A government-owned corporation, it operates as a part of the Federal Bureau of Prisons and is the Defense Department’s number one supplier of clothing, furniture, and household furnishings.”

Then on October 8th, an hour after the House of Representatives voted to move forward with the Clinton impeachment hearings, the CIA quietly posted Volume II of the CIA Inspector General report on the “Dark Alliance” allegations on their website. Volume II included a copy of the Memorandum of Understanding between DOJ and CIA. The message from President Clinton to the Republicans was simple and clear. “You take me down and I will take every-



one down.” Literally the next day, October 9th, Secretary Andrew Cuomo issued a series of sole source contracts through Ginnie Mae, the mortgage securities operation at HUD, to John Ervin’s company (the same company leading the qui tam lawsuit against Hamilton) and to Touchstone Financial Group, a firm apparently started by a former Hamilton Securities Group employee who brought on a series of former Hamilton people to do some of the Hamilton work for HUD. One can only make a list of more unanswered questions of the political deals that may have been happening behind the scenes. After all, October 1, 1998 was the beginning of the fiscal year in which HUD was missing \$59 billion from its accounts — for which the HUD OIG was to refuse to provide an audit as required by law. This amount of money translates into \$4.9 billion per month, \$1.2 billion per work week or \$30.7 million per work hour. This was somebody’s payback time.

Disgusted with events in Washington during this period, I headed to New York to try to get a sense of what this meant on Wall Street. I went down to Wall Street to have lunch with Bart Friedman, one of the partners at Cahill Gordon, Dillon Read’s lead law firm. Bart was someone I had immense respect for and who had helped Hamilton with our legal work. As we were having lunch at a private club near Cahill, Bart’s senior partner, Ike Kohn, walked by. When I was at Dillon Read, Nick Brady would introduce Ike as our most trusted attorney. Bart said something to the effect of, “Ike, you remember Austin Fitts.” Ike looked at me and sneered with hostility and walked away abruptly in a manner that was shocking to me. At least it was shocking until I saw the SEC filings for Cornell Corrections. Bart Friedman had handled all of Dillon’s investment and underwriting files for Cornell Corrections. While Ike may have been scared that I might connect the dots at lunch, I did not. I plowed through the SEC documents for Wackenhut Corrections and Corrections Corporation of America. I did not look at Cornell until years later. To this day I wonder what Ike knew about what happened to The Hamilton Securities Group.

I then headed to a birthday party for a member of the family of a Dillon Read partner being held at the Colony Club, an elegant private club on Park Avenue. A rush of friends wanted to know

**ALPHABETICAL LIST OF CURRENT GINNIE MAE CONTRACTS AS OF  
10/25/2000**

**CONTRACTOR:** Ervin & Associates, Inc.  
962 Wayne Avenue, Suite 300  
Silver Springs, MD 20910  
Attn: John Ervin  
240-464-2000; fax 240-464-2020  
**CONTRACT NO.:** GNMA-98-PP-02(2)  
**COMPETITION:** Small Business Set-Aside  
**DATE OF EXECUTION:** 10/9/98  
**BASE EXPIRATION:** 10/8/2001  
**OPTION PERIODS:** 2 one-year options  
**PURPOSE:** Business Consulting Services  
**BASE AWARD AMOUNT:** \$0 (NTE \$6,700,000 on competed task orders)  
**OPTION AWARD AMOUNT:** \$0  
**AMOUNT PAID TO DATE:** \$808,897.76  
**CLASSIFICATION:** Small Business; 40% MWOB subcontracting  
**GTR:** Nick Shelley  
**GTM:** Linda Benjamin, Wilson Thompson, Mike Najjum, Tom Weakland, Brian Hooper

**CONTRACTOR:** Ervin & Associates/Asset Strategies Group  
962 Wayne Avenue, Suite 300  
Silver Springs, MD 20910  
Attn: John Ervin  
240-464-2000; fax 240-464-2020  
**CONTRACT NO.:** GNMA-98-PP-01(3)  
**COMPETITION:** Full and Open  
**DATE OF EXECUTION:** 10/13/98, effective 10/27/98  
**BASE EXPIRATION:** 10/26/2001  
**OPTION PERIODS:** 2 one-year options  
**PURPOSE:** Advisory Services  
**BASE AWARD AMOUNT:** \$0 (NTE \$23,000,000 on competed task orders)  
**OPTION AWARD AMOUNT:** \$0  
**AMOUNT PAID TO DATE:** \$0  
**CLASSIFICATION:** Small Business; 50% MWOB teaming  
**GTR:** Marilyn Carlson  
**GTM:** Mike Najjum, Tom Weakland, Rob Fry, Chuck Clark, Wilson Thompson

*A FOIA response by HUD indicated that HUD Secretary Andrew Cuomo had engineered Ginnie Mae contracts for Ervin in October 1998 that could help finance Ervin's lawsuits against HUD and Hamilton Securities.*

what I thought of prison company stocks. They were all in them, the brokers were pushing them, they were the “new hot thing” and they were anticipating delicious profits. I said get out, the pricings assumed incorrectly that piling people into prisons — the innocent and guilty alike — was like warehousing people in HUD housing. Sure enough, the stocks were to later plummet. But not until the *Wall Street Journal* ran a story about decorators using prison equipment

**CAHILL GORDON & REINDEL**  
 EIGHTY FIVE STREET  
 NEW YORK, N.Y. 10005-1702

FLOYD ABRAMS BRADLEY A. ALPER ROBERT ANDREWS ANDREW A. BERNER SUSAN BUCKLEY KEVIN J. BURKE P. NEVIN CABLE JAMES J. CLARK WALTER E. CLIFF, P.C. BENJAMIN J. COHEN MARGARET COLE TIMOTHY F. DUTTON W. LESLIE DUFFY PATRICIA FANNIN JOHN HURTADIN FARNER BART FRIEDMAN GREG A. GANSON WILLIAM B. GARNETT CHARLES A. GILMAN STEPHEN A. GREENE ROBERT W. HALLMAN WILLIAM H. HARTNETT THOMAS H. JONES ALLEN S. JOSEPH THOMAS J. KAPLAN LAWRENCE A. KOBURN ANDREW H. KOTHE EDWARD H. KOTHE GEORGE F. LEBMAN WILLIAM L. LEFAND MICHAEL MADRIS	JONATHAN I. MARK JEFFREY M. McFARRELL ROBERT MEISLER RUFFIN L. MILES JOHN P. MITCHELL MATTHIAS E. MOORE DONALD J. MULLHALL KENNETH W. ORDE ROY L. REDDEN RICHARD L. REINHOLD DEAN RIGEL THOMAS ROSENTHAL RICHARD J. SABELLA JAMES J. A. SALAMER H. RICHARD SCHULMANN JOHN SCHUSTER LAWRENCE A. SILVERMAN MICHAEL S. SLOVAK LAWRENCE T. SOMMER LEONARD A. SPIGAS DONALD S. TARNENBAUM JONATHAN D. THOMAS MICHAEL P. TOLSON ROBERT USAID JOHN S. WALSHMAN GEORGE WALAND ALVIN J. WELLS, JR. BOB W. WELSH JOHN R. YOUNG DANIEL J. ZIMMER	JOSEPH P. CONWAY DAVID A. WINE BENJAMIN H. HARTNETT, P.C. JAMES SCHNEIDERMAN ANDREW G. WINTER MICHAEL WINTER LUTHER B. LUTHERMAN SAMUEL ESTRECHER PHILIP A. HENNING JOHN J. SEATON, JR. PAUL FREDERICK DRENNON EUROPEAN OFFICE WASHINGTON, D.C. OFFICE 1800 K STREET, N.W. WASHINGTON, D.C. 20006-1188 EUROPEAN OFFICE 18 RUE FRANCOIS I 75006 PARIS, FRANCE TEL: 1 800 854 8111 / 212 698-8888 CABLE: CAGLOR / 212 698-8888 FACSIMILE: 212 698-8880 TELEPHONE: 212 698-8880 WIRE: 212 698-8880
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June 20, 1995

(212) 701-3100

**Re: The Hamilton Securities Group Inc.**

Dear Deborah:

In accordance with your request and our prior telephone conversations, enclosed herewith is a draft complaint to initiate a lawsuit against \_\_\_\_\_ for the collection of money due the Company. Please review the draft carefully and call us with any comments or questions you may have. Once we have received your approval of the complaint, we have prepared to proceed to initiate the suit.

