



CUT Stories

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Copying Great Masters

The collecting of art is an iffy affair at best. You are disposed to the whims of the public, which inevitably ebbs and flows based on the public relations push that is ongoing at any particular time. Other than the really great masters, artists go in and out of style like the changing seasons. Every now and then, a counterfeit is found somewhere or other and then everyone that has one of these paintings is thrown into a tizzy, concerned if the copy on his wall is the real thing or not. Moreover, art is fad oriented and massive legitimate runs of flawless copies of recent works by established painters are sold by the bushel full. Sometimes they are signed by the artist himself, which in theory should make the lithographic copy worth substantially more. You are getting both a decent copy of a nice painting and the artist’s signature on your work all for the same price, well maybe not.

Some of these lithographs are made in an original run, possibly from a better mold and these become like “first edition” stamps or books and are supposed to be worth substantially more than those copies with are

printed later. Promoters and advertisers often aided and abetted by the artist himself, do massive promotion campaigns to sell these works, which cost little to produce and are often sold for prodigious prices. Tax shelters have once even sprouted around this strange business and for years people would even by the molds from which the art was produced in order to get substantial tax deductions. Accountants attempted to create offshore compounds where the artists could produce their works in tropical, tax free havens and didn't even have to cut off their ears to accomplish it. However, the IRS looked askance at many of these practices and numerous promoters went to jail, the artists themselves barely got off with the freedom and the buyers of the purported "tax shelters" lost their deductions.

However, there has always been a cache regarding artists and it has been said that Picasso never had to pay for anything after he became famous. He would write a check for all of his purchases and people would keep them in their autograph collection. What they were saying was that his signature may well have been worth more on the open market than the merchandise itself. During earlier times, ranking artists were commissioned substantial work by their benefactors. At times the burden turned out to be so wearing that these masters started bringing trainees to work for them. These folks of some talent would do the artist's bidding in order to just to hang out with him. They would run for sandwiches, make the coffee and head off the wife if the artist was otherwise engaged which was more often than not.

Being otherwise engaged, by the Middle Ages had become the rule rather than the exception for those that had become famous in their own times. Eventually, they began to let their assistants, not only cover for their indiscretions but they were allowed, nay, encouraged to copy the artist's style and if the work was good enough, the artists would pawn it off as his own and the student would be given a day off for his good work.

My first intimate experience with the art world came when a friend of mine who was a very senior person at the Chicago Art Institute, gave me a call. The conversation went something like this.

Harry: "Hello Bob, This is Harry, how are you?"

Bob: "Hi Harry, thanks for the call, everything is fine here in New York, and how's everything going in the Windy City?"

Harry: "Bob, everything is great and the weather is fine. However, I have a business proposition to discuss with you."

Bob: "I will be happy to do anything I can to help. What happened, one of your investments went bad?"

Harry: "Nothing like that Bob; you know I am very involved in the art world and I have run across a young married artist with a family that is about as good as a number of the other artists around today."

Bob: "I am not sure what you are saying, Harry. If he is only, about as good, what good is that. Moreover, you know that I don't know much about art. I have been an investment banker for too long."

Harry: "That's why I am calling you. First of all, art is really a public relations game, whoever is reasonably good and has the right temperament and following along with some good public relations people is going to have his art sell for big prices. The guys that are just as good but don't know how to promote themselves are going to end up in the breadline. Its just as simple as that. "

Bob: "Gee Harry, I never knew that. I just thought that some expert picked the great stuff from the not so great and success kind of happened like spontaneous combustion."

Harry: "If you believe that, you probably got a visit from the tooth fairy and read a lot of Alice in Wonderland. Bob, accept my premise for a second. Here's what I want you to do. This is 1975 and the Olympics are going to be held next year. There has never been an official artist for the games in spite of the fact that a lot of sports artists, like Leroy Neiman cover the events and paint a poster of two. The Office of the Olympic Committee is located near you on Park Avenue. Go over and see the head guy and have him name this guy that I have, Nelson, Artist for the 1976 Games."

Bob: "Harry, that's silly, I don't know a soul over there and in the meantime, why should they name this Nelson guy? What's he ever done that anyone knows about and what are they going to get out of it?"

Harry: "I just arranged for the Chicago Tribune to do a whole story on him in their Sunday Magazine supplement. It came with some of his work, pictures of his family and my very best pitch. The man's work has already started taking off here. As for the deal, I haven't figured out what to offer them and we don't have any money, so play it by ear."

Bob: "I think you have lost your mind. I can't just walk in there and do that. They are a non-commercial organization. They will know that once William Nelson becomes the Official Olympic Artist, you and he will make a fortune. They are not going to go for it in a million years, I'll bet on it"

Harry: "Bob, just get it done and I will pay you for your time in art. I have already sent the first installment. You remember the picture of the car stuck in a pot hole in the road that your wife liked so much at my house. It on its way to you."

Two weeks later:

Bob: "Harry, have I got good news for you. I went to see the top dogs at the Olympic Committee. At first they were stunned at our request but eventually, they warmed to the idea. It all came down to, how were they going to get paid for naming Nelson to this heretofore unheard of post? I was extremely frank with them. I said that we were getting \$500 bucks a copy now for original Nelsons. The day that he became the official artist, which they would have their public relations people announce, we would send them 200 paintings to keep in escrow. This would come to \$100,000 dollars. The paintings after their announcement would be worth \$5,000 a copy and they could sell or auction off whatever number they had to so that they would get the \$100,000. In addition, we would make lithographic copies of his coverage of the events and share 50 – 50 after expenses on those."

Harry: "Bob, great work, send me the papers for Nelson and I to sign and we will be in New York in the next several days to close the deal."

As I remember it, this is an exactly true story, William Nelson through our efforts 1976 was named the artist for the Bi-Centennial and was in Congress to unveil a painting made for that event. I believe that it still sits in a place of honor in Washington. Moreover, he also was the artist for the Indianapolis 500, and a host of other events. He was the official artist for probably every sporting event and I wound up with so many Nelson's on my walls that I didn't have room for any more. His paintings did begin to fetch \$5,000 and more, and everyone that got involved with him that year had a financially rewarding experience.

However, on one of my trips to Chicago a year or so later, I was having dinner with my friend Harry. "How's Nelson doing?", I asked. Harry told me they were no longer talking. In Harry's opinion, Nelson came to believe that he was really a great artist and publicity was no longer of consequence. He no longer needed Harry's advice.

Anyone want to buy a William Nelson a real discount? Moreover, have we ever heard of him again. The moral here is that many people are talented, but those artists that understand that greatness undiscovered makes about as much racket as the proverbial tree falling in a forest when no one is there to hear it.

Plagiarism and other goods things in life

The people in the United States are probably the world best collectors of nonsensical paraphernalia that ever walked on the face of the earth. We collect everything under the sun, whether it has value or it does not. We live in a country where advertising agencies and public relations companies have taken the art of selling us things that we have never heard of or we don't need and if we had it couldn't use it. Once over that hurdle, if we then wanted to get rid of it after having it around for awhile, they would literally be no one that would have any interest.

I collected the stamps issued by the World Wildlife Fund for sometime. I thought that I was doing some good by making a regular donation and that eventually my collection may have some value and I could give it to my grandchildren. The stamps came every month and once every year or so a magnificent binder would arrive that I could store them in. Eventually the collection became so large that it was awkward to display and as I was moving anyway, I inquired as to whatever value it may have. Unbelievably I could not find one person interested in this pristine collection at any price.

As you can see, I was certainly one of those people and would collect anything that looked good on my walls. I was an early member of the American Numismatic Society and am still after countless years, and numerous dubious experiences, a card-carrying member of both the American Philatelic Society and the American Revenue Society, the later specializing in tax-oriented stamps, a sort of a horse of a different color in the stamp world.

Because of the fact that I was in the securities business, I began to collect copies of stock certificates that had some innate beauty. There seemed to be no questions about the fact that all of the companies whose certificates hang on my walls had met some unpleasant fate and were no longer in business. In spite of the fact that I learned very early on what you saw was very rarely what you got, I loved to put the stuff on my walls and gaze at it for hours. Much of the material was as phony as a three-dollar bill but it did not matter, the frame and engravings were usually works of art and my numerous guests would ooh and ah over my eclectic collections. And by just looking at all of the mining stocks, I could almost envision the hard luck times of many people that had struck out while looking for the big hit. Or all the railroad companies that had passed on to their maker when they had gone under trying to compete with the lines owned by the Robber Barons.

Thoroughly Modern Monas – edit out

Thus, the watering of Erie stock could not happen for very long before the Federal Government would step in. Drew would not have cheered as a hero, he would have been thrown into the slammer and left there forever.

Inventing the Feather Duster

History tells that this was not the only time something like this has happened. In 1876, Susan Hibbard unquestionably invented the feather duster while being bored one day and attempting to find something useful to do with excess turkey feathers on her farm. She bundled them up and used the feathers to dust off furniture in the house. She did some research and found that no one had ever used feathers to create a duster and then she went on to learn how to file a patent. Eventually it was granted, but her husband, George became enraged over the fact that she had done this without his permission.

After all, men were the bosses of the house weren't they? Women shouldn't own patents on things he muttered, they should take care of the house, raise the children, tend to the farm animals and make the meals. Obviously somewhere she had let him down but he was not certain where. Knowing that she was not being a good wife, he wrote his own patent on the same feather duster and claimed that it had been his idea first. The two went to court over the matter and it was determined that George must have been out to lunch when his wife Susan had come up with the concept.

Thomas Edison, Not a Nice Man

While most scientists are only interested in invention for the sake of itself, many have been more interested in the fame and fortune of being the discoverer of some new way to do this or that, or figuring out new theories of physics and chemistry. In 1884, Nikola Tesla while strolling through a Budapest park came on the concept of how to tame electricity. He became so excited with his concept that without further thought, he booked a ticket to the United States and made an appointment to see the already very famous Thomas Edison himself. Edison had been tinkering in the field and had written some papers on his work and in the meantime had garnered a patent or two. Edison had always been extremely careful about protecting his work.

Not so Nikola Tesla. He had evolved a streamlined system for electrical generation that was cleaner, had less working parts, was more efficient and did not dissipate as much energy once it was created. While Tesla's concept would not unceremoniously start fires, it would not randomly attract members of the animal kingdom, it was not extremely noisy, it would not give severe electric shocks to unsuspecting people that stood too close and in a general sense was a mess, Tesla had invented a system that avoided all of those pitfalls and worked like a well-oiled machine over a greater distance without dissipating most of its energy.

