

A Tale Of Two Lawsuits

by Jeffrey Steinberg

A pair of Federal legal actions, both filed in U.S. District Court for the Southern District of New York, have revealed a tangled web of financial fraud, Mafia moves on Wall Street, and other bigtime criminal activity, all apparently linked to circles intimately associated with at least one of the major candidates for President of the United States, George W. Bush.

At the very center of what appears to be a major criminal conspiracy, are two investment firms ostensibly “above suspicion,” Gotham Partners, a New York City-based hedge fund, and Crescent Real Estate Equities/Crescent Operating, of Dallas, Texas. Gotham has been the largest minority shareholder in Crescent Operating, and has been steering investors to Crescent Real Estate Equities for years. (See Richard Freeman, “The Bush Mob Destroys America’s Psychiatric Hospital System,” *EIR*, March 3, 2000, for a profile of Crescent.)

Several years ago, the directors of Crescent took the highly unusual step of granting Gotham authority to purchase more than a 15% equity position in the firm without filing the papers usually required by the Securities Exchange Commission (SEC), assuring that they were not out to stage a hostile takeover. Gotham has had as much as a 22% stake in Crescent Operating. In the take-no-prisoners world of real estate investment trusts and hedge funds, that was tantamount to an announcement of marriage.

Gotham is currently the target of a Federal civil action, charging that they, along with several other real estate investment trusts and hedge funds, violated SEC rules, by concealing plans to engineer a hostile takeover of a Texas company, Hallwood Realty Partners. Gotham has been allegedly involved in similar kinds of illegal takeover schemes in the past, involving such major targets as First Union Real Estate Investments and Rockefeller Center. And, in every instance of this alleged illegal activity, Gotham has been partnered with firms that also have intricate ties to Crescent.

Crescent is the primary investment vehicle of Richard Rainwater, the Texas money-man who “made” Texas Governor, now GOP Presidential hopeful, George W. Bush. To this day, Rainwater personally manages Governor Bush’s blind trust. Governor Bush was, and may still be an investor in Crescent. He personally made well over \$1 million from his investments in Crescent, and there are allegations that Bush’s stake in the firm at one time may have been far greater.

Gotham’s legal woes stemming from the Federal civil suit, make up just a part of the picture. When Federal prosecu-

tors announced, in June of this year, that they had cracked a major organized crime move onto Wall Street, Gotham emerged as the “black knight,” bailing out one of the pivotal players in the alleged mob racketeering scheme. And Gotham now appears to be positioned to walk away with a handsome profit from the deal.

The Mafia and Wall Street

On June 14, 2000, one hundred and twenty individuals, including associates of the five La Cosa Nostra crime families in the New York area, were indicted on racketeering, securities-fraud, and money-laundering charges, stemming from a \$50 million scheme to manipulate the prices of a number of Nasdaq-traded “penny stocks” through a number of brokerage houses on Wall Street that were either penetrated by organized crime, or had been created as fronts for organized crime.

On the one hand, it is hardly surprising that the traditional La Cosa Nostra families would be interested in getting in on the biggest legalized gambling casino in the world—America’s hyperinflated stock market. Nor is it surprising that the mob resorted to the usual array of strong-arms tactics—from extortion, to death threats, to kickbacks, to corrupt union, pension fund, and even police detective benevolent association officials.

What did pique the curiosity of even the *New York Times*, was the presence on the list of those indicted, of Gene Phillips, a veteran of the Michael Milken/Drexel Burnham Lambert junk bond, savings and loan, and commercial real estate swindles of the 1980s and early 1990s. Phillips’ name was once synonymous with Arizona real estate fraudster Charles Keating, and the infamous Neil Bush/Silverado S&L fiasco.

Phillips’ Southmark Corp. and its San Jacinto Savings and Loan subsidiary went belly-up in the late 1980s, costing taxpayers more than \$1 billion. All told, Phillips had created—before it went up in smoke—a financial pyramid swindle with a paper worth of more than \$9 billion, making Phillips one of the biggest real estate Ponzi schemers in recent history.