Best regards,  
  
 Jon Mark

Ms. Deborah H. Wickliffe  
 The Hamilton Securities Group Inc.  
 1410 Q Street, NW  
 Washington, DC 20009

[Enclosure]

**VIA FEDERAL EXPRESS**

cc: Mr. Brian Dietz  
 Bart Friedman, Esq.  
 Jonathan Thier, Esq.

*It's a Small World: While Cahill Gordon & Reindel was helping Dillon Read build Cornell Corrections, it was also providing legal counsel to The Hamilton Securities Group.*

to do bathrooms and kitchens on Park Avenue and *Esquire* ran a fashion layout in front of a series of jail cells. To this day, I wonder how many of the people I spoke to that evening had bought Cornell Corrections stock from Dillon Read.

I came back to Washington, D.C. feeling that the world had indeed

gone mad. Everywhere I turned I saw people who seemed quite happy to make money doing things that drained and liquidated our permanent infrastructure and productivity as a people and a nation. Our financial system had become a complex mechanism that allowed us to profitably disassociate from the sources of our cash and concrete reality.

After several conversations with my attorneys, I realized that the efforts to frame us had failed and now those involved had been left with a bit of a mess as we were turning in the court affidavits that documented intentional falsification and suppression of evidence. My assessment was that DOJ would be willing to drop everything if we simply let them keep all of The Hamilton Securities Group's money. Whatever the urgent thrust had been, it was over. Was it because Dillon had now cashed out all of their money? Was it because all of the software tools and databases were effectively suppressed and would not lead millions of Americans to connect mortgage fraud with the *Dark Alliance* story? Was it because the covert cash spigot had been turned on and \$59 billion was pouring out of HUD to feed the hungry beast the appetizer followed by a main course of \$3.3 trillion missing from the Pentagon? Was it because, with honest people forced out and the bureaucracy properly terrorized, the housing bubble was now being fueled with explosive federal credit from FHA, Ginnie Mae, Fannie Mae and Freddie Mac? Or was it a combination? More than anything, there had been a very intense and personal desire to see me in prison. It had failed. I made a decision that I was not going to simply walk away. I was going to get to the bottom of what happened.

What communities in America and worldwide most need is the truth. We need the ability to know whom we can trust and who we cannot trust. We need to know how to build a life, a family, a small company, and retirement savings and be able to protect them from corruption. We need to generate an income that builds up our wealth and equity, rather than a subsidy that keeps us going while our equity slowly drains out of our savings and our communities. Any successful explorer will tell you that all the resources in the world are of little use if you have a bad map and as a result end up naked to the elements.



**Catherine Austin Fitts' home**, Fraser Stables, a converted carriage house and stables in downtown Washington, D.C. was sold to help defray the expenses of litigation and escape ongoing physical harassment and surveillance. (Photos courtesy Catherine Austin Fitts)

The first step was to understand organized crime — a topic that I had never been interested in. I called an organization that sold tapes by researchers on government corruption and narcotics trafficking and bought the tapes he recommended. So began a journey of reading and watching thousands of books and videos and networking with researchers globally.

Later that year, I published an article about the potential connection between the *Dark Alliance* allegations and the efforts to suppress our transparency tools and what that may imply regarding the possible use of HUD mortgages and mortgage fraud by these same networks. Right after the article was published on May 22, 1999 with copies delivered to the Intelligence Committee subscribers, Congress suddenly held closed hearings on Volume II of the CIA Inspector General's reports, taking testimony in secret from DOJ Inspector General Michael Bromwich and CIA Inspector General Britt Snider.<sup>113</sup>

It was clear where things were going by that summer. In June of 1999, Richard Grasso, Chairman of the New York stock exchange, went to Colombia to visit a Revolutionary Armed Forces of Colombia (FARC) Commander to encourage him to reinvest in the U.S. financial

system. At the time of his visit, the General Accounting Office reported on FARC's growing influence in the Colombian cocaine market.<sup>114</sup>

As I learned more about the black budget and covert cash flows at work in our economy, I also learned more about their history. I began to connect more of the dots to my personal history and that of my family, friends and neighbors. I realized that the viciousness of the current attack could relate not just to my work at Hamilton but to problems that my family had dealing with similar, if not the same, people long ago.<sup>115</sup> It only served to reinforce the wisdom of my decision to pursue the litigation and get to the bottom of what was happening and why. In the famous words of George Santayana, "those who do not learn from history are doomed to repeat it." I was to spend many years resolving the litigation and building new networks that I needed to found and grow my investment advisory company — helping to preserve and grow family wealth in a world increasingly defined by financial and political corruption.

## Notes

109. See Solari Analytics at *Solari & the Rise of the Rule of Law*. Online: <https://home.solari.com>.
110. See *Missing Money—Articles and Documents*. Online: [https://library.solari.com/wp-content/uploads/2008/articles\\_missingmoney.htm](https://library.solari.com/wp-content/uploads/2008/articles_missingmoney.htm).
111. See *The Real Deal About Enron*. Online: <http://www.scoop.co.nz/stories/HL0304/S00031.htm>.
112. See *Legal History and Myth of the Rule of Law* by Catherine Austin Fitts. Online: <https://dillonreadandco.com/gideon/legal/index.html> and <https://www.dunwalke.com/gideon/q301.pdf>.
113. See *Don't Blink: All Promises Broken—Volume II Hearings Held Without Notice—Behind Closed Doors* by Mike Ruppert (<http://www.fromthewilderness.net/free/politics/dontblink.html>).
114. See *The Ultimate New Business Cold Call* (<https://library.solari.com/t>

he-ultimate-new-business-cold-call-nyse-exchange-chief-pitches-colombian-rebel-forces/).

115. See *Meditations at the Crossroads* by Catherine Austin Fitts, Scoop Media. Online: <https://library.solari.com/meditation-at-the-crossroads-2/>.

# Private Banking & the Profitable Liquidation of Every Place



In December of 1998, during the period when Dillon Read cashed out of Cornell Corrections and \$59 billion went missing from HUD, *Time Magazine* published an article, “Just Hide Me the Money” by S.C. Gwynne with reporting by Adam Zagorin about the October 1998 Citicorp and Travelers merger and the world of offshore banking:

“Citibank’s private-banking unit holds more than \$100 billion, which makes it about the same size as the entire bank was in 1982. These funds are in turn part of a \$17 trillion global pool of money belonging to what bankers euphemistically call ‘high- net-worth-individuals’ — a pool that generates more than \$150 billion a year in banking revenue. The numbers are impressive when you consider that except at a few sleepy British and Swiss institutions, the private-banking industry didn’t exist until the 1980s. Citibank predicted early this year that it would reach \$1 trillion — that’s trillion with a T — in private-banking assets by the year 2010. And it faces some 4,000 competitors, from global dreadnoughts like Switzer-



land's UBS [AUTHOR'S NOTE: the bank that bought Swiss Bank Corporation after Swiss Bank Corporation bought Dillon Read] to secretive banks in the tiny principality of Andorra to brokerages in Miami and accountancy firms in the Channel Islands."