Tesla in his almost boyish enthusiasm gave Edison chapter and verse about what he had uncovered and the difference between the two inventions was as simple as ABC. Edison had been experimenting with direct current while Tesla had uncovered alternating current. Edison soon became convinced that Tesla had invented the better energy producer, however, this would severely affect him financially and Edison went on a campaign to wreck Tesla's credibility and his life. Edison went on a smear campaign that included the fact that Tesla's invention was guilty of the electrocution of harmless animals and then ascribed the deaths to Tesla's device. He actually killed animals nearby to where Tesla experiments were being held and then called reporters to see the horrors that the scientist had created.

Although Edison did not steal Tesla's concept, he did try to make him look like a dolt and a fool. The outcome is still in doubt. While Edison is known as the father of electricity, Tesla is credited with the conceiving the ideas that eventually created the concept of alternating current. Edison had not stolen Tesla's concept but he knew it was far superior to the one he was working on and then used every means to kill it along with its inventor. Edison was indeed a ruthless man who today, history treats more kindly than it should. However, if it were not for a public welfare trust set up for Tesla, the man that held all of the intellectual property that ever existed on alternating current up until the time he died couldn't raise the money to get his idea off the ground not pay for his room at the poor house.

The Telephone

We all know who invented the telephone now don't we. After all, this is one of the basic necessities of our lives and certainly we should be knowledgeable about the history of its inventor. Naturally, it was Alexander Graham Bell. You know, the Bell from Bell Telephone. However, that may not be entirely correct. You see, technology was advancing at a furious clip in those days and a lot of people were of the opinion that the thing could be created. The forerunners were a classy field comprised of Bell, Thomas Edison and Elisha Gray. Elisha Gray, who is that you ask? Well you are just getting a little ahead of the story and will have to wait.

The first instrument that allowed people to directly communicate between distant places was the telegraph. An early problem with the telegraph, which was invented by Samuel Morse, was that it only went one way at a time. On the basis of cost per mile this was one of the most expensive but useful inventions ever conceived of. However, only the government, the media and the very rich could afford it. Something more had to be added to the contraption, two way conversations or something similar. The principals seemed easy enough because by sending messages in different frequencies and then decoding them on the other side, numerous conversations could be held using the same wire. By separating the longer signals from the shorter ones, encryption and decryption should be a cakewalk, but how?

Elisha Gray was able to finish the job first but was totally inexperienced with patent laws and thought that he needed a working model before he could make his application. Gray worked feverishly on a model telephone or whatever he called it at the time. Meanwhile, Bell who was more familiar with the ropes, hastily put some his ideas on paper and skedaddled over to the patent office. Gray and Bell hit the office on the same day, but Bell also knew when they opened and Gray was left at the starting gate. Bell filed a concept patent and therefore covered the entire thought process then existing in the field before Gray had gotten into the building.

However, while Gray's device was a working model, Bell's was only something on paper. Gray was informed by patent office officials that he had been indeed left at the gate and the Bell had covered the waterfront with his extremely broad filing. Bell incorporated the rest of Gray's idea within a even broader patent because there was literally nothing Gray could do with it anyway at this point. While both men were bright, it appears that Gray was certainly there first with the mostest but sadly for him he fell down on the logistics. Thomas Edison was a non-finisher in the race although handicappers had him as the odds favorite in the early betting. What we had here was a dead heat along with a stacked deck. If you play the game, it is best to know the rules. There is no question that once the winner appeared on the tot board, he stole everything else that the place model had to offer.

Presto-Chango and What You See Is Not What You Get

In spite of the numerous advantages that we have been given by the creation and expansion of the internet, just think of the possibilities it gives people that are after a dishonest buck to take advantage. Let us use an example. Tiffany produces a very good line of jewelry. There works are highly overpriced but most people feel that the label, Tiffany, gives enough addition cache and insurance of reliability that purchasing from that merchant is well worth the additional cost. I know that because I often shop at that net site in spite of the fact that I am a New Yorker and live close by. I can get my shopping done from, have engraved or sent wherever I desire, have a certainty that if it is gift it will be well received and cherished and the recipients will think of me in glowing terms for my thoughtfulness.

However, envision someone in the middle of the night copying the real Tiffany site verbatim. While this may seem like a stretch, it is easy as pie. A good hacker could probably make the forged site carry the real Tiffany site address as well, although this would be discovered soon enough and cut short the caper. No matter which way the web scoundrels go, they will be able to collect an awful lot of legitimate credit names, addresses and card numbers, which can be readily turned, into cash. Moreover, the information that you would give Tiffany or the fake Tiffany for that matter is extremely substantial. Moreover, the forgers

would indicate to you that the site was completely secure, and if you couldn't believe Tiffany, who could you, believe?

Worse yet, how do you know that the e-mail you are getting is really from the person that is identified by the address and content. Someone posing as your Fanny could invite you to a family reunion in Idaho to see your long lost relatives. While you really have an aunt Fanny, it may well not have been her that sent the invitation and when you are in Pocatello, there is no reunion and there is no aunt Fanny. Things have gotten so bad on the net that sites have sprung up offering to help you verify that what you see is what you are really getting.

As we see in this illustration the identity of the only seller has been stolen by the criminal and today there is no way to stop the type of theft listed above. However, let us look at some real world examples. The US Attorney's Bulletin gave us some excellent examples of Internet Fraud and we only list one of each using it as an example of a class of fraud. While this may not have happened with Tiffany's, it did happen in a case called *United States v. Kashpureff* and he eventually pleaded guilty.

OLD VERSION If You Listened When E. F. Hutton Talked

Edward F. Hutton the investment banker that founded the brokerage firm that bore the same name was born in New York City in 1877. His family was poor and his father died when he was just ten. He was forced to drop out of school to help support his family and started as a mail boy. Ultimately, Hutton became a stockbroker, married well, and began a small brokerage house with his father-in-law's help. His big break came when he opened up an office in San Francisco at the time of the 1906 quake. Interestingly enough, Hutton had a direct telegraph line to New York when no one else did and when the quake hit, he was able to rack up big profits before anyone else even knew what had happened.

Hutton ran an open shop at the brokerage house and encouraged each and every employee to let him know directly if they had any ideas for bettering the firm. Paradoxically, Hutton's shop was almost anarchistic; if you were not mature enough to your own decisions, you really were not made of the stuff that Hutton was looking for. Whatever the logic, E. F. Hutton the brokerage company grew until it was the second largest firm of its kind in the United States next to Merrill Lynch.

Hutton had worked himself up through the ranks, ultimately becoming the Chairman of General Foods as well as the head the brokerage company. E.F. Hutton, the brokerage house was merged into Shearson Lehman Brothers in 1987, and that firm is now called Salomon Smith Barney (part of Citigroup). The brokerage house became widely known for the slogan: "When E. F. Hutton speaks, people listen."

Hutton's management remained aggressive even after their leader's death in 1962. This aggression manifested itself in the rejection rate of Hutton checks from Bank of America's data processing equipment. Bank of America noticed that easily 50% of the checks that Hutton wrote could not be processed by computer, and all of the checks that bounced out of the electronic system had to be individually re-entered. The rate of rejection of Hutton checks ran 50 times the average in the system, allowing Hutton to profit from a much longer than average float on their checks.

Hutton was thusly able to take advantage of a much longer float on their checks. This little trick was accomplished in a number of ways. When a greasy substance was rubbed into the check, it would bounce more often than not. When a staple was placed in the bar coding, it would not clear the system most of the time, and when an edge of the check was folded, the check would not make it through the data processing equipment.

Hutton's shenanigans were causing a backup at Bank of America, and after a full evaluation of what was going on, the bank voiced its suspicions that Hutton's checks were being deliberately doctored. Bank of America gave Hutton two choices: either they would stop playing with the checks, or the Bank would close their account and report them to the Treasury. Hutton complied.

However, Hutton had already found a new way to beat the system. It devised a “use of funds” system that predicted almost exactly how much money E. F. Hutton would need in a particular branch on any given day. Whatever was in excess would be bundled up and wired out by 1:00 P:M so that it hit Hutton’s money center account the same day and started to pay interest immediately. Hutton felt that in order for the system to work properly, they needed the total co-operation of their branch managers; 10% of the interest received was paid to the office manager as a bonus.

This was not a bad idea as far as managing money was concerned, but it created a lot of problems as soon as the managers realized that the systems could easily be rigged in their favor. By drawing down excessive amounts of money, the manager created excess in the interest account against uncollected funds in his local account. Small town banks did not have the oversight systems in place to figure out what was happening; indirectly they were being robbed blind by greedy Hutton managers.

In 1978, Hutton’s management was not pleased by its bottom line. The firm had become a money-eating machine. One possibility discussed among Hutton’s senior officials was that the firm go into an overdraft mode and subsist on the float. Even if they were caught, the banking regulators had no control over a brokerage firm, and Hutton would get off Scott-free. However, Hutton’s legal analysis was flawed. When regulators finally got wind of the scheme, they concluded that it actually constituted a radically illegal mail fraud.

By 1980, the checks heretofore written for a thousand dollars or more were being replaced with multi-million dollar overdrafts, literally an act of theft against the banks that were clearing the transactions. The plan was a startling success, though, and in that year, Hutton was able to cut its bank borrowings on a daily basis from almost \$400 million to a more manageable \$200 million per day. Assuming that Hutton was paying 10% interest on the money, a figure that would probably have been conservative for that time of high rates, they would have saved almost \$20 million in 1980 alone, a very pretty penny.

Branch managers were pushed to do more and more by senior executives. Those that didn’t perform up to expectations were given a work sheet, which carefully denoted the difference between the monthly commission that they actually received and the one that they would have gotten, if they had been more productively involved in the plot. Just to add some pepper to the bitter pill, these underperformers received the difference between the two sums in monopoly money.

New York State Corporation owned the Genesee County Bank, a small upstate bank at which E. F. Hutton had just opened an account. The management at the bank soon noticed that Hutton was writing checks for millions of dollars that it was far from being able to cover. Hutton was depositing uncollected funds from the United Penn Bank in Wilkes-Barre, Pennsylvania. New York State Corporation officials called the United Penn Bank asking whether or not there were good funds behind the checks. The response went, something like, “Hutton never has good funds.” United Penn Bank told the caller that the check that they had issued to Genesee was indirectly backed by a third bank-check probably issued by Manufacturers Hanover, Hutton’s primary bank.