But, unlike his financial “godfather” Michael Milken, and his partner in real estate and S&L scamming Charles Keating, Phillips managed to avoid criminal prosecution and time in prison, even though he was considered one of the central players in the entire Milken marauders apparatus.

In the indictment in the Southern District of New York, Phillips’ American Realty Trust (ARB) and Basic Capital Management (BCM) were placed at the center of the \$50 million scam. Preferred stock in ARB was to be sold by the mob-run brokers to a list of vulnerable clients and mob-tainted union pension funds, and, in return for artificially driving up the prices of the stocks, \$2 million out of every \$10 million “invested” would be kicked back by Phillips to the mob.

On the day the indictment was handed down, Phillips’ BCM offices in Dallas, Texas were raided. Phillips is now free on \$1 million bail, but he is restricted to his Dallas home, and cannot travel.

The Plot Thickens

The Wall Street-mob roundup by the U.S. Attorney's Office for the Southern District of New York grabbed headlines in the June 15 *New York Times* and *Wall Street Journal*. On June 18, the *Times* ran a short item, noting Phillips' unceremonious re-emergence in the public spotlight, briefly reporting his loftier criminal achievements in the 1980s and early 1990s.

On June 19, a curious financial transaction occurred, that could have dramatic ramifications. Gotham bought up a large block of shares in Phillips' Transcontinental Realty Investors, Inc. Ten days later, Gotham filed the required 13D report with the SEC, copies of which have been obtained by *EIR*.

Why, one must ask, would a legitimate entity buy into a company that has just been the subject of a Federal racketeering indictment, linked to the five New York City La Cosa Nostra families? True, following the indictment of Phillips and the identification of his companies as fronts for mob kick-back and stock manipulation schemes, shares in Transcontinental fell from \$15 a share down to the \$3 range.

However, the likelihood that Gotham was merely engaging in the Wall Street practice of "bottom feeding"—buying up depressed assets at a fraction of their true value—is probably somewhere near zero. In fact, Gotham's intervention, which, in effect, pumped urgently needed cash and credibility into Phillips' endangered operation, was a mirror image of Phillips' bailouts of mob-tainted Texas-Louisiana real estate and savings and loan figure Herman Beebe in the summer of 1984, when Beebe was about to be indicted by the U.S. Department of Justice. Phillips' Southmark bought up \$58 million of Beebe's assets in two deals that were not finalized until after Beebe had been indicted for defrauding the Small Business Administration. In the early 1990s, Phillips repeated the same favor for Keating, when he ran afoul of the law, and his Lincoln Savings blew out the real estate markets in southern California and Arizona.

According to the U.S. Attorney's office, the trial of Phillips et al. will not take place until September 2001. Sources close to the case suggest that evidence already in the hands of Federal prosecutors establishes that there were prior business ties between Gotham and Phillips. Indeed, Phillips' long-time partner in Southmark, William Friedman, held a large block of shares in a company, Excal, which was also, at the time, part of Gotham's portfolio.

In addition to the raid on Phillips' office, the FBI conducted more than 1,000 hours of wiretaps on the major targets, over a period of more than a year. These wiretaps could also turn up damning evidence, implicating Gotham and, perhaps, Rainwater, in the Phillips real estate and stock manipulations.

Further evidence that the Gotham buy-up of Transcontinental stock reflected a likely prior Gotham-Phillips alliance, surfaced earlier this month. On Oct. 6, Dow Jones Newswire reported that a deal had been struck between two Phillips entities, Income Opportunity Realty Investors, Inc. (IOT) and

American Realty Investors, Inc. (ARL), to buy 1.865 million shares in Transcontinental back from Gotham. IOT and ARL paid Gotham an option fee of \$4.50 a share, in effect, paying back Gotham *in full* for the June bailout, and agreed to pay an additional \$12 a share for the stocks themselves. ARL and IOT can execute their purchase options between Jan. 1, 2001 and April 4, 2001. Gotham's June buy-up of Transcontinental stock had helped drive their value back up.