One of the offshore Dillon funds that invested in Cornell Corrections was Concord Partners Japan Limited. Its officers and directors, as listed in Exhibit D to Dillon's April 1997 13-D filing with the SEC, include an impressive array of Japanese business leaders and a non-person, Amerex, S.A, which lists a Coutts private bank address in the Bahamas as its address. This Dillon fund provides a link between the privatization of prisons, offshore funds and arguably the most prestigious private bank in the world. With the anticipation of profits as prisons stocks increased in value and went public, an all-too-familiar impersonal financial mechanism was now in place that created yet another incentive system with global reach, to drive the financial returns of investors up by driving down the Popsicle Index of faceless people and communities, far removed.

According to Wikipedia online encyclopedia:

"Coutts has its headquarters at 44o Strand, London, with branches throughout the UK and the rest of the world. It is a private bank, which means its clients are by invitation only and have liquid assets in excess of £500,000 (AUTHOR'S NOTE: approximately \$860,000 U.S. dollars) or an investment portfolio of over £1,000,000. [AUTHOR'S NOTE: approximately \$1.72 million U.S. dollars] The bank is most famously known in the UK as the banker of Her Majesty Queen Elizabeth II. A Coutts Automated Teller Machine is installed in the basement of Buckingham Palace for use by the Royal Family... Coutts is known as the "Queen's Bank" to many by virtue of it being reputed to be the bankers to the British Royal Family. Within the UK it is the largest Private Bank... Historically Coutts was an upper crust clearing bank to the landed gentry, but today they are seen as wealth managers willing to accept a wider class of clientele, including top sportsmen, lottery winners, football stars, businessmen, chief executives, and pop singers. You don't have to be "Posh" to get in, but if you are, it helps.

"As well as being the Queen's banker, Coutts is also known as a bank for the rich and famous of British society. In 1999 it became known that Her Majesty Queen Elizabeth, the Queen Mother

had a £6 million [AUTHOR'S NOTE: approximately \$10 million U.S. dollars] overdraft with the bank. Sarah, Duchess of York also had a large overdraft with the bank worth around £8 million [AUTHOR'S NOTE: approximately \$13.8 million U.S. dollars], which was subsequently paid off."

So, let's say I am a customer of a private bank such as Coutts. Let's say through Coutts I have an interest in an offshore fund with private prison investments. The more people who are rounded up and put into prison, the more valuable my investment becomes. If laws are passed for mandatory sentences, the more valuable my investment becomes. If politicians and political appointees push through more prison contracts for private companies, the more valuable my investments become. The more enforcement staff and arrests, the more valuable my investments become yet again.

I can of course borrow on the increased value of my portfolio without ever having to sell my investment, so I can watch my investment grow, receive distributions based on profitability and still enjoy the liquidity it provides. In fact, given the wonders of modern banking, I can turn my investment into ready cash with my ATM card, just as the personal staff for the British Royal Family presumably can through the Coutts ATM machine in the basement of Buckingham palace. Indeed, the transatlantic slave trade never dreamed of financial leverage, engineering and liquidity this pervasive, instantaneous or socially respectable.

But perhaps this should all make us pause for a moment and think. If the housing bubble turned our homes into ATM machines and in turn induced many of us to take on debt beyond our means, will the privatization of our prison system provide incentives for those profiting from such investments to support policies that make us even more of a target in the future?

Catherine's letter to the NY Times about the perverse incentive systems and "tapeworm" economics of prison stocks before she knew that Dillon had banked and cashed out of Cornell:

"Thank you for Tim Egan's article on prisons. It was an excellent summary of the growth in the US prison population over the last

two decades. A welcome follow up might be an exploration on how the money works on prisons...”<sup>116</sup>

Recently, I called the Washington, D.C. criminal attorney who represented The Hamilton Securities Group with respect to the criminal investigation until 1998. I asked him if DOJ had managed to frame me, where would it have sent me to prison? He said the order would have gone from the court to the Federal Bureau of Prisons at DOJ, and that it would have had the discretion to send me to the prison of its choice. Hence, it was possible that I would have been incarcerated in a Cornell Corrections prison. How ironic would that have been? I now have the satisfaction of knowing that at the cost to me of millions in litigation and investigation expenses over a ten year period, I may have denied my old partners and colleagues at Dillon Read and their domestic and offshore investors another \$11,000 in stock profit – approximately 44 % (Dillon’s percent ownership) of the increased value in Cornell Corrections stock from another “bed” being occupied by yours truly.

## Notes

116. Catherine’s letter to the NY Times about the perverse incentive systems and “tapeworm” economics of prison stocks before she knew that Dillon had banked and cashed out of Cornell:

SOLARI

Letters to the Editor

New York Times

Letters to Editor

Tim Egan’s Article on Prisons, March 7, 1999

Ladies and Gentlemen:

Thank you for Tim Egan’s article on prisons. It was an excellent summary of the growth in the US prison population over the last two decades. A welcome follow up might be an exploration on how the money works on prisons.

The federal government has promoted mandatory sentences and taken other steps that will increase the overall prison population to approximately 3 million Americans as recently legislated policies finish working their way

through the sentencing system. This means that approximately 10–15 million Americans will be under the jurisdiction of the criminal justice system from arrest, to indictment, to trial, to prison, to probation and parole.

The enactment of legislation ensuring the growth of prisons and prison populations has been a bipartisan effort. Republicans and Democrats alike appear to have found one area where we can build consensus for substantial growth in government budgets, staffing levels and media attention. Indeed, during this period, the number of federal agencies with police powers has grown to over 50, approximately 10 % of the American enforcement bureaucracy. This is further encouraged by federal laws permitting confiscation of assets such as homes, cars, bank accounts, cash, businesses and personal property that can be used to fund federal, state and local enforcement budgets.

One way to look at the financial issues involved is to view them from the vantage point of the portfolio strategists of the large mutual funds. We have approximately 250–280 million people in America. The question from a portfolio strategist standpoint is what productive value will each one be creating in companies and communities and how does that translate into flow of funds that then translate into equity values and bond risk.

The prison companies are marketing one vision of America with their prison and prisoner growth rates, while the consumer companies are marketing another. The two are not compatible. CCA's assumptions regarding the growth in arrests and incarceration can not be true if Fannie Mae's, Freddie Mac's and Sallie Mae's assumptions about homeownership and college education rates are. We, the people, cannot refinance our mortgages or buy homes or raise our children and send them to college if we are in jail. Meantime, the municipal debt market is also facing conflicting positions. If prison bonds are a good investment, then some general obligation bonds may be in trouble. We, the taxpayers, can not support the debt: we are no longer taxpayers. We have become prisoners. Whatever we are generating in prison labor, it is certainly not enough to

pay for the \$154,000 per prisoner per year costs indicated for the full system by the General Accounting Office.

It would be very illuminating to get the rating agencies and the ten largest mutual funds together in one room for an investor roundtable to discuss pricing levels on the investment of our savings that is internal to their portfolios and ratings. We would compare equity valuations and growth rates of:

- Companies who make money from the American people losing productivity
- Companies who make money from helping the American people grow more knowledgeable and productive.