New York State Corporation officials told the Genesee Bank to bounce the Hutton check. ⁽¹⁾ They then called upon the manager responsible for the check at Hutton. He indicated that his orders were coming from higher up and he was only a small cog in the chain. He gave them his superior’s phone number and up the daisy chain they went. The buck stopped at a very senior level, and the seriousness of what had just transpired was impressed upon the executive with whom they spoke. Hutton offered to deposit \$30 million to its Genesee Bank account to cover any inconvenience that Hutton may have put them through. Genesee officials accepted the funds an hour later, and promptly froze the account. Thus, \$30 million of Hutton funds was tied up in the small bank for over 90 days.

In late December of 1991 Genesee officials wrote to “the state and federal banking regulators, the FBI, and the Secret Service describing everything Hutton had done. A few days earlier, United Penn had notified the Federal Deposit Insurance Corporation, a federal banking regulator. As the complaints flowed in, the

1 Before Hutton realized what had happened, checks for \$22 million had been bounced.

banking regulators realized they had a potentially significant problem on their hands. They had to investigate.”⁽²⁾

As though Hutton didn't already have enough problems, a new account started depositing astronomical amounts of money in the firm on a daily basis. An examination was commenced by the U. S. Government, supposedly with Hutton's offer to be cooperative. Just as the Government was about to close in for the kill, they found out that the accounts in question had been closed and the money had been removed based on a tip to the account from Hutton management. Government investigators, which included FBI chief Louis Freeh, were incensed with Hutton's backstabbing. Hutton had unquestionably made a very bad enemy.

In 1983, overdrafts totaled one-half billion dollars and its bottom line effect on the brokerage firm was that this form of interest income accounted for 75 percent of the retail brokerage division's profits. The Justice Department of the U. S. Government soon discovered this intricate system and began an investigation. Their conclusion was released in 1985 when Hutton "pled guilty to 2,000 counts of mail and wire fraud, charges stemming from the use of the nation's postal service and telecommunications networks by Hutton to defraud its banks via the draw down system. The firm teetered on the brink of insolvency until 1988, when it was bought by Shearson Lehman Brothers, one of its major competitors."⁽³⁾

Congressional investigators were particularly galled in the way Hutton's auditors mischaracterized the overdrafts on in Hutton's financial statements. There was no "overdraft" item on Hutton's balance sheet; Hutton accountants used the term "Drafts & checks payable" instead. The two terms mean entirely different things, and Congress correctly concluded that this was merely a smokescreen. They were also not to happy with the fact that while Andersen had sent a memorandum for the files to Hutton regarding their management procedures, nothing was completed and Arthur Andersen never followed it up. Congressman Hughes had a little discussion with the accountant's audit partner regarding this matter:

Congressman Hughes: Mr. Miller, what did you do after the meeting that took place on March 7, to check the accuracy of what was related to you?

Mr. Miller Well, after the meeting, sir, I reflected on the entire meeting; the fact that I had a hundred bank confirmation with no exceptions noted...the fact that I found no evidence of checks bouncing, I found no unusual fees being charged by the banks to Hutton..

Congressman Hughes: That's not my question. My question is: what did you do after the meeting? Because, frankly, to your credit, you did see that there were some problems...Did you ever get to the bank's point of view on the system?

Mr. Miller: No, Sir.

Congressman Hughes: Well, here's what you say, "Joel Miller then stated that he would discuss the matter with other partners at Arthur Andersen and Company whose clients include major money-center banks, to ascertain what the banks' point of view is regarding these transactions."

Mr. Miller: Sir, I had a hundred confirmations from the banks. When I got back to my office and reflected on the entire meeting, I concluded that none of the banks had notified me of any problems—

Congressman Hughes: So you didn't follow through.

Mr. Miller: Well, I followed through in that I reflected on the entire problem and I concluded I would stick by the opinion that I believe Mr. Rae gave me.

2 Serpent on the Rock, Kurt Eichenwald, Harper Business, 1995

3 Financial Accounting, Issues and Cases, Michael C. Knapp, 1994 West Publishing Company

Congressman Hughes was not all assuaged by Miller's testimony or lack thereof. He called Brillhoff to discuss the fact that in spite of the fact that the Justice Department had been examining Hutton with a fine tooth comb for over two years, there was not a peep about that matter from the usually ebullient Andersen other than an obscure footnote:

"The company and its subsidiaries are defendants in legal actions relating to its securities, commodities, investment banking, insurance and leasing businesses. Certainly these actions purport to be brought on behalf of various classes of claimants and seek damages of material [sic] for indeterminate amounts. In the opinion of management, these actions will not result in any material, adverse effect on the consolidated financial position of the company";

Congressman Hughes: In your opinion, was this disclosure adequate, given that it was a little more than a month before Hutton pleaded guilty to 2,000 counts of mail and wire fraud, that obviously, at this time, Andersen was on notice of the ongoing grand jury investigation, and, in fact, had been subpoenaed?

Professor Brillhoff: This disclosure was very much like a bikini-bathing suit, what it revealed was interesting, what it concealed was vital.

Whatever Andersen tried to do to have the matter corrected was largely wasted effort. For example, they did the right thing by going to the audit committee and pointing out various of the problems that they saw. However, the audit committee was more or a rest home than anything else. Hutton's management did not consider that the committee was worth dealing with and considering their makeup, everyone was correct. None of the members had the slightest idea of what was going as they were apparently picked for that job solely based on their lack of expertise on the subject. One of the more auspicious members was a movie actress that was a granddaughter of Edward F. Hutton. In essence, Andersen's words were completely wasted on the committee.

The Government was never able to affix the blame for this fiasco on any one person or group of people. The branch managers blamed the executives, the executive blamed the internal auditing staff, and they in turn blamed the outside auditors, who blamed the branch managers. There was no particular paper trail for the government to follow. Out of frustration, the Justice Department literally indicted the whole firm. In spite of that fact, there was a hearing before a congressional subcommittee to look into the matter. The committee asked the famous accountant, Abraham Brillhoff to look into the matter and give the committee some insight into what he discerned:

"Where has Arthur Andersen failed?...At the outset and most importantly, they failed to follow through on what they absolutely saw and understood, as early as 1980, as to what was going on. They questioned counsel and counsel said, "Go away, we're too busy to respond." It is my view that had Arthur Andersen really fulfilled its responsibilities under the circumstances, the money-management excesses would have been stopped dead no later than 1980 or 1981."

Edwin Meese was the attorney general of the United States in 1985. The Hutton case was so egregious that he personally took charge of the announcement of its disposition, which read:

"The Department of Justice today filed a criminal information charging E.F. Hutton & Company, one of the nation's largest securities dealers, with two thousand counts of mail and wire fraud. The essence of the charges was that Hutton obtained the interest-free use of millions of dollars by intentionally writing checks in excess of the funds it had on deposit."

Congressman Mazzoli put Andersen's roll in the Hutton scheme into perspective:

"Maybe some of the newer practitioners of accountancy have lost sight of the traditions and lofty history of the profession because they walk into firms now that are groveling for money just like the most mercantile of companies. Maybe they are incapable of having this high fiduciary standard that we, at least in my generation, grew up with in law, and accountancy and in medicine."

With 2,000 different counts against it and substantial fines to pay, the firm merged itself out of business. Arthur Anderson had done the accounting for Hutton and knew all about what was going on. They had indicated that the overdraft scheme was highly questionable. They did not resign, nor did they go to the authorities or qualify their opinion. Seems like just another average day in the life of the accounting firm. Edward F. Hutton probably turned over in his grave.

Satire In Texas

Long ago, most of us have concluded that if there is a way to do something really stupid, someone will undoubtedly do and find some justification in their actions. The following story describes what can occur when journalists hoping to make a point, create a story so obviously made-up that they are sure that all of their readers will understand the point that they are trying to make. Moreover, reporters have a lot of latitude under the first amendment so they are usually of the mind that if some idiot does not get the point, so what! Apparently, this is not always the case.

Christopher Beamon lived in Ponder, Texas and was in seventh grade there. He was an achieving student and when his teacher gave the class an option to receive extra credit for writing and reciting an original Halloween story to the class, Chris jumped at the opportunity. Furthermore, the boy knew that Halloween is a scary time and thus any story having anything to do with the date would have to be really spooky. He created a rambling illusion, which included a healthy dose of drugs and violence. Honest to God, the kid was sentenced to five days in jail by Judge Darlene Whitten, for his story because it “amounted to a threat of violence.”⁴ Gee, when I was a kid, the object of these stories was to scare the daylights of the class. Moreover, the masks these kids wear now on that day are enough all by themselves to send shivers down you, that is the name of the game and for my money, Chris probably should have gotten an A+ based on the court’s obviously stupid decision.

Well, in any event, time marches on. There is a weekly newspaper called The Observer, which publishes stuff, which tends to get somewhat far out in a biting, semi-philosophical kind of way. They are often called an alternative tabloid. In any event, it must have been a slow news day in the shop and a staff writer having nothing to do, took a poke at the judge who came down with the decision in the Beamon case. She wove the story of a first grader that also had a similar assignment and picked a book written by Maurice Sendak called “Where the Wild Thing Are” to give a book review on. She had the first grader also located in the satire loving town of Ponder, Texas and inserted the names of the same officials that had been involved in the jailing of little Christopher Beamon.

The Observer carried the story in the same spot in the paper where they carried other news of the day and everyone with half-a-brain fully got the idea that she was making fun of some of the people in Ponder in an off-handed way. She had details in the story that were absolutely impossible such as the fact that she was shackled with miniature handcuffs.

As it happens, that is true. Two of the Ponder officials, the judge, Darlene Witten and Bruce Isaacks, the district attorney that were named in the story, filed libel suits against both the paper and Ms. Farley with Witten’s lawyer husband handling the matter for the esteemed plaintiffs. Well, things in Texas can sometimes get out of hand and the case has already appeared before the state appeals court, which so far has found for the plaintiffs. The court’s theory, in spite of the fact that a satire is exempt from libel prosecution under the First Amendment is that the story was not obviously false. We find the fact that a first grader is giving a book review on Sendak and was led away in miniature handcuffs so obviously incredible on its face that we cannot conceive of what the court did. It was Isaacks that gave us some insight into his mindset when he said; “We’ve considered having her certified to stand trial as an adult, but even in Texas there are some limits.” One would hope so.