In another unusual twist, Gotham's Oct. 4 SEC 13D/A filing on the stock option agreement, revealed that the deal had been struck in the context of settling a lawsuit between the various Phillips- and Gotham-linked entities. Curiously, in the suit, defendant Gotham was aligned with Basic Capital Management, one of the principal Phillips companies snared in the mob-Wall Street indictment. According to one experienced investigator, it cannot be ruled out that the filing of the legal action did not reflect a falling-out among thieves, but rather, was aimed at placing the entire transaction under attorney-client privilege, given the sensitive predicament in which Phillips now finds himself.

The Gotham Nexus

Gotham Partners is the private domain of William Ackman and David Berkowitz, who founded the hedge fund in 1992, shortly after they graduated from Harvard Business School. Seven wealthy investors pitched in more than \$6 million to the two inexperienced newcomers to Wall Street, to help launch Gotham, a highly unusual event in the notoriously inbred world of New York speculative finance. To this day, Gotham refuses to disclose any information about their investors and clients. However, it has been confirmed that the largest initial investors in Gotham were the Ziff family, and New York real estate magnate Andrew Farkas.

Dirk Ziff was a classmate of Ackman and Berkowitz at Harvard Business School, but, according to several news accounts, the Ziff investment only came after Martin Peretz, a former Harvard professor and longtime friend of Ziff's, gave his endorsement, and a chunk of his own money. Peretz, the owner of the *New Republic*, was also a Harvard mentor and friend of Al Gore, and is still today considered one of Gore's "kitchen cabinet" advisers, especially on Mideast policy. He reportedly continues to be a big booster of Gotham.

In addition to the Ziff family, one other initial investor in the Ackman-Berkowitz venture was Andrew Farkas, a household name in big New York real estate wheeling and dealing in the 1990s. Farkas got his start in real estate management through the financial backing of Steven Roth, the chairman of Vornado and Interstate Properties, and is a long-time business partner of Richard Rainwater. Roth put up \$5.5 million for Farkas's Insignia Financial Group, when it was launched in 1989.

Gotham not only has taken up an equity stake in Rainwater's Crescent Operating. In virtually every major takeover move that Gotham has launched since its initial capitalization,

Farkas, Roth, and Roth's various corporate entities, have been involved.

The incestuous dealings of Gotham, Roth, Farkas, and other Rainwater partners is already under a public spotlight, as the result of the civil action in the U.S. District Court for the Southern District of New York.

The Civil Case

Attorneys for Hallwood Realty Partners L.P., on Feb. 15 of this year, filed a civil court action against Gotham and a string of co-conspirators, charging that they were engaged in an illegal takeover plot, involving violations of SEC rules. Indeed, the methods used by Gotham, Interstate Properties, EFO Realty, Steven Roth, Private Management Group, and other Gotham-interlocked firms, parallels precisely the kinds of deceptive practices that Phillips used for decades to wage illegal takeovers, and then loot the assets once captured. The Hallwood case has revealed that Gotham engaged in similar practices in two high-profile earlier takeovers, of First Union and Rockefeller Center.

The civil complaint charged that "Under the leadership and direction of defendants Gotham Partners, L.P. and Gotham Partners III, L.P. (the 'Gotham defendants'), and acting with a common purpose, defendants have accumulated over 40% of the outstanding units of Hallwood, a publicly traded company, with the intent to acquire control of Hallwood and to substantially alter its business and operations. Pursuant to Section 13(d) of the Exchange Act and Rule 13d-1, thereunder, defendants were obligated to disclose, in public filings with the Securities and Exchange Commission, their true intent with respect to their acquisition of Hallwood Units and their collective efforts to take control of Hallwood."