We are investing in two different visions that can not both come true.

We could then calculate which was going to succeed, and what the integrated pricing level would be. Better yet, what could happen that would make the most money for the investment community. The question is which vision is best for we, the equity investors of America? And why are investors assuming both can or will win as they price their stocks and bonds?

It is critical to look at prison policy from the standpoint of maximizing return on equity investment. It would be a terrible thing, while I can no longer pay taxes or buy a house or send my son to college because I am in prison, if my vested pension benefits were wiped out by the time I re-entered society. It is bad enough that my life savings are being invested in companies that make money from promoting that me and my family should be arrested and incarcerated. It would be worse if I and my family were broke because companies that make money from loss of productivity turned out to also be a bad investment.

Such a roundtable might make for a great New York Times article. If you are willing to take it on, Solari would be happy to assist your staff by contributing background analytics on how the money works in prisons.

Sincerely Yours, Catherine Austin Fitts

# Through the Via Dolorosa



The Via Dolorosa is the street in the Old City of Jerusalem which Jesus is said to have walked on the way to his crucifixion. It means “the way of grief.”

I believe if Dillon’s Chairman John Birkelund and I were free to speak openly about his investment in Cornell Corrections, he would say that decisions had been made to significantly grow narcotics trafficking, War on Drugs arrests and incarcerations and to privatize many aspects of government, including prisons. He was simply investing based on the directions that things were going to go. On the other hand, Hamilton’s investments in communities were “fighting the tape.” The expression “never fight the tape.” is a Wall Street saying. It means never try to oppose the market — always go with the market’s trend and direction.

John and I would not discuss the reality of what would happen if there were an application of criminal law to the officers and directors of Dillon Read of the kind that was applied to me and to all the young people regularly rounded up by Operation Safe Home during

that time. I worked at Dillon Read for over a decade. I remember the department head that tried to persuade me to help engineer an insider-trading scheme. I remember the trader coming up in the elevator just after having gone outside to snort cocaine. I remember the gossip about drug use in certain parties in the Hamptons. I remember my office mate complaining that Moët & Chandon had given John Haskell cases of champagne to give the associates who worked on Moët's private placement and that Haskell had kept them for himself. I remember the head trading partner confiding to me that Dillon's capital had been below our required National Association of Securities Dealers capital requirements, but that Nick had insisted that we not report honestly.

Did I think of these as alleged felonies at the time? Of course not. I thought of them as humans muddling through equally difficult or unpleasant options, of people making mistakes — most of which got fixed. The trader got fired, our capital was increased, and my office mate had a nice life on a nice salary without free champagne. The reality is, however, that in my personal experience, the personal "lawfulness" of the people at Dillon Read was no more or less than the young people being rounded up by HUD and DOJ on Operation Safe Home and the War on Drugs. Indeed, I have generally found the poor to be more careful in their legal transgressions than the well-to-do or rich.

Then, of course, there is the question of what Dillon Read's liabilities would have been in an evenhanded application of the law for its investment banking services to RJR. In the case of money laundering, saying you don't know may not be enough to get you off the hook. And if you did know, that's supposed to be serious jail time and disgorgement of profits, not to mention the physical takeover of your premises as was done to Hamilton Securities. Last but not least are the many unanswered questions I have about what role, if any, Dillon and former Dillon partners and their investment partners and network played in AMS, the HUD accounting software contractor. This includes questions about the \$59 billion plus that went missing from HUD, billions lost through HUD mortgage fraud and how those cash and financing flows related to the money that bought Dillon's Cornell Correction stock and other private prisons stocks and bonds.

John Birkelund and I would not discuss all of this because we would both understand that enforcement has nothing to do with law as described in civics classes. Enforcement is a game — a deadly game meant to maximize insider’s organized crime profits and operations worldwide, and to organize and implement class privilege and ensure that the insiders win in the game of “winner-takes-all” economic warfare. If I did bring it up, John would most likely get frustrated with me the way he used to in the old days. Because John does not have the power to change the rules of the game, just to play within them. John knows how hard it is to make money even when you do your very best to go with the flow. That is why the safe thing to do is to rig cash flow through government laws, regulations and contracts and to arrange for government to get rid of your enemies. This is one of the reasons why the blur of people cycling between high-level Wall Street and Washington positions at some point helps us to understand the extent to which there is no longer any sovereign government.

If I were to sit down with Al Gore, Elaine Kamarck, Jamie Gorelick and Chris Edley, I would expect their explanations would involve more obfuscating policy discussions but it would ultimately come down to a similar notion of going with the flow. As would the hundreds of thousands of highly credentialed, well-paid Americans who have actively lead the day-to-day implementation of policies that — when we pierce the veil — are really dictated by powerful private interests outside of the law as most believe it to be. All these policies and actions add up to genocide — of our families and communities and of all living things, both throughout America and around the world.

Toward the end of the Clinton Administration, I sat down with a piece of paper and made a list of all the people who I believed had died as a result of actions by the U.S. banks, corporations, government and our allies — including economic warfare in Russia and Latin America, narcotics trafficking and War on Drugs both in the U.S. and abroad as well as limited military engagements. I estimated that in a decade, we were intentionally responsible for the death of many millions of people throughout the world. For example, note this interview from May 1996 about the death of children in Iraq:



**Lesley Stahl, 60 MINUTES:** “We have heard that a half million children have died [because of sanctions against Iraq]. I mean, that’s more children than died in Hiroshima and, you know, is the price worth it?”

**U.S. Secretary of State Madeleine Albright:** “I think this is a very hard choice, but the price...we think the price is worth it.”

I have not repeated this exercise for the current Bush Administration. I expect, if I did, that it would show that the killing machine is steadily growing hungrier — as it has for every Administration for a long time. And with \$4 trillion missing from the U.S. government and more missing from a “pump and dump” of U.S. stock and other markets, I suspect that the private offshore deposits have continued to rise with the falling of the Popsicle Index.

The story of Cornell Corrections is not a story of powerful evil men doing racist and sexist things. I have known truly evil men. My former partners at Dillon Read are not among them. With rare exception, they were people that I liked and respected when I worked with them. Like the senior appointees in the Clinton Administration, they are well-to-do and well educated people who embrace “the way things are.” Conversion to a war economy and migration from democracy to authoritarianism are “the way things are.” There are big bucks and jobs at Harvard and universities like it for people like Elaine Kamarck who will give this force a socially respectable face with complex partisan distractions which help obfuscate how the Harvard Endowment continues to profit from something far deeper and far more malevolent than most of us — most likely including Elaine — are willing to face.

The power of the killing machine rests in part in the broad based popular support it receives through the investment system and the financial markets. How are we to plead ignorance if the profits and growth in our 401(k) plans and investment portfolios have been enriched from prison stocks and the securities of the banks, home-builders, property managers, mortgage bankers and other groups who managed this process of ethnic and economic cleansing and the gentrification it made possible? What can our “socially responsible”

investment managers say when they invest in the stocks of banks, like Citibank and JP Morgan-Chase, and government contractors, like IBM and AT&T, who are running critical parts of government as these manipulations occur — including the disappearance of \$4 trillion from government bank accounts and the manipulation of the gold markets and inventory in a silent financial coup d'état? What can all those who benefited financially in the stock market, or from cheap mortgage and consumer loans or reduced ATM and checking fees say? We disassociated the source of our financial benefits from what we saw happening around us that we knew was wrong.