However, as amusing as it may be to laugh at the strange goings on in Ponder, the case is still going up the legal ladder and it appears that many Texans are amused at the fact that they fell for a joke or that anyone is

⁴ Tale of First Grader Jailed for Book Report Wasn’t Real, but the Libel Suit Is, Adam Liptak, The New York Times National, Sunday, May 19, 2002.

making fun of their court decision. Mark Twain and Orson Wells who did a lot worse would probably have been hung from the nearest lamppost on the spot.

Call Centers

Because the world has gone global, many of the things that were done right here in the U.S.A are not any longer. It is a matter of dollars and cents. While the cost of communications has dropped precipitously, the cost of labor has risen dramatically. So high that certain services that are “as American as apple pie” are no longer always performed in this country. The major area that this is occurring in is what is known as a “call center”. People, when they buy a product and something goes wrong do not like to punch telephone buttons at the request of a computer. They like to get real person at the other, and for the most part, they want an American representative of the company they purchased the item from to talk to them.

When an American appliance purchaser needs to know information regarding his warrantee, find out how to fix a widget or where the nearest place you can get a washer for your" whatchamacallit", very often these days, you could be connected to a place like Bangalore India and not have a clue that the voice on the other end isn't located either in Dayton or Omaha. It is critical for the American Companies that hire the “call centers” that they convey the fact that they convey an intimacy in their conversations that could only be successfully accomplished by literally someone next door.

If the American party ever realized that he was talking to someone in India, a half a continent away, he could come away with a number of negative conceptions. If he knows that he is talking to India, the caller may be bothered. The fact that the company did not hire Americans for the job, that foreigners could not possibly deal with the intricacy of his problem for they have never even seen the product let alone give someone advice on it, or that, the company he is doing business with is trying to save money at the expense of providing good service. Thus, a very fine line is maintained, and stepping over it could well create an unacceptable backlash. However, this has become big business and colleges in India have sprouted up to teach trainees the proper dialect along with local color. The more proficient the caller becomes, the higher his wages and getting a degree in this specialty creates substantial demand for these advanced candidates.

The people working in the call centers receive somewhere between \$1,600 and \$2,100 a year, big money by Indian standards but less than a sixth of minimum wage in the United States and only about 6-percent of what their American counterpart would bring home. Most Indians understand and speak English reasonable well and it is said that they are told to watch American television such as ‘Friends’ and “Ally McBeal’ to learn the lingo. With proper planning in the evening, the next day they are able to converse with their callers about the latest baseball scores or American politics. Taking the conversation to far a field can result in embarrassing moments, but long time call-center workers do not let that happen. “India is on its way to being the back office for the world,” said Shriram Ramdas, one of the founders of Bangalore Labs, which manages Web sites and other information networks for companies from a futuristic office in the International Tech Park on the outskirts of Bangalore.”⁽⁵⁾ From an American point of view, the bottom line is that it is approximately 40% cheaper to do business in Bangalore than it is in the States.

“Eavesdrop, for a moment, on an imaginary call center conversation. Sam from Bangalore, representing the Dallas Gas & Electric Company is talking to Ted in Texas, who is complaining about his gas bill. Sam puts the caller at ease, with his reassuring mid-western drawl and small talk about last night’s Miss Texas pageant and the explosive revelations on a talk show. What Ted does not know is that “Sam” is short for Subbarayan Shanmugasundaram and what may appear to be the suburbs of Dallas is in fact Tiruchchirappalli, in the south Indian state of Tamil Nadu.”⁽⁶⁾

⁵ Hi, I’m in Bangalore (But I Dare Not Tell) Mark Landler, The New York Times, March 21, 2001.

⁶ India learns language of customer service, Call center serving the US promise a huge export business. They also place some unusual demands on their staff, writes Khozem Merchant, Financial Times, Wednesday, April 4, 2001.

Ted leaves the call feeling satisfied that his problem has been evaluated and solved by a fellow Texan. He thinks well about his utility and if someone were to tell him later that he had been talking to Bangalore, India, he would not believe it. Nevertheless, you can believe it, what has happened to a degree is a combination of identity theft, fraud and misdirection. Nothing that happened is illegal, this sort of thing has just become a financial necessity and more and more often, you will be talking to somewhere else in the world when you are talking about solving a problem on something that you are using around the house.

National Student Marketing Flunks

National Student Marketing was incorporated in the District of Columbia in 1966 and for a short time, it enjoyed almost unparalleled success. The company as its name implied, was in the business of marketing products to students, mainly those going to college. The theory was that one of the most dynamic markets in the country was that of kids going to college. If you could hook them early enough, they could possibly remain particular brand name oriented companies client for life if they could indoctrinated early enough. Randell, the company's CEO had about as much business background as a frog, but he was readily able to overcome that obstacle by staffing the company with business school graduates from his alma mater, the University of Virginia. The theory was that people marketing to schools were both local and disorganized. If they could be brought together in a more homogeneous pot, everyone would benefit from increased earnings and sales. The students themselves would come out ahead because with central purchasing, the prices that these vendors had been charging would probably drop.

The Company determined to expand its operations after it successfully went public and earmarked companies in similar businesses for acquisition by 1969. The company's management was believed to be capable and had a reputation of integrity and honesty. They had surrounded themselves with "white shoe" firms in both the legal community, having hired White & Case and in the accounting community by bringing aboard Peat Marwick⁽⁷⁾ who suddenly replaced Arthur Anderson who had resigned⁽⁸⁾. Both Cortes W. Randell⁽⁹⁾, National Student Marketing's CEO and James F. Joy, SVP of NSMC were both highly regarded by Wall Street and enjoyed good reputations. Furthermore, Cortes G. Randell, an international-business consultant, Cortes W's father was the company's Chairman of the board and brought a wealth of business experience to the company. Another board member was Dr. Frank G. Dickey whose major sideline was being the Executive Director of the National Commission on Accrediting. This organization could give or withhold university accreditation. Certainly an interesting guy to have around when you are in a business trying to get schools to sign on the dotted line.

Cortes was known as Cort to his friends, which were just about everyone around the office. No one could have ever criticized Cort's spending habits, he was just your average American six foot three inch, 30 year old multi-millionaire that had a castle with a dungeon and mote on the Potomac, a fifty-five foot yacht that could sleep twelve and a world class hydrofoil. He also had one of the largest collections of radio-controlled model boats, quite a feat in the late 1960's along with apartments at the Americana and the Waldorf Hotels in New York and of course the obligatory, Lear Jet with two full time pilots.

On the other hand, he put in prodigious hours in much the same fashion, as did the merry-men at Equity Funding. The only difference between the two was that with Equity Funding the midnight workers were toiling over the creation of phony new insurance policies for which they could get ready cash from the re-insurers while in the case of National Student Marketing, the only people that they were trying to deceive were the accountants, with contracts that had been forged or hastily reconstructed with grander numbers contained therein. For these and other reasons, Cort certainly deserved all of the perquisites that the company could heap on him.

7 Authorities had said that Andersen had resigned because they weren't sure that they were getting from the company's executives

8 This is generally a bad sign when an accounting firm is replaced

9 He had earned an engineering degree while in college

Favorable articles about the company were appearing throughout the media and Business Week did an especially favorable piece on the company. Ad Age started talking to National Student Marketing because the NSMC was hitting the advertising market exactly where all the agencies and their clients wanted to concentrate the business. The younger people that were the trendsetters were literally the company's own back yard. If you wanted to get to them, you had better be on good terms with National Student Marketing.

Early on, NSMC had almost six hundred part time campus representatives selling everything including the kitchen sink. Paper dresses were a big cash items as were psychedelic wall posters, freshman photo books, Summer employment guides, campus telephone directories, calendar desk pads with campus events and advertising, Cliftex, a manufacturer of men's sport jackets, Transplex mobile units set to advertise existing products, American Airlines Youth Fare Cards, wire bound notebooks with advertising and beer mugs were all big things among college students of the era. In the meantime, National Student Marketing also was distributing at no charge, voluminous copies of student school guides, and a thing called Campus Pacs that contained razors, blades, soap, toothbrushes, and other assorted items. These were paid for by advertisers or by free ads that the company received an override on ⁽¹⁰⁾.

In addition, the company had developed a computerized resume' service, which although it lost substantial money, received accolades for its inspirational qualities. Cort even bought a book cover manufacturer for the sole purpose of being able to sell advertising on the inside covers. When the company acquired a company already in the business of manufacturing college-student-oriented products, there was some chance of success but without fail, nearly every single product that was dreamed up by National Student Marketing was an abject failure. One would have thought that they would have cut their loses and run, but part of their dismal corporate philosophy was the "invented here" syndrome. They badly wanted Wall Street to believe they were producing something of value so they could trumpet the inauguration to the skies but this was just not the case.

Moreover, the college bookstores were not very happy with this upstart that was putting representatives into direct competition with them. The fact was that National Student marketing was caught between a rock and hard place. In reality, their student sales representatives were a fiasco that could not have made money no matter what and how much they sold because of the extraordinary logistic baggage that came with the package. In the meantime, this revolutionary group was driving campus bookstores to the point of banning the products of National Student Marketing, which would have caused a major problem because the companies that NSMC was buying for the most part were their suppliers. Luckily, the company folded before they had to deal with the issue.

National Student Marketing was the top performing stock of 1968 rising in the stock market more than any other. It was also way up there when you look at acquisitions. National Student Marketing had closed the year with twenty-two bested only by fast growing Dolly Madison Ice Cream with thirty-five ⁽¹¹⁾. The company's shares were purchased by Morgan Guaranty, Donaldson, Lufkin & Jenrette ⁽¹²⁾, as well as the prestigious Harvard Endowment Fund. The company's stock was flying high having come out at \$6 per share in the spring of 1968 and was trading at \$144 by mid-December 1969.

Management believed that if they could exchange appreciated paper for substantive acquisitions, it would make a lot of sense and they could keep everything in motion. Not wasting any time, according to court documents, "At a stockholders meeting held October 8,1969, National Student Marketing (NSMC) shareholders approved an increase in the company's authorized shares and approved a merger with Interstate National Corporation (which sold insurance to students) and five other companies." Well, not exactly, that was went out in the press releases to show that the company was continuing to make synergist transactions in their acquisition program, the fact is that the main lines that the company wrote were, for

10 In reality, nothing much was paid for by the advertisers. The company's alternative plan was to take a percentage on the successful advertising of individual products and do it for free. Very little in a positive vein happened from this theory.