Put in laymen's terms, Gotham, in conjunction with a number of other hedge funds and real estate investment trusts with which it had previous ties, launched a hostile takeover of Hallwood, and concealed that fact from the SEC by filing a dozen reports, claiming that the purchases of Hallwood shares were "for investment purposes only." In 1997, once Gotham had taken control of a little less than 15% of the Hallwood stock, it filed a civil suit in Delaware against the Hallwood management, a tactic they had used earlier in their successful takeover and looting of First Union. At that point, Gotham-allied investors began taking stakes in Hallwood, that eventually gave the group 40% control of the company, enough to mount a stockholders' revolt, to throw out the management of Hallwood, install their own people, and, ultimately, loot the company's assets.

The First Union affair was cited in the Hallwood suit as evidence of the *modus operandi* of the Gotham/Crescent group. "In or about the Summer of 1999," the complaint stated, "the *M&A Journal* published a comprehensive investigative report chronicling Gotham's battle to take over First Union Real Estate Equity and Mortgage Investments ('First Union'), a publicly traded real estate company based in Cleveland, Ohio.

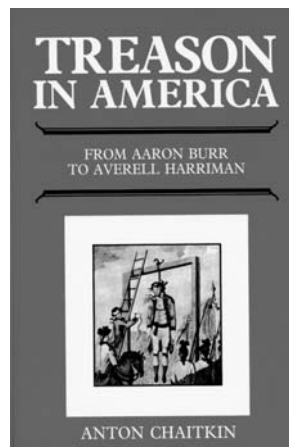
"The investigative report, entitled 'The Ugly Battle to the Death for the Last Paired-Share REIT,' . . . detailed Gotham's attack on First Union. That attack included an initial strategy of accumulating First Union's shares, the subsequent commencement of shareholder litigation against First Union and its management, and, ultimately, a collaboration with other First Union shareholders, whom Gotham had recruited to the deal to accomplish the takeover. Indeed, Gotham and its allies eventually took control of First Union. Under Gotham's management, however, First Union's stock lost over 60% of its value." The complaint concluded, "The *M&A Journal* provides an invaluable insight into Gotham's *modus operandi* and helps explain PMG's and Interstate's interest in Hallwood in 1998. On information and belief, Gotham had been planning a takeover of Hallwood from the beginning, accumulating Hallwood Units, suing Hallwood's management, and ultimately soliciting allies to accumulate Hallwood Units for a final push. . . . As it turns out, both PMG and Interstate have been actively involved in prior investments with Gotham or its principals."

The coincidence of the Hallwood civil suit and the Federal criminal prosecution of Phillips, et al., represents an unusual and unique opportunity to delve into the netherworld where apparent "citizens above suspicion," who have important political connections, intersect organized crime.

And this story has only just begun to unravel.

Treason in America

From Aaron Burr To Averell Harriman



By Anton Chaitkin

A lynch mob of the 'New Confederacy' is rampaging through the U.S. Congress.

Its roots are in the Old Confederacy—the enemies of Abraham Lincoln and the American Republic. Learn the true history of this nation to prepare yourself for the battles ahead.

\$20 softcover

Order NOW from:

Ben Franklin Booksellers

P.O. Box 1707, Leesburg VA 20177

Phone: (800) 453-4108 (toll free) Fax: (703) 777-8287

Shipping and handling \$4.00 for first book; \$1.00 each additional book. Call or write for our free mail-order catalogue.