In the summer of 2000, I asked a group of 100 people at a conference of spiritually committed people who would push a red button if it would immediately stop all narcotics trafficking in their neighborhood, city, state and country. Out of 100 people, 99 said they would not push such red button. When surveyed, they said they did not want their mutual funds to go down if the U.S. financial system suddenly stopped attracting an estimated \$500 billion-\$1 trillion a year in global money laundering. They did not want their government checks jeopardized or their taxes raised because of resulting problems financing the federal government deficit. Our financial profiteering and complicity is not limited to aristocrats and the elites who do their bidding. Our financial dependency on unsustainable economics is broad, ingrained and deep.

Are minorities, women and children being impacted disproportionately? Yes, but that is merely because those with little or no power are easiest to steal from or kill. However, the survival of a parasite dictates that it must keep on eating when the easy pickings are done. After the U.S. Government's intentional decision to provide no relief in New Orleans in the early days after Katrina, a faster way to set the stage for urban gentrification than the War on Drugs and private prisons, the first female African-American Secretary of State Condoleezza Rice went shopping for \$200 shoes while men and women of all ages and backgrounds — black, brown and white — lost businesses, homes, families and lives together in the floods. This is the true face of the New World Order.

### **As South Drowns, Rice Soaks in N.Y.**

Did New Yorkers chase Condoleezza Rice back to Washington yesterday?

Like President Bush, the Secretary of State has been on vacation during the Hurricane Katrina crisis, with Rice enjoying her downtime in New York Wednesday and yesterday. The cabinet member's responsibilities are usually international, but her timing contributed to the "fiddling while Rome burns" impression given by her boss during the disaster, which may have claimed thousands of lives.

On Wednesday night, Secretary Rice was booed by some audience members at "Spamalot!," the Monty Python musical at the Shubert, when the lights went up after the performance.

Yesterday, Rice went shopping at Ferragamo on Fifth Ave. According to the Web site [www.Gawker.com](http://www.Gawker.com), the 50-year-old bought "several thousand dollars' worth of shoes" at the pricey leather-goods boutique.

A fellow shopper shouted, "How dare you shop for shoes while thousands are dying and homeless!" – presumably referring to Louisiana and Mississippi.

The woman expressing her First Amendment rights was promptly removed from the store. A Ferragamo store manager confirmed to us that Rice did shop there yesterday, but refused to answer questions about whether the protester was removed, and whether by his own security or the Secret Service.

At the State Department's daily briefing yesterday morning, before the New York incident, spokesman Sean McCormack responded to a journalist who asked whether Rice was involved with hurricane relief efforts by saying, "She's in contact with the department as appropriate." He made no mention that his boss had any plans to leave New York.

But yesterday afternoon, Rice had done just that. Department spokeswoman Joanne Moore told us: "The secretary is back in Washington, and she is being briefed on the situation." Moore did not know whether Condi had planned a longer stay here.

Source: New York Daily News (Link no longer available)

When Hamilton's offices were seized, I found myself before a battery of new attorneys brought in by our insurance company. At one point, one of them suggested that we shift the responsibility for an

action to a corporate subcontractor in a manner that would abrogate our verbal contract with them. When I made clear I would not do that, they said I had no choice. If I did not do what they said, the insurance carrier would pull their representation and with no attorneys — like the young people being rounded up by Operation Safe Home — I would go to jail. And so I decided it was time to lay down a few ground rules that would help newcomers understand what was involved with working with me. I said:

“Gentlemen, I am obedient to the laws of God and there is nothing that you can say or do that will cause me to violate them. If that means that I am going to jail, then I am going to jail, if only to organize the last group of entrepreneurs I need to run the country when the government collapses. Because if people like me are going to prison, then it is only a matter of time until this government fails.”

Interestingly enough, the lawyer who threatened me, told me many months later that this was the moment in which he realized that we were going to win.

Here is my prediction for the New World Order. I don't know when. I don't know where. I don't know how many satellite systems, electromagnetic weapons, subliminal programming broadcasters, computer hackers, bio weapons labs, cocaine plantations and how much environmental destruction they will enlist along the way. I don't know how many patents on fundamental life process that Monsanto will claim sufficient to not let me cough without paying them a fee. I don't know how many people the New World Order will reduce to poverty, assassinate and torture before they fail. I just know that they will fail. Because ultimately large complex systems cannot be held together by greed, technology and fear alone. Suspicion, lawlessness and smallness of mind ultimately cause implosion from within.

Seeing the New World Order as they are accelerates their failure, particularly as it inspires withdrawing our resources from their control and shifting investment to alternatives to govern our global resources on a responsible, wealth creating basis. That is why we gather power for life as we withdraw from people, organizations and efforts that are not authentic and shift our social affirmation, our time and attention, our currency and deposits, and our investments and

our donations to authentic people, enterprises and decentralizing solutions.

There was a time in my life when I believed that I was part of a culture of people — call us the English speaking people — who were excellent. The way of grief was the path through which I learned that we have not yet achieved this standard. Long ago, I made a promise that I would never act against the best interests or the excellence of my own people — that I would do my best to ensure that we were worthy of the stewardship of our world and that we did our best to leave a better world for generations yet to come. To make and keep such a promise is to understand that money and position are tools, not goals, and that death is not the worst thing that can happen. John Birkelund would probably accuse me of “fighting the tape” and not being “good at the game.” I would tell John that now is not the time in the history of our people for a failure of imagination.

# Reference: People In This Story

*As of April 2006*

**Omer Bartov** — John P. Birkelund Professor of European History Brown University, Member, Brown University Slavery and Justice Committee Prof. Bartov acted as Project Leader of the international collaborative project at the Watson Institute for International Studies: “Borderlands: Ethnicity, Identity, and Violence in the Shatter-Zone of Empires since 1848.”

**John P. Birkelund** — Then: Chairman, Dillon Read & Co., Board member, Rothschild, Inc., Trustee, Brown University; in 1990, at President Bush’s request, he organized and became chair of the Polish American Enterprise Fund; received an A. B. from Princeton University 1952), pursued graduate studies in business administration at Northwestern University Now: Partner, [Saratoga Partners](#), Board member, [Darby Overseas Resources](#); Member, [Council on Foreign Relations](#). Of Interest: Brown University, where Birkelund was a trustee, has a John P. Birkelund Professor of European History, Omer Bartov who is an expert on genocide and who sits on the University’s Slavery and Justice Committee.

**Senator Kit Bond**, R-Missouri — Then & Now: US Senator Chairman (Then), Member (Now), Senate Small Business Committee; Chairman, Senate Appropriations Subcommittee—Transportation, Treasury and Housing and Urban Development; graduated from Princeton University in 1960 and received his law degree from the University of Virginia Bond was elected governor of Missouri in 1972 and 1980, serving from 1973 to 1977 and from 1981 to 1985. After Sen. Thomas Eagleton decided not to run for re-election, Bond was elected senator in 1986 and re-elected in 1992, 1998, and 2004. [His Biography](#).

**David Bonderman** — Founding Partner of Texas Pacific Group and an alumni of Harvard Law School. His famed LBO firm has invested

billions in MGM, Burger King, Bally and Ducati, among others. TPG, based in Fort Worth, Texas.

**Nicholas F. Brady** — Then: Chairman, Dillon, Read & Co. Inc., Secretary of the Treasury; graduated Yale (1952), Harvard University, MBA (1954) Now: Chairman, Darby Overseas Resources; Chairman, Choptank Partners, Inc.; Member, Council on Foreign Relations. His Biography.