11 Dolly Madison filed for protection under chapter II of the bankruptcy law shortly thereafter

12 Donaldson acquired \$10 million in letter-stock in National Student Marketing at \$83 per share.

insuring race tracks and greenhouses. Sure, they wrote an occasional policy to a student but it was more a sideline than a business.

This was also period when the word conglomerate had fallen on disfavor because literally every company that had advertised itself as such had suffered dramatic problems of one sort or another and the entire group had become an anathema to the Street. From infinite price-earnings ratios, now, the best of them was going for about ten-times earnings. It was important to Cort to make a distinction between the acquisitions that he was making and those that the “conglomerates” were getting involved in. He came up with the declaration that conglomerates merged in non-synergistic companies in the hopes of creating cost savings and financial homogenization, National Student Marketing specialized in taking over only companies within that industry that dealt with students. Wall Street bought the story hook, line and sinker and nobody ever bothered to analyze the fact that literally everything that Cort was acquiring had seen better days.

However, the basic premise was all wrong. fully half of NSMC’s gross sales and probably the great majority of the profits came from non-student type of enterprises. On the other hand, Cort was always trying to make the left shoe fit on the right foot. As an example of this, he took over a company that National Student Marketing had acquired that was solely in the business of supplying socks to wholesalers. What this would have to do with students no one could figure out until the every pervasive Cort came up with the answer everyone had been looking for. The company would start a student hosiery club that he would get off the ground with 250,000 members. The story had legs and achieved its purpose but the students didn’t gravitate to the concept at all and we know of no one that signed up for this gruesome idea.

The next move in the direction of the student market was the acquisition of school buses. The problems that soon appeared were two-fold; the first was that the average users of the buses were either in nursery school or kindergarten, thus substantially bringing down the average age of his target market. Neither did this make the NSMC advertisers very happy but ultimately they became enraged when they found that Cort was trying to sell them advertising on school buses ridden by children that could not read. It may also be the fact that these passengers did not have a substantial amount of discretionary income and that seemed to bother the ad people even more.

Another acquisition that didn’t go anywhere was that of Arthur Frommer’s; you know, the people that can send you around the world on \$5 a day. There was not much question that the school kids liked the books, but they weren’t really going anywhere. This was the sixties and they just didn’t have the money to travel to the places that Frommer was pushing. Frommer and National Student Marketing were hoping for a big splash at the Frommer Affiliated Hotels from the acquisition but, in spite of the advertising to the contrary, these guys weren’t renting any rooms in them at \$5 a day and the college crowd returned no business whatsoever to the company. Frommer’s life work pretty much went up in flames when NSMC tanked.

One of the few ideas that National Student Marketing had was the renting of refrigerators to students for their dorms. While this idea made a lot of sense, most of the available outlets in dormitories did not allow for enough energy to power a machine and therefore, the refrigerators were considered a fire hazard by most college administrators. Ultimately, NSMC was able to find a refrigerator manufacturers that had a machine that used far less current and through a major public relations campaign was able to get the device onto many campuses. The problem with the refrigerators was, that while they were able to safely operate from just about any wall outlet, they made a prodigious amount of noise which totally eliminated the students ability to study or talk on the phone while they were plugged in. In spite of this major pitfall, the business did succeed for a time until NSMC ran out of money.

National Student Marketing had told the companies to be acquired that NSMC was doing great and that earnings for the nine-months ending May 31, 1969 would be substantially up on a year-to-year basis. Many of the companies to be acquired at that time had asked Peat Marwick for a comfort letter concerning NSMC’s unaudited interim financials, which shouldn’t have represented any big deal because the quarter had ended literally five months earlier. When Peat Marwick went to work on the comfort letter in earnest they determined that contrary to previous representations, \$500,000 should be adjusted to deferred cost, a

\$300,000 write-off of unbilled receivable ⁽¹³⁾, and an \$84,000 adjustment to paid-in capital be made retroactive to May 31 and be reflected in the comfort letter delivered to the companies being acquired.

The only problem with what the accounting firm wanted to do was the fact that it would have caused National Student Marketing to show a deficient for this period other than the substantial profit that they had projected. All of the transactions were an exchange of shares on a pooling of interest basis and there would be a blood bath following the announcement of the readjustment. The closing was scheduled for Friday, October 31, 1969 and when all had been gathered at White and Cases offices and the comfort letter was not part of the closing documents, there was a bit of unrest that came from the crowd ⁽¹⁴⁾.

The deal could not be consummated without the comfort letter and a hasty call was made from the law office to Peat Marwick's Washington office to inquire about it. The partner in charge of the account, Anthony M. Natelli, dictated to Eplye's (White & Case Senior Lawyer) secretary the comfort letter. This was along the lines that Peat Marwick had originally gone over with NSMC but of course, no one else in the room had ever seen it. There were substantial discussions about whether the mergers should be concluded but more assuaging by both White & Case, National Student Marketing Executives and Peat Marwick. Because of the fact that the announcement had already been made as to the acquisition, the shareholders vote had already taken place in both companies and the people in the room only had an hour to agree to the deal, it was signed with some serious regrets¹⁵.

The only way the projections came close to being met was by selling the Canadian subsidiary, CompuJob back to the original owners. They only had received stock when NSMC bought the company from them so that they had no cash to pay for the repurchase. It was determined that the Canadian's would pay a price, substantially more than what the company had been purchased for by NSMC with the collateral for the sale to be some of the National Student Marketing stock that the principals had been received in the original deal. These transactions were concluded a full ninety-days after the fiscal year had ended on August 31, 1969 yet, consul gave an opinion that the transactions indeed had been closed in time to qualify for inclusion in the previous audit. "In the opinion of counsel in both transaction negotiations and agreements of sale were in effect consummated prior to August 31, 1969..." Thus, the company was able to come close to their target numbers, but a couple of more deals like this and National Student Marketing would be a thing of the past.

Moreover, in 1969, a new item for more than \$500,000 appeared on the balance sheet, deferred product development costs and the footnote indicated that this item, which included expenses, incurred during the year for products that would make it to market at some latter date. Apparently, a lot of salaries and other items were added to the deferred number to beef it up. This created additional earnings because costs associated with the nebulous products would now be amortized over the useful life of the new products rather than to have employees salaries expensed as they should have done. One of the problems with this little accounting item is the fact that there were no products that would be coming to market to offset the charge. A very creative way for the accountants to have handled the matter.

Additionally, the balance sheet showed hefty increases in the "unbilled receivables" column. Once again, the balance sheet neither states or explains what the statement means or why the figure for 1967 has mysteriously changed without footnotes and of even greater magnitude, why it no longer what appeared in

13 No one ever was quite able to come to grips with what an unbilled receivable was and while that was a large item on the balance sheet, so was the financial item earmarked "unamortized cost of prepared sales programs" Although this was thoroughly explained in a footnote to the financials, we are no further along today in understanding it than when we started this article. Maybe the people at Peat Marwick have some clue what they meant by it. .

14 In spite of the fact that the Peat Marwick people had gone of their proposed adjustments with National Student Marketing Management, no one else had been informed of the proposed changes.

15 The shareholders of both companies had approved the proxy material, which did not contain the updated information. Thus, the shareholders had approved a transaction, which was based on totally incorrect financials. As both companies were public, shareholders complained bitterly when the stock tanked.

the original financial figures. In addition, losses from “unamortized cost of prepared sales programs” rose substantially, avoiding a deduction from income, which would have been fatal for the company right then and there. Moreover, the footnotes went even further to point out the included in the 1969 results were acquisitions that had been agreed to in principal and not yet consummated.

We don't understand all of the bizarre accounting gimmicks that were used to get this one through the auditors, but if it hadn't, the company's profit would have been negligible and the stock would have tanked. When shareholders raised that as an issue, “the Chairman of Peat, Marwick, Mitchell's Ethics Committee who was present at the NSMC annual meeting to read the portions of the accounting principles code that required acquisitions made shortly after the close of a fiscal year to be included in that year's statements”⁽¹⁶⁾ We are not sure how the regulations read at this point in time, but we don't think that they ever intended that a deal consummated over three months later ethically reflected business in the prior fiscal year. The SEC and the GAAP people also did not see things the same way as the Chairman of the Peat Marwick Ethics Committee and rescinded the regulations that had allowed this carry-over combination in earnings. Heretofore, financial affairs happening in one quarter would be reported in that quarter and only in that quarter.

In February 1970, at a meeting of more than 2,000 top money managers gathered at the New York Hilton for the Institutional Investors Conference an impromptu poll was taken of what the best performing stock in 1970 would be. The consensus choice was National Student Marketing that was then trading at more than \$140 per shares. It wasn't too long after that meeting when the press started raising some serious questions about the financial data that National Student Marketing and their auditors were feeding the Street. Barron's was the first to call into question literally all of the accounting magic that the company was using. The day after the report hit the street, National Student Marketing stock dropped twenty-points and the rout was on. Barron's, Abelson who had written the story, had pretty good credibility and there seemed to be some truth to that and other negative stories circulating in the financial press. The stock started to plummet.

Remember that the Institutional Investor Conference thought the National Student Marketing was all world in early February of 1970. Well right about that time, February 24, 1970, Cort had lined up some substantial deals and their closing would certainly promulgated the National Student Marketing myth for a few more years. Champion Products with \$50 million in sales was going to be acquired as was National Tape with \$60 million and Josten's, a New York Stock Exchange listed company with \$70 million in sales. The only problem was that just as the deals were about to be concluded, the Peat Marwick folks finally got cold feet. They announced that the first quarter, which had been touted as going to a triple was actually going to be a great big loss of \$1.2 million. As if this wasn't bad enough, several days later the loss was increased to \$1.5 million. The earlier error it appeared had been caused by a technical translation problem, something else we don't seem to understand. Once again, Wall Street was shaken up.

Nevertheless, one way or the other, this cooked the NSMC goose. During this period of time as more acquisitions had been made, more and more of the voting stock was getting into the hands of people that had exchanged their stock for stock in National Student Marketing. They now controlled the company from a voting point of view. For the most part, these had been hard working folks who had devoted their lives to making their own companies work and had worked hard to fit into the corporate structure of NSMC as well. They determined that Cort's leadership was illusionary and that the Street no longer believed in his dream. It was now time to produce results and that could best be accomplished with different leadership. Cort told the troops that he was resigning for medical reasons and left the company that he had visualized forever.