STORM OVER ASIA

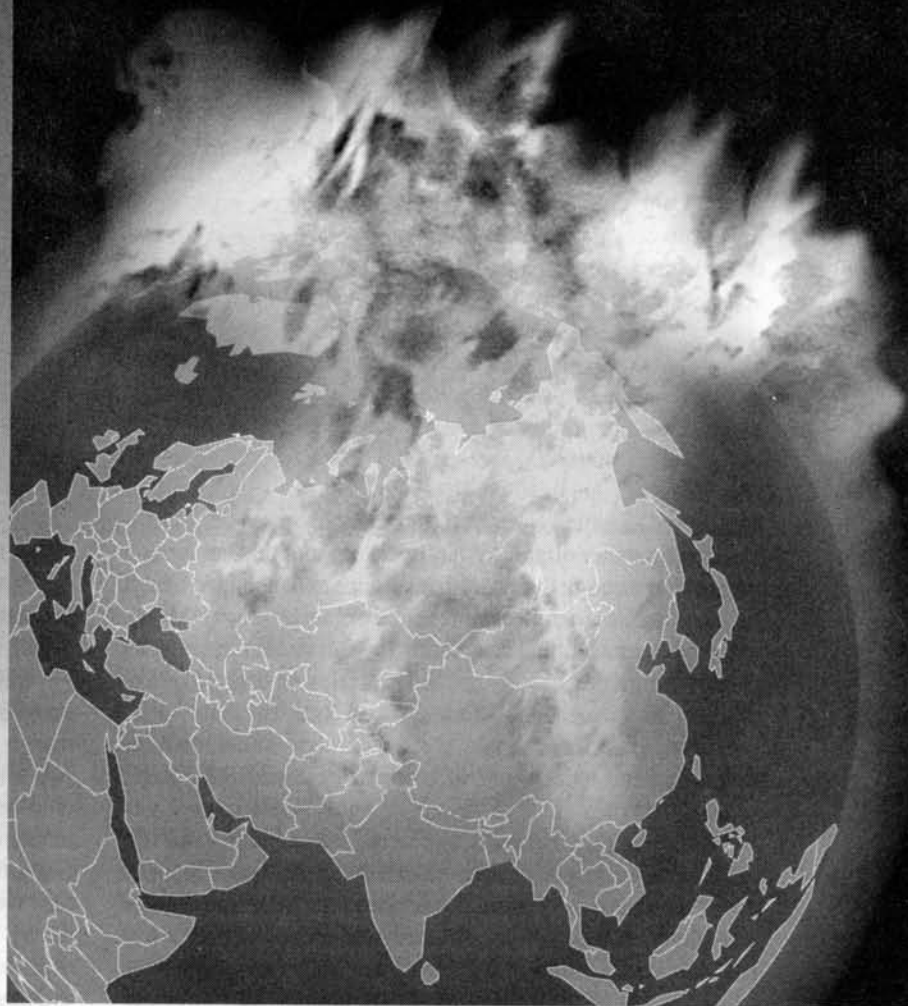
Like no other video ever produced! Lyndon H. LaRouche, Jr. points the way from strategic disaster, to a global Renaissance in the new millennium.

In this feature-length video, LaRouche presents a comprehensive picture of the current world strategic and financial crisis, and the policy of statecraft required to deal with it effectively.

This is a challenging presentation, not the kind of "bite-sized" slogans that pass for politics in Washington these days.

We confront an enormous strategic danger. Russia, China, and other Eurasian nations are the targets of mercenary terrorist forces, deployed under the direction of the British oligarchy, with the aim of bringing about the disintegration of the nation-state. If Russia, a weakened but still well-armed power, is pushed to the wall, the military consequences are incalculable. And yet, as the global financial system disintegrates before our eyes, such fools as Zbigniew Brzezinski are pushing their conflict with Russia beyond the point of return.

LaRouche counterposes to this lunacy, a brilliant foreign policy for the United States. "Our interest," he states, "is to bring into being on this planet, a hegemonic community of perfectly sovereign nation-state republics, which share that commitment to defense of the general welfare, which is the cornerstone of our Federal Constitution."



2 hour, 40 minute video **\$50**

Order #EIE-99-015

Shipping: \$3.50 first item; \$.50 each additional item.

Order from

EIR News Service, Inc.

P.O. Box 17390 Washington, D.C. 20041-0390

OR Order by phone, toll-free: **888-EIR-3258**

OR Send e-mail with Visa or MasterCard number and expiration date to: **eirns@larouchepub.com**

Visa, MasterCard accepted