**Warren Buffett** — Then & Now: A wealthy American investor and businessman. He attended University of Nebraska (transferring there from the Wharton School at the University of Pennsylvania) and took a Master's degree in economics at Columbia Business School. Buffett has amassed a fortune from investments, particularly through his company Berkshire Hathaway, in which he holds a greater than 38 % stake. Buffett sold controlling investment in NHP, Inc, a HUD property management company to Harvard's private equity portfolio in the late 1980s.

**George H. W. Bush** — 41st President of the United States (1989–1993). Prior to being President, he had served as a U.S. congressman from Texas (1967–1971), ambassador to the United Nations (1971–1973), Republican National Committee chairman (1973–1974), Chief of the U.S. Liaison Office in the People's Republic of China (1974–1976), Director of the Central Intelligence Agency (1976–1977), Chairman of the First International Bank in Houston (1977–1980), and the 43rd Vice President of the United States under President Ronald Reagan (1981–1989); graduated Yale (1948)

Also see: *George Bush: The Unauthorized Biography* by Tarpley & Chaitken

**Dick Cheney** — Served as the Chairman and CEO of Houston-based Halliburton from 1995–2000, then parent of Houston-based KBR. He is the 46th Vice President of the United States, serving under President George W. Bush.



Hillary Clinton

**Henry Cisneros** — Then: Cisneros four terms as Mayor of San Antonio and served as Secretary of Housing and Urban Development from 1993 to 1997, under President Clinton; Member, Council on Foreign Relations, New York, 1985- 1993; B. A., Texas A&M University, 1968, Master of Urban and Regional Planning, Texas A&M University, 1970, Master of Public Administration, John F. Kennedy School of Government, Harvard University, 1973, Doctoral Research, Massachusetts Institute of Technology, 1974, Doctor of Public Administration, George Washington University, 1976 Now: Chairman of CityView, an LA homebuilder.

**Hillary Clinton** — Clinton is Junior United States Senator from New York, serving her freshman term since January 3, 2001. She is married to President Bill Clinton, and was First Lady of the United



States during his two terms from 1993 to 2001. Before that she was a lawyer and First Lady of Arkansas. From 1985 to 1992, Clinton served on the Board of Directors for both TCBY and Wal-Mart Stores Inc. In 1979, Clinton became a full partner of Rose Law Firm. Graduated from Wellesley, Political Science (1969) and Yale Law School. [Her Biography.](#)

**David Cornell** — Then: Director of Cornell Corrections and Chairman of the Board, President and Chief Executive Officer of the Company. Previously, he was Operations Manager—Special Projects for the Bechtel Group and CFO of its wholly owned subsidiary, Beacon Construction Company, from 1983 to 1990. Now: A Consultant for Cornell Corrections.

**Andrew Cuomo** — Then: Assistant Secretary of HUD, Secretary of HUD; he is a graduate of Fordham University and Albany Law School. Now: Expected Candidate for NY Attorney General. — Learn more in the chapter: [Unanswered Questions About Andrew Cuomo](#)

**Lloyd Cutler** — Then: White House Counsel (Carter Administration) and Deputy White House Counsel (Clinton Administration), Partner: Wilmer Cutler Pickering Hale and Dorr, Board member, NHP, Inc.; B. A. from Yale (1936), graduated Yale Law School (1939) Now: Deceased

**John Deutch** — Then: Director of Central Intelligence (DCI) from May 10, 1995 until December 14, 1996. Controversy erupted days after his departure when it was revealed that classified materials were being kept in his home and on his computer. He currently sits on the board of directors of Raytheon. Ph.D., Physical Chemistry & B. A. Chemical Engineering from M. I. T. and B. A. History & Economics, Amherst. Now: [Teaches at MIT](#); Member, [Council on Foreign Relations](#). email: [jmd@mit.edu](mailto:jmd@mit.edu)

**C. Douglas Dillon** — Son of Dillon Read namesake, Clarence Dillon. Douglas Dillon was a member of the New York Stock Exchange from 1931 to 1936, and in 1936 became a Director and subsequently

President of the United States and Foreign Securities Corporation. In 1938, he became a Vice President and Director of Dillon, Read and Company, being elected Chairman of the Board in 1946. Dillon served as US Ambassador to France, Under Secretary of State and was 57th Secretary of the Treasury, serving from January 21, 1961 to April 1, 1965. Graduated Harvard (1931). He was a Member and Vice-Chairman of the US [Council on Foreign Relations](#) from 1946. [His Biography.](#)

**Jean Duffy** — Duffy was a deputy prosecuting attorney and head of a drug task force in the Arkansas district where Kevin Ives and Don Henry had been murdered. Her task force provided a federal grand jury with information linking high-ranking public officials to drug trafficking. In December of 1990, she approached U.S. Attorney Chuck Banks with evidence that linked drugs and public officials to Kevin and Don's murders. After receiving that information, Banks shut down the grand jury and cleared all public officials Jean had investigated. Jean was discredited, her task force was dismantled, and two illegal felony warrants were issued for her arrest.

**William Duncan** — Then: Criminal Investigator for the US Department of Treasury who, together with Arkansas State Police Investigator Russell Welch, fought a bitter 10-year battle to bring the Mena matter to light. They pinned their hopes on nine separate state and federal probes. All failed. Also see "[IRS Internal Investigation](#)" (Micah Morrison, Wall Street Journal, October 18, 1994)

**Christopher Edley, Jr.** — Then: Associate director for economics and government at the White House Office of Management and Budget; professor at Harvard Law School; undergraduate studies at Swarthmore and graduate of Harvard Law School Now: Dean and Professor of Law, University of California, Berkeley; Member, [Council on Foreign Relations](#). E-mail: [edley@law.berkeley.edu](mailto:edley@law.berkeley.edu).

**Mike Eisenson** — Then: Private Equity for Harvard Management, Board Member, Harken Energy, NHP, WMF; B. A. Williams College, JD & MBA Yale University Now: Founder and Managing Director of

Charlesbank Capital Partners, manager of private equity for Harvard Endowment. [His Biography](#)

**John Ervin** — Founder Ervin & Associates Video: [October 18, 2002](#)  
[Clip of Video Deposition](#)

**Senator Lauch Faircloth** — Then: US Senator from North Carolina, Chairman of Senate DC Appropriations Subcommittee Now: Unknown

**Steve Fenster** — A Dillon Read partner who joined the firm in 1987. Now: Deceased. (AMS proxy 1995 — see his resume)

**Catherine Austin Fitts** — Then: Managing Director and Board member, Dillon, Read & Co. Inc.; [Assistant Secretary of Housing & Urban Development—Federal Housing Commissioner](#); President, The Hamilton Securities Group, Inc. Now: President of Solari. [Her Biography](#); Solari.

**Peter Flanigan** — Then: Flanigan joined Dillon Read in 1975, eventually becoming Managing Director and Member of the Board; During the Nixon Administration he served as Assistant to the President (1969–1973), Assistant to the President for International Economic Affairs (1972–1974), Executive Director, Council on International Economic Policy, Executive Office of the President (1972–1974). Now: Private investor and philanthropist. Now: Member of [Council on Foreign Relations](#).

**Bart Friedman** — Then & Now: Partner, Cahill Gordon Reindel; Visiting Committee Member, Harvard Graduate School of Education, 1996–2001; Harvard Law School, Harvard Business School (1969–1970); Member of [Council on Foreign Relations](#). E-mail: [BFriedman@cahill.com](mailto:BFriedman@cahill.com).