The company started going through new CEO's like a duck goes through water. Reorganizing the company was becoming a horror. All the subsidiaries that had been recently, acquired wanted a rescission. (they wanted their acquisition undone) Shareholders were filing lawsuits all over the place, the SEC was investigating under every rock, the stock was now three bucks a share, and word came from the Post Office Department, that a mail-fraud investigation had been launched against Cort in 1964. The banks pulled their

¹⁶ The Funny Money Game, Andrew Tobias, Published by Michael Joseph Ltd., London 1972

lines, Wall Street had no additional interest in funding National Student Marketing, and the rescinding subs didn't want to upstream money into a parent that may have illegally acquired them. After it had been in free-fall for a while, investor's lawsuits were brought against the company and the Securities and Exchange Commission announced that they would be taking a closer look at the company's affairs.

When the smoke had cleared, the SEC named everybody involved including the lawyers and accountants of violating the antifraud provisions of the Securities Act of 1933. Held out by the SEC for particular hostility was Peat Marwick and in Accounting Series Release ("ASR") No. 173 directed entirely at Peat Marwick burned their hide for sins of omission and commission in connection with National Student Marketing, Republic National Life Insurance Company, Penn Central, Stirling Homex and Talley Industries. Sanctions were instituted against the accounting firm in probably one of the most telling actions ever taken by the SEC against a large accounting firm.

Additional complications were added to the merger when various people from Interstate and the senior officers demanded the right to sell as part of their agreement. While that agreement was only partially kept, it was done in a vacuum as the shareholders of neither company were yet aware of the changes in the earning projections contained in the "comfort agreement." The law on the matter was fairly simple,

"President and counsel of merging corporation (Interstate) violated the antifraud provisions of the federal securities laws through their participation in the closing of the merger and through their sales of stock of the surviving corporation immediately following merger, in each instance without first disclosing the material information contained in unsigned "comfort letter" which revealed that the surviving corporation's interim financial statements, used in securing shareholder approval of the merger, were grossly inaccurate."⁽¹⁷⁾

The law firms did not escape the wrath of the SEC and the Commission brought an injunctive action that charged them with aiding and abetting a securities fraud based on the theory that the vote taken by shareholders was based on totally incorrect financial data or as they put it, containing materially misleading financial information. The SEC's position that the lawyers should have insisted that another vote be taken after the financials had been reintroduced with the updated information in new proxies. Thus, in the first instance in history, the SEC said that outside corporate counsel was literally both a watchdog and a whistle-blower relative to his clients. They did not stop there, they also named the lawyers for Interstate stating that they too should have been aware of the situation and stopped the transaction. The SEC stated that Max E. Meyer and Louis F. Schauer aided violations of the Securities Laws and failed to stop them.

"Counsel for merging corporation had a duty to the merging corporation's shareholders to delay the closing of the merger pending disclosure and re-solicitation with corrected financials after counsel received, at the time of closing, an unsigned "comfort letter" which revealed that the surviving corporation's interim financial statements were grossly inaccurate, and such breach of duty constituted a violation of the antifraud provisions of the federal securities laws through aiding and abetting the merger transaction..." Securities Act of 1933, 17(a), 15 U.S.C.A. a 77q(a); securities Exchange Act of 1934, 10(b), 15 U.S.C.A. 78j(b).⁽¹⁸⁾

Individual actions were instigated and in 1970, a group of shareholders brought a class action suit seeking damages against National Student Marketing Corp., the law firm of Lord Bissell & Brook (Meyer & Schauer), Peat Marwick & Mitchell accounting firm, the Law firm of White and Case charging them with violations of provisions of the federal securities law and common law fraud. The accounting firm settled the case out of court by paying the plaintiffs more than \$6 million.

The tally of losses in National Student Marketing was over \$100 million and almost all the professionals were forced to settle for substantial sums of money. Cort got the worst of everyone, as well he should

17 West Publishing 6/21/00

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have and spent some serious time in the slammer as a guest of the U.S. Government after he had been indicted and confessed to charges that he had fraudulently misrepresented National Student Marketing's financial condition and operating results in his company's proxy statements. "Furthermore, Randell confessed to altering or concealing key features of commitment letters obtained by National Student Marketing, including those obtained from the Pontiac Division of General Motors and Eastern Airlines. For example, Randell admitted that he had changed a letter received from Pontiac to make it read as a formal commitment letter." (19)

When he got out of jail some time later he announced that he had found Christ. He was once again charged by the SEC of looting a Virgin-based finance company. This time he was convicted and this time on seven counts of securities fraud, one count of making false statements to the Veterans Administration, four counts of interstate transportation of funds obtained by fraud and five counts of mail fraud getting him a seven-year sentence at a serious correctional facility. The last we had heard, Cort was out of jail and successfully running a Washington D.C transcription service.

As for the accountants, Anthony Natelli and Joseph Scansaroli who had acted for Peat Marwick; they were indicted for "willfully and knowingly making and causing to be made false and misleading statements with respect to material facts." More specifically the two were charged with causing the earnings that appeared in the 1969 proxy statement to be misrepresented. Furthermore, without the help of the accountants, the company could have never overstated their earning for that period. Natelli and Scansaroli were obligated to serve a short time in jail and both also were hit with fines. Judge Tyler who oversaw the case commented at the sentencing, "The accounting profession, like the legal profession, frequently failed to understand its public responsibility." (20)

As seems the rule in these cases, the convictions although fairly moderate were appealed. The theory of the defense was that Peat Marwick had not been hired to verify certain material contained in the proxy statement and therefore he should not have been convicted. In United States versus Natelli, the court rejected the argument with the statement, "The issue on this appeal is not what an auditor is generally under a duty to do with respect to an unaudited statement, but what these defendants had a duty to do in these unusual and highly suspicious circumstances."

Scansaroli, who had received the lesser sentence was vindicated on the same appeal. The court ruled that Natelli alone made the decision to include the incorrect financial data in the proxy statement. Among other things that set Scansaroli apart from Natelli was the production of a memo that he had written in January of 1970 while he was employed as National Student Marketing's assistant controller. In the memo Scansaroli threatened to tender his resignation if the Company's aggressive reporting methods weren't reigned in and if they did not start to exercise proper control over its financial and accounting reporting practices.

The U.S. Attorney, Franklin Velie, prosecuting the men added that while they had started out by making a mistake, which didn't make it a criminal matter, but then they tried to cover it up and that was criminal. Velie went on to say that "People who read those financial statements were cheated. The proxy statement gave no hint of what the auditors knew – that National Student Marketing was a losing proposition." (21)

A Different View of the Moon

Newspapers around the world are constantly trying to scoop one another with being the first to a great story. Many have found that the best way to increase their circulation was to create a total hoax that could

19 Contemporary Auditing, Real Issues and Cases, Michael C. Knapp, The University of Oklahoma, South-Western College Publishing

20 A. Lubash, "Stock Defrauder Fined and Jailed," The New York Times, December 28, 1974

21 F. Andrews, "Fraud Trial of Peat Marwick Attracts Anxious Attention of Other Accountants," The Wall Street Journal, October 29, 1974

grab the public's imagination and then play it for all it was worth. Such was the well-planned connivance of the New York Sun in 1835. Two parts of the story were true and that is what made this hoax so elusive. The first element in the story was the fact that it was attributed to the research of the eminent British astronomer, Sir John Herschel who had received knighthood because of his startling and factual discoveries. The other ingeniously devised contrivance was the use of the previously famous Edinburgh Journal of Science, for confirming stories relative to a masterful hoax. A most important part of the plot was the fact that the prestigious Edinburgh Journal of Science and quietly gone bankrupt and ceased publication.

Moreover, the New York Sun sprinkled their news story with a number of actual facts making it all the harder to refute. The ploy went something like this. On the day of August 25, 1835, the in a second page article said: "We have just learnt from an eminent publisher in this city that Sir John Herschel at the Cape of Good Hope, has made some astronomical discoveries of the most wonderful description, by means of an immense telescope of entirely new principle." While the article was untrue, it was a fact that Herschel did go to South Africa a year earlier and had set up a sophisticated solar observatory in Cape Town.

There was not a lot of interest in the fact that Herschel had been looking at the stars in Cape Town and the first story as was intended did not receive any controversy. However, the next issue contained a description of what Herschel had seen through this new and powerful telescope while looking at the moon, which included a description of animals, vegetation and furry men with wings:

"We counted three parties of parties of these creatures, of twelve, nine and fifteen in each, walking erect towards a small wood...Certainly they were like human beings, for their wings had now disappeared and their attitude in walking was both erect and dignified... About half of the first party had passed beyond our canvas; but of all the others, we had perfectly distinct and deliberate view. The average four feet in height, were covered, except on the face, with short and glossy copper-colored hair, and had wings composed of a thin membrane, without hair, lying snugly upon their backs from the top of the shoulders to the calves of their legs.

The face, which was of a yellowish color, was an improvement upon that of the large orangutan...so much so that but for their long wings they would look as well on a parade round as some of the old cockney militia. The hair of the head was a darker color than that of the body, closely curled but apparently not woolly and arranged in two circles over the temples of the forehead. Their feet could only be seen as they were alternately lifted in walking; but from what we could see of them in so transient a view they appeared thin and very protuberant at the heel... We could perceive that their wings possessed great expansion and were similar in structure of those of the bat, being a semitransparent membrane expanded in curvilinear divisions by means of straight radii, united at the back by dorsal integuments. But what astonished us most was the circumstance of this membrane being continued from the shoulders of the legs, united all the way down, though gradually decreasing in width. The wings seemed completely under the command of volition, for those of the creatures whom we saw bathing in the water spread them instantly to their full width, waved them as ducks do theirs to shake off the water, and then as instantly closed them in a compact form."²²

Naturally, this story created an upheaval. Its publisher, Benjamin Day, had achieved what he was after, massively increased circulation and the New York Sun indeed became the most circulated newspaper in the world, a spot it held long after interest in this hoax had waned. Later issues elucidated on the original fairy tale and talked of sumptuous temples constructed with precious stones, marble pillars and fantastic forests. The public was breathless over the story when Day figured he had accomplished his goal and it was now best to lay it to rest. Somehow the newspaper had to find a way for Herschel's experiment abruptly to come to an end. This was worked out when one of the reporters in one the fraud wrote about the fact that because the giant telescope had been mistakenly faced in the wrong direction, the sun's rays had entered its frame through the highly magnifying glass at its protuberance. This of course set off a massive explosion that destroyed the entire observation facility. However, the New York Sun indicated that luckily no one was killed in the massive explosion.

²² Referenced from the History Buff, R. J. Brown, The Great Moon Hoax of 1835.

In the meantime, the Sun was eating its competitors alive. All of the journals and newspapers were clamoring for the story. Many of the other newspapers when the Sun wouldn't give them editorial rights just plagiarized the stories from the Sun's accounts. Scientists were anywhere and everywhere trying to get addition confirmation of the events described while numerous missionary societies organized conversion parties to land on the moon and redeem these obviously intelligent bat creatures. On September 16, 1835, almost three weeks to the day after the fraud had begun; Day admitted in a cute little article that the whole thing had been fabricated. Imagine the egg on the faces of competing journalists, who in their frenzied efforts to compete had copied the Sun's story verbatim. When the affair had ended and the competition found out that they had been hosed to the max, the affair became even an unbelievable embarrassment to them. The public took the New York Sun's apology for spoofing them in nice way but condemned their completion for plagiarism and unprofessional reporting. The New York Sun remained on top of the heap because of this experience for years to come.

Never the Twain Shall Meet

While newspaper publishers are always out to smash the competition in a fight to the death, no holds barred contest for survival, reporters also come under immense pressure from the bosses, the publishers to come up with stories that would help circulation. In the early days of American publishing, there was not a substantial concern as to the real facts just so the story was believable, interesting and one the competition could not contend was fabricated. In those years, journalists were able to make the public believe almost anything and when one newspaper came up with something inconceivable their competition had to top it no matter how outrageous it might appear.

Petrified men were always good newspaper fodder and there was a newspaper by the name of territorial Enterprise out of Virginia City that had become a force to be reckoned within the west just before the Civil War started. People were hungry for news and the more outlandish it was the more they would devour it. Joseph T. Goodman was the paper's editor and he encouraged his reporters to bring in material that would sell papers no matter whether it was true or not. There was a cub reporter that had just joined the paper's staff by the name of Mark Twain who wrote the following tale on October 4, 1862:

"A petrified man was found some time ago in the mountains south of Gravelly Ford. Every limb and feature of the stony mummy was perfect, not even excepting the left leg, which has evidently been a wooden one during the lifetime of the owner – which lifetime, by the way, came to a close about a century ago, in the opinion of a savan who has examined the defunct. The body was in a sitting posture, and leaning against a huge mass of croppings; the attitude was pensive, the right thumb resting against the side of the nose; the left thumb partially supported the chin, the fore-finger pressing the inner corner of the left eye and drawing it partly open; the right eye was closed, and the fingers of the right hand spread apart. This strange freak of nature created a profound sensation in the vicinity, and our informant states that by request, Justice Sewell or Sowell, of Humboldt City, at once proceeded to the spot and held an inquest on the body. The verdict of the jury was that "deceased came to his death from protracted exposure," etc. "

"The people of the neighborhood volunteered to buy the poor unfortunate, and were even anxious to do so; but it was discovered, when they attempted to remove him, that the water which had dripped upon him for ages from the crag above, had coursed down his back and deposited a limestone sediment under him which had glued him to the bed rock upon which he sat, as with a cement of adamant, and Judge S. refused to allow the charitable citizens to blast him from his position. The opinion expressed by his Honor that such a course would be little less than sacrilege was eminently just and proper. Everybody goes to see the stone man, as many as three hundred having visited the hardened creature during the past five or six weeks."²³

We can almost see Twain revving up to the task as his writing meanders ever further from anything that could remotely be considered the truth. In reality there was considerable method to Twain's madness. There was a man named Sewall in town that had the position of both coroner and Justice of the Peace.

²³ [Reprinted in The works of Mark Twain; Early Tales & Sketches, vol. 1, 1851- 1864, (Univ. of California Press, 1979) p. 159.] Mark Twain – "Petrified Man", www.twainquotes.com

Twain considered him a moron and wanted to portray him in the worst possible light, as a bumbling idiot and purposely spelled his name wrong in his story. Moreover, Twain had noted that almost every day, papers in the territory were carrying stories in their bylines about petrified this and petrified that. Twain believed that if he made up a story that was beyond absurd, it would put a stop to those hoaxes. All he accomplished though was adding to the belief that these petrified folks did exist as literally everyone that read his piece, believed it.

Investing In Azerbaijan

When the former Soviet Union split up it was almost as though the bad genie gotten out of the bottle. While most people in those countries seem to be stand up citizens trying to make the best out of bad thing, there are bad apples in every crate, and some of them have unfortunately found their way to American shores.

Much of the money that was made was accumulated in the business of buying and selling privatization vouchers. For the most part, the vouchers were issued to everyone and they allowed the holder to own a piece of what had been formerly State-owned property. As there was no advantage on owning only one voucher a market quickly developed in these pieces of paper and by being both smart and politically connected, great fortunes were soon made. Naturally, the people did not prosper greatly in this arena so that it became obvious that this had become a focal point for fraud.

When the vouchers were worth something, massive media campaigns were instigated throughout Russia demeaning the assets value but at the same time offering to pay for the vouchers just to take them off people's hands. Others took that reverse route and bought television and media time and touted their worthless vouchers as being able to provide enormous returns and many people were duped by the glitzy publicity.

In this country we haven't actually experienced the way that game worked until Viktor Kozeny, a Czech national hit these shores and gave an outstanding initiation. This wasn't just an ordinary Iron-curtain promoter; Viktor was a Harvard Graduate that appeared to have graduated from the "School for Scoundrels" not the prestigious Ivy League institution. Fresh from milking almost a million people in his homeland of over \$200 million, the man known there as the "Pirate of Prague" used some of those funds to purchase a multi-million home in Aspen so that he could now start to promote American's. Viktor's home, a modern miracle was built large enough that both his wife and mistress could live in it without having ever to see each other.

Kozeny became an elegant host when he blew into town and started throwing massive parties with so much caviar and \$1,000 bottles of Chateau Petrus that even the jaded inhabitants of Aspen were overwhelmed (²⁴). Kozeny's theory on how readily to separate American's from their money had only two basic elements. The first, a story that made some sense. He came up with an unusually good one. He indicated that the State owned oil company of Azerbaijan was extremely profitable, and that was indeed true. He next indicated that he could buy up vouchers and purchase the oil company from the government for pennies on the dollar and was convincing enough to have made a killing.

However, the government of Azerbaijan indicated that, not only wasn't the oil company for sale now; it had never been for sale. He told his partners that he would purchase the vouchers and put them into the partnership at exactly what they cost him. He bought them at 40 cents apiece and sold them to the partnership at \$25, which certainly is close. Kozeny told the his excited investors that he had only some 300,000 excess vouchers when the actual number apparently was over 8 million and perhaps more than 10 million.

The second part of Kozeny's two pronged theory was that even if you make up a story that is totally untrue, if you can find some dupe that has credibility to verify the fact that everything that you are making up is indeed true, you are on your way to a massive payday. Mr. Kozeny was able to complete the second

²⁴ Reportedly, Kozeny paid Natalie Cole \$1 million to hold a private concert at his Aspen home.

part of his plan when he found Grant Thornton, the big American accounting firm. Now that the facts are out, the investors are saying that no one really knew Kozeny and that they were all relying on the Grant Thornton report. District Judge Lewis T. Babcock of the Denver Federal District has already indicated that the investors are probably right on both counts. They have engaged in a stunning fraud and that the Grant Thornton report on which they may have relied is highly questionable. In part Judge Babcock's decision indicated that the plaintiffs had demonstrated evidence that Kozeny had "engaged in racketeering activity by perpetuating frauds and laundering monetary instruments or funds."

To indicate how well the plan worked, Kozeny found two investors, Leon G. Cooperman the Wall Street hedge fund manager and American International Group, one of the largest insurance companies in the world. Both, Cooperman's hedge fund and AIG did not get rich making bad investments but when you have an accounting firm that had Grant Thornton's credentials telling you that everything the promoter is saying is true, you know two things, the first is that you can probably rely on those statements as true, but if they are not, you have a very deep pocket through which to recover your investment should they have screwed up. That seems certainly to be the case in this situation.

Cooperman and AIG each wired \$75 million to a Swiss Bank that Kozeny designated. The mathematics of the transaction are rather simple, They got 3 million warrants in exchange for their \$75 million, which would indicate a price of around \$25 a piece. Kozeny paid 25 cents for each of his warrants and there for made a profit of \$24.75 for each one he sold giving him a paid day of over \$73 million. It appears that Kozeny was really a busy little beaver in this one and that while we are only using two of the investors as examples, it looks like Americans were stuck for \$450 million in total and most of them are probably names that you would be familiar with. When the investors found out that the Azerbaijan State Oil Company was not for sale, they really began to smell a rat and lawsuits were instituted in four different locations simultaneously. Aspen, London, the Bahamas and the British Virgin Islands attempted to freeze the assets. Apparently all four courts have bought into the fact that the odds are that a massive fraud has been committed and they have taken the side of the investors.

The New York Times reported on Friday, June 16, 2000 that according to court documents, some of those assets consisted of:

"The assets include some odd items, like a couch hand-sewn with 33 alligator skins, art and furniture collections from the 17th, 18th and 19th centuries;; a wine cellar with 500 bottles of rare merlots and 23 cases of vintage Port; a sprawling Bahamas home; a London mansion; and a 23,0000-square-foot aspen chalet."

Mr. Kozeny who is now 36 made his first \$100 million while still in his twenty's. He had his own spin on the situation and indicated that the investors were filled with "rabid greed". On the other hand, when Mr. Kozeny had cleaned everyone he knew in the Czech Republic he had said that it was "hurtful to be unappreciated." This is the man who convinced everyone that the privatization vouchers had value when the only thing of value in the country was not for sale and everything else was not worth owning.

Kozeny had been well taught at Harvard. Kozeny himself said words to the effect that the investors knew that they were making an outright speculation that was extremely iffy and that the odds from the beginning were that they could well lose their investments. He called the investment, "extraordinarily reckless and imprudent speculation. The exhibits tell a story of the extraordinary risks men possessed with rabid greed will take when they see a one-in-a-lifetime chance to reap billions." As it turns out, almost \$10 million of the money that Cooperman and AIG invested went right into Mr. Kozeny's home in Aspen. That's called, "not giving a sucker and even break".