**Susan Gaffney** — Sworn in as HUD Inspector General on August 23, 1993. Gaffney was present in a meeting with soon-to-be Secretary of HUD, Andrew Cuomo, where Cuomo reported that he was

arranging to get rid of The Hamilton Securities Group and Catherine Austin Fitts.

**Lou Gerstner** — Then: CEO of RJR Nabisco. He also held senior positions at American Express and McKinsey & Company. He served as chief executive officer of IBM from 1993 until March 2002. B. A. from Dartmouth College (1963), MBA from Harvard Business School (1965). Now: Chairman of The Carlyle Group, a global private equity firm located in Washington, D.C.; Member, [Council on Foreign Relations](#). [His Biography](#).

**Terry Golden** — Then: Administrator of the General Services Administration from 1985–1988. Before that, he was the Assistant Secretary at Treasury. He is a nuclear engineer and holds an MBA from Harvard Business School. He was a founder and managing partner of Trammell Crow Residential Companies and the former President and CEO of Host Marriott. Now: Chairman of the Bailey Capital Corporation, an investment company, and also serves as Chairman of Washington, DC’s Federal City Council and as a member of the Mayor’s Business Advisory Committee.

**Al Gore** — Then: Senator from Tennessee, Vice President of the US, Democratic candidate for President; B. A. Harvard (1969). Now: Founder of Court TV, Founder of Generation Investment Management, socially responsible investment manager. Of Interest: Philosophy expressed by Al Gore with the announcement of his new socially conscious investment fund: see [Article](#) and [Generation Investment Management](#) website. For a history of Gore’s historical support of Los Angeles based Occidental Petroleum see [Gore’s Oil Money](#).

**Jamie Gorelick** — Then: President, DC Bar, General Counsel, Department of Defense, Deputy Attorney General, Department of Justice; J. D., cum laude, Harvard Law School, 1975, B. A., magna cum laude, Harvard College, 1972, Radcliffe Orator. Now: Partner, Wilmer Cutler Pickering Hale and Dorr; Member, [Council on Foreign Relations](#) e-mail: [jamie.gorelick@wilmerhale.com](mailto:jamie.gorelick@wilmerhale.com). [Her Biography](#).

**Katherine Graham** — Then: Owner of the Washington Post. Now: Deceased.

**Alan Greenspan** — Then: First appointed Fed chairman by President Ronald Reagan in 1987, he was reappointed at successive four-year intervals until retiring on January 31, 2006. B. S. New York University (1948), M. A. (1950) Ph.D. Economics, Columbia University (1977), honorary Doctor of Commercial Science (2005). Now: Greenspan holds an honorary position with the UK Treasury; Member, [Council on Foreign Relations](#).

**John H. F. Haskell, Jr.** — Then: The largest Dillon buyer of Cornell Corrections stock personally after firm Chairman, John P. Birkelund; Westpoint graduate (1953), MBA from Harvard University's Graduate School of Business Administration Now: [Saratoga Partners](#), Advisory Committee, the Virtue Foundation; Member, [Council on Foreign Relations](#). [His Biography](#)

**John D. "Jerry" Hawke** — Then: General Counsel, Federal Reserve, Undersecretary for Domestic Finance, Comptroller of the Currency; Yale graduate, law degree from Columbia University Now: Partner, Arnold & Porter e-mail: [John.Hawke@aporter.com](mailto:John.Hawke@aporter.com). [His Biography](#).

**Daniel Hawke** — Son of Jerry Hawke Then: Partner, Tucker Flyer; undergraduate studies, Tulane (1985), law degree, Boston University (1989) Now: [Securities & Exchange Commission, Enforcement Division](#), Philadelphia Division (April 2006) Of Interest: Credited by the SEC for his contribution to the indictment and conviction of Arthur Anderson. Quote: "I learned early in my career at **Tucker, Flyer**, that our clients expect aggressiveness tempered by sound business judgment. We don't bet the business on litigation, but we won't hesitate to bang heads if we have to."

**Judith Hetherton** — Then: Assistant US Attorney; General Counsel, HUD OIG; she questioned Edwin Meese III in the Investigation of the Whitehouse RE Iran Contra; graduate Rosemont College (1965) and Georgetown Law (1973) Now: [Staff, Ethics Committee, DC Bar](#)

where Jamie Gorelick had been President before joining the Clinton Administration.

**Roderick Heller, III** — Then: General Counsel, AID; Partner, Wilmer Cutler & Pickering; Chairman, NHP; Chairman, WMF; A. B. Princeton (1959), Master of Arts, History, Harvard (1960), Doctor of Law Harvard Law School (1963) Now: Founder Carnton Capital Partners, a Director of York International Corporation, CCC Information Services, Inc. and First Potomac Realty, as well as a Trustee of the Phillips Collection. [His Biography](#) (page 12, SEC Def-14a Filing, Potomac Realty Trust).

**Carla Hills** — Secretary of HUD in the Ford administration. From 1978 through 1989 she was again a practicing attorney, and was chairman of the Urban Institute from 1983 through 1988. Hills served as U.S. Trade Representative from 1989 to 1993 under President George H. W. Bush; Member, [Council on Foreign Relations](#). See [Her Biography](#)

**Franklin “Fritz” W. Hobbs IV** — Then: Managing Director and Board member of Dillon, Read & Co. Inc., President of Dillon Read, Global Head of Corporate Finance, Warburg Dillon Read, Chairman Warburg Dillon Read. Attended Harvard Business School and Harvard University. Now: Advisor to OEP, on the Boards of Adolph Coors Company, Cybertrust, Inc. and Lord, Abbett & Co., President of the Board of Trustees at Milton Academy and member of the Board of Overseers of Harvard College. [His Biography](#).

**Eric Holder** — Then: Superior Court Judge of the District of Columbia (1988–1993); and Washington, DC’s first black U.S. attorney (1993). Graduate, Columbia Law School. Now: Partner at Covington & Burling e-mail: [eholder@cov.com](mailto:eholder@cov.com). [His Biography](#).

**Frank Hunger** — Al Gore’s Brother in Law. Then: Assistant Attorney General — Civil Division; he holds a B.B.A. in accounting and finance from the University of Mississippi and his LL.B. from Duke. Now: Partner, Covington & Burling e-mail: [fhunger@cov.com](mailto:fhunger@cov.com)

**Linda Ives** — An Arkansas housewife. Her son, Kevin Ives, was murdered in Mena, Arkansas, on August 23, 1987.

**Elaine Kamarck** — Then: Senior Policy Advisor to Al Gore, Vice President of the United States; Head of National Performance Review, White House; Ph.D., Political Science, University of California, Berkeley Now: Executive Director of Visions of Governance for the Twenty-First Century, John F. Kennedy School of Government; Lecturer in Public Policy, Belfer Center for Science and International Affairs, Harvard University; Member, [Council on Foreign Relations](#). e-mail: [elaine\\_kamarck@harvard.edu](mailto:elaine_kamarck@harvard.edu). Her [Biography](#).

**Frank Keating** — Then: General Counsel, HUD, Governor of Oklahoma; Chair, Republican Governors Association; B. A. in history from Georgetown University (1966) and J. D. degree from the University of Oklahoma (1969) Now: CEO, American Council of Life Insurance.

**Jack Kemp** — Then: Secretary of HUD; Candidate for Vice President, Dole Campaign, 1996 Now: Deceased [May 3, 2009](#). Also: [Founder](#), [Kemp Partners](#); co-chair of [The Council on Foreign Relations Bipartisan Task Force on U.S. Policy Towards Russia](#). For a complete history of my experiences working for Jack Kemp at HUD, see [The Kemp Tapes](#). Listen to the Kemp Tapes (MP3 audio files): [\(1\)](#) [\(2\)](#) [\(3\)](#) [\(4\)](#) [\(5\)](#). His [Biography](#).

**Immanuel “Ike” Kohn** — Then and Now: Partner, Cahill Gordon & Reindel; undergraduate school, Harvard, graduate Yale Law School e-mail: [IKohn@cahill.com](mailto:IKohn@cahill.com). .

**Henry Kravis** — Founder and partner in Kohlberg, Kravis & Roberts, a leveraged-buyout firm that took over RJR Nabisco in 1989; B. A. Economics, Claremont McKenna College, MBA, Columbia University; Member, [Council on Foreign Relations](#).

**Peter A. Liedel** — Then: A Dillon Senior Vice President joined the board of Cornell and had a Cornell facility contracted by the Federal

Bureau of Prisons in Houston in 1996 named after him. Now: Yorktown Partners LLC.

**Mara Leveritt** — Her 1999 book, *Boys on the Tracks*, explores how drug-related corruption blocked a series of attempted investigations into the murders of two teenagers whose bodies were left to be run over by a train.

**Congressman Jerry Lewis** (R-San Bernardino) — Then: Chairman of appropriations subcommittee overseeing HUD; then overseeing Defense Now: On January 6, 2005, Rep. Lewis was named chairman of the House Appropriations Committee, which is responsible for funding all federal programs. He is the past chairman of the Defense Appropriations Subcommittee as well as the VA-HUD and Independent Agencies Subcommittee; B. A., Government, UCLA (1956)

**David Niemiec** — Then: Began working at Dillon Read in 1974. He served as Vice-Chairman from 1991 through September 1997. From 1997 to February 1998 he was Managing Director of the successor firm, SBC Warburg Dillon Read, Inc.; graduated from Harvard College and received an MBA. from Harvard Business School before joining Dillon Read. Now: **Saratoga Partners**, Director of Emeritus Corp in Seattle, Washington.

**Scott Nordheimer** — Then & Now: Mid-City Urban, LLC, a development firm that received millions of federal and D.C. tax dollars to build residential and commercial projects in the Washington area. Convicted in 1993 of two counts felony securities fraud in connection with a real estate development.

**Leland Olds** — Economist and public official. In 1939, Roosevelt appointed Olds to the Federal Power Commission. Of Interest:

**Patricia Phillips** — Then: Assistant to Catherine Austin Fitts at Dillon Read, Secretary of the Board of Directors, Hamilton Securities. Now: Deceased. Pat died of cancer in 1998. She refused to sell her shares in Hamilton Securities saying that selling them would



be like betting against me, and that was something that she would never do. The shares, once her most significant asset, were valued as worthless by her estate. The week of her death, Hamilton Securities bank sponsored a seminar with Tucker Flyer, Ervin's law firm, marketing Tucker Flyer's unique services to women-owned firms in Washington's political environment.

**Jack Quinn** — Then: Partner, Arnold & Porter, Chief of Staff to Vice President Al Gore, White House Counsel, November 1995 to February 1997, Returned to Arnold & Porter Now: Founder & Co-Chairman of [Quinn Gillespie & Associates](#); Member, [Council on Foreign Relations](#). Of Note: Quinn represented Marc Rich before starting Quinn Gillespie. See the Solari Action Network post: [Jack Quinn & Marc Rich's Pardon](#).

**Nicolas Retsinas** — Then: Executive Director of the Rhode Island Housing and Mortgage Finance Corporation; Assistant Secretary of Housing; Master's in City Planning, Harvard and A. B. in Economics, New York University Now: Lecturer in Housing Studies, Harvard Design School and the Kennedy School of Government; Director, Harvard Joint Center for Housing Studies; Board Member, ShoreBank, along with Bob Nash the former head of the Arkansas Development and Finance Agency e-mail: [Nicolas\\_Retsinas@harvard.edu](mailto:Nicolas_Retsinas@harvard.edu) Of Interest: The Harvard Design School uses a case study of Cornell Corrections Wyatt detention center in Rhode Island.

**Robert Rubin** — Served as the 70th United States Secretary of the Treasury for a period spanning both the first and second Clinton Administrations. Rubin joined Citigroup as an executive in October, 1999 and is currently the Chairman of the Executive Committee. Prior to government service, he was a Co-Chairman Goldman Sachs and member of the Harvard Management board. He graduated summa cum laude from Harvard College in 1960 with a B. A. in economics. Now: Chairman of the Executive Committee and Member of the Office of the Chairman, Citigroup Inc.; Chair of the Board of Directors of LISC (Local Initiatives Support Corporation) and Chairman of the Executive Committee, Member of the Harvard

Corporation; Member and Vice Chairman of the Board, [Council on Foreign Relations](#). [His Biography](#).

**Ken Schmidt** — Then: Partner Member of the Board of Dillon Read-Now: Board of Rutgers University

**George P. Shultz** — A former faculty member at the University of Chicago and economic advisor to Presidents Eisenhower and Nixon, George Shultz was appointed secretary of state in Ronald Reagan's Cabinet in 1982. Shultz is a member of the Hoover Institution, American Enterprise Institute, the New Atlantic Initiative, the Committee for the Liberation of Iraq and the Committee on the Present Danger. He also serves on the board of directors for the Bechtel Corporation, Gilead Sciences, and Charles Schwab Corporation. Shultz served as President Richard Nixon's secretary of labor from 1969 to 1970, after which he was director of the Office of Management and Budget. He then became secretary of the Treasury from May 1972 to May 1974; B. A. Economics, Princeton (1942); Member, [Council on Foreign Relations](#). [His Biography](#).

**Barry Seal** — Seal was a CIA operative and drug smuggler who allegedly flew cocaine into the United States on behalf of the Contras and has gained reputation as one of the most successful drug smugglers in American history. Also see: [Barry and the Boys: The CIA, the Mob & America's Secret History](#) by Daniel Hopsicker.

**Jeffrey Smith** — Now a partner in the law firm of Arnold & Porter.

**Stanley Sporkin** — Then: Head of SEC Enforcement Division, CIA General Counsel; Federal District Court Judge. Now: [Partner, Weil, Gotshal & Manges](#). Of interest: [Sporkin Hotseat](#). [His Biography](#).

**Wayne Travell** — Then: [Partner, Tucker Flyer](#); [Partner, Venable, Baetjer, Howard & Civiletti](#); [Partner, Leach Travell](#). Now: Unknown

**George Wieggers** — Then: Senior Managing Director, Lehman Brothers, Managing Director and Board member of Dillon Read, one of the largest Dillon investors in Cornell Corrections; B. A. from Niagara

University, MBA Columbia University Graduate School of Business.  
Now: Head of Wiegers Capital, Board of **Darby Overseas**.

**Herbert S. “Pug” Winokur** — Then & Now: Partner, Capricorn Investors Then: Member, Harvard Corporation Board; **Chairman, Finance Committee, & Board Member, Enron**; Chairman, Chairman of Compensation Committee, DynCorp; Board member, NHP & WMF Now: Member, **Council on Foreign Relations**. Of Interest:

<http://www.scoop.co.nz/stories/HL0304/S00158.htm>

<http://www.scoop.co.nz/stories/HL0304/S00031.htm>