Grant Thornton will probably be digging deep into their pockets on this one. They have already been sued for \$160 million by Cooperman and AIG for misleading them about how many vouchers were really outstanding. They indicated that they had relied on the representation that Kozeny had only 300,000 extra options, made by Grant Thornton. On the other hand, Grant Thornton indicated that they had not signed an official audit; they were really acting only as accountants and bookkeepers. I think we have heard that talk before and we don't think that it will do Grant Thornton much good. Thornton has literally admitted that they supplied the investors signed documents through Kozeny with material that was not correct.

This early storm only includes a small portion of the money that has gone south. With, Kozeny global presence and Harvard background, they are not going to get much money back from him no matter how many judgments that they receive. You may also believe that Kozeny will no longer be visiting his residences in the Bahamas, London, Aspen or the British Virgin Islands. Look for Mr. Kozeny to be wintering in Vanuatu and the accounting firm and their insurance company to be left holding the entire bag.

The Battle of Waterloo

Being shrewd isn't a crime but it may depend upon your station in life. Baron Rothschild was considered a genius in terms of his acumen in the investment world by all of his peers. Rothschild was a member of the London Stock Exchange during the time that Napoleon was slicing through Europe like a hot knife cutting butter. The English people were getting the opinion that he was unbeatable and that after he had finished the conquest of Europe he would attack Great Britain. The stock market had been edgy to say the least and because of everyone's belief that Rothschild had almost supernatural powers of discerning investment trends he had a large following among the members who wanted to know what he was doing at any given time.

His following had grown so large that he became relatively restricted in terms of how much money he could make because before he was able to put on a substantial position, the other brokers would bid up the security he was buying so high that it became overpriced. Frustrated over his magnificent reputation but lack of the massive financial gains he had strived for, Rothschild gave the matter at hand serious thought. The market was nervous to say the least over Napoleon's exploits and the battle of Waterloo had been scheduled as the main event in the coming weeks. If Napoleon won at Waterloo, England could kiss their stock market goodbye, however, if the Iron Duke (The Duke of Wellington) could win the day, there could be a healthy payday, but the Baron had to play his cards just right. He thought long and hard as to what his approach would be.

Rothschild raised homing pigeons on his palatial estate near London and communicated with relatives on the Continent through this method. This technique although seemingly archaic was the fastest method then available but was very rarely used over the English Channel historically, because the high winds could easily throw the birds off their course and you could lose an awful lot of birds that way. However, Rothschild had trained his birds intimately in the art of circumlocution and they did not have any problem finding their way in either direction no matter what the current velocity of winds were on any given day. He gave his best bird to one of his confidants and told him to "go to Waterloo and send me a message tied to the bird indicating who won the battle between the two greatest generals of that age or something similar.

The Iron Duke beat the socks off of Napoleon and Rothschild's agent sent the news by pigeon. Rothschild knew that his financial competitors would not get the news for sometime and strolled over to the Exchange in an attempt to make some serious money. As soon as he hit the floor of the Exchange he began selling in earnest; stock that he owned as well as stocks that he didn't own. Members of the Exchange that were on the Floor that day said that he looked like a man possessed. The other brokers seeing Rothschild's actions were sure that he had found out that Napoleon had indeed beaten the Iron Duke. Knowing that this would be catastrophic for Great Britain, they began dumping their shares with abandon. The market was now in free fall as the news quickly spread outside the Exchange that Napoleon had won. The public now joined into the disaster as the market plummeted.

However, on the other side of the room from Rothschild, other brokers were buying up every share that they could glom onto and as fast as the other broker and the public dumped their securities these nameless people purchased them whatever they had to offer and more. When the day was over, the market had severely tanked and the population waited for the news of Wellington defeat at Waterloo. However, the news when it came was just the reverse and there was a mad rush by everybody that had sold to buy everything that had been unloaded. Rothschild, however, never budged. It seems that he had paid these nameless brokers on the other side of the floor to buy everything he was selling and then to buy everything everyone else sold as well. Rothschild had indeed made a killing and no one was even aware of it. If there

was a moral to this story it would only be, “rich or poor, it’s better to have money.” Or if you raise pigeons make certain that they can fly the Channel both ways.

The Shroud of Turin

There is little question that religion is to a great degree a lot of pomp and circumstance. The more godlike your particular church appears, the closer that you will think you are getting to the true belief. In order to convince the faithful that certain things really occurred, in some instances it is necessary to preserve fables. It has been said that Christ was covered with a shroud after he died. This covering became known as the Shroud of Turin and some fourteenth century slicker sold the church a bill of goods on it and they bought the story, hook line and sinker.

While time did not treat the Shroud well, the faithful would come and visit it, leaving with the thought that they had indeed been closer to god himself for the experience. However, modern technology often destroys ancient legends. When scientists tested the cloth with what is called “carbon-14 dating they discovered to the chagrin of the believers that the garment had been created some 1300 years after Christ had died. Thus it was highly unlikely to have ever covered his body. The Church probably paid a pretty penny for the cloth and now that are without a good story that had been retold for centuries. However, in retrospect they may have gotten their money’s worth.

The Expanding Universe of Religion

Religion has been assumed by some to have been the main cause of forgeries during the Middle Ages. For the most part, these forgeries were created to extend the Church’s scope into previously uncovered arenas. In Joseph Rosenblum’s, *Practice to Deceive* he gives us chapter and verse:

“Two of the best known of these are the Donation of Constantine (8th century) and the False Decretals (9th century). Pope Adiran I first referred to the Donation of Constantine in 777. According to this document, Pope Sylvester had cured the Roman Emperor Constantine of leprosy. In gratitude, Constantine retired to Asia Minor, where he built a capital city named for himself, and ceded the Lateran Palace and the entire Western Roman Empire to the pope. Constantine granted Sylvester religious authority over all other Christian churches. Because the Donation gave popes temporal authority over all the island of the sea, the only English pope, Adrian IV (1154-1159), awarded Ireland to Henry II, king of England. The consequences of that gift have troubled both countries ever since. Not until the 15th century did the humanist Lorenzo Valla and Cardinal Nicholas of Cusa demonstrate that the donation was fraudulent.”

“The donation was included in the False Decretals that appeared in the 9th century. These were attributed to the encyclopedist Isidore of Seville (d. 636). Some of the material here was authentic, such as the “Hispania collection,” a gathering of the decisions of Greek, African, Gallic, and Spanish councils to 683. However, sixty papal rulings in the first part of the Decretals are spurious. Part III includes genuine letters from the 4th to the 8th centuries, but thirty-five forgeries are intermingled with them. One purpose of these fabrications was to protect the clergy from lay authority. Thus, Pope Eusebius is made to say, “It has hitherto been observed and ruled that the laity should not accuse the bishops, because they are not of the same mode of life.” Similarly, Pope Felix declares, “It has been decreed by the rulers of the synods that no one should accuse a bishop before secular judges..”²⁵

The Heavy Literary Guns

The following story is about a battle that is currently being waged between academics that are interested in history being preserved for posterity in its purest form and a professor that should have known better that attempted to garnish the results somewhat to often:

²⁵ Practice to Deceive, Joseph Rosenblum,

“With each passing day it is becoming clear that Arming America: The Origins of “A National Gun Culture” by Emory University History Professor Michael Bellesiles, is just another literary fraud. Although it began with high praise from the literal establishment, a few stalwart historians who kept verifying his thousands of footnotes have discovered that his ten-year effort was a sham. Since my article, “Arming America, fiction, not history,” more historians have evaluated Bellesiles’ interpretation of early America and have publicly determined his research methodology and sources don’t corroborate his conclusions about the lack of firearms in early America.”

“In the February 1, 2002 issue of The Chronicle of Higher Education, Wayne University history professor and a peer-reviewer of Bellesiles’ original 1996 article in the “Journal of American History, is quoted as saying, “It is a case, of genuine, bona fide academic fraud.” That same article quotes Randolph Roth, a professor of history at The Ohio State University and a member of the editorial board of the journal “Historical Methods” as saying that if “Arming America” were true, this would be history at its best. The problem is it just happens to be wrong.” Roth further goes on to call the episode ‘a crushing blow.’ Even the “Chronicle of Higher Education, which as been most supportive of Bellesiles for almost two years, is changing its tune.

“In the February 21 edition of the Wall Street Journal, Kimberly Strassel, who covered the controversy over “Arming America” previously, published a long article titled “Guns and Poses” that included a summary of the five articles published in the most recent William and Mary Quarterly. Four of those articles reviewed Bellesiles’ methodology, while the fifth was Bellesiles’ reaction to his critics. The reviews were damaging, while Strassel writes that Bellesiles’ explanation “falls short of answering the questions.”

“As Bellesiles faces an internal investigation by Emory University on the grounds that he engaged in “research misconduct for his book,” the “Emory Wheel” reports on a further embarrassment for Bellesiles. The articles states that because Bellesiles “criticized and misidentified the Center in an Emory publication, Academic Exchange,” the Chairman of the Emory History Department felt obliged to send an e-mail to the Contra Costa County History Center, in Martinez, CA apologizing for Bellesiles’ accusations. R. Emmett Tyrell Jr. in a Washington Times article has bestowed, The J. Jordon Coogler Award for the worst book of the year to “Arming America”. Tyrrell writes, “Mr. Bellesiles defends his position by citing documents that no other scholars can find. The book is a nonsense and a fraud.” Professor Bellesiles should stop making excuses, acknowledge his fraud, and do the right thing – return the Bancroft prize”²⁶

To a large degree, academia is self-policing but every once in awhile something outrageous makes it through. Basically, the reason for the wall between reality and “Alice and Wonderland-ville” being overrun at all is the shock concept of something totally contrived. Clifford Irving gets our award for the chutzpah of the year award. However, that would have been in 1971.

Theft Of Identity

People attempt to disguise their identity for many reasons, most of which are not necessarily for the betterment of their fellow men. Criminals often disguise themselves so that law enforcement officials can’t find them. People like Osama bin Laden shaved the beard that he wore indelibly for religious reasons and dressed other to look like him so that he could avoid detection when a price was put on his head. Leaders of countries often use doubles to be shot in case someone is stalking them and there are always stunt men to stand in for the super-star in a movie to do the dangerous stuff.

This habit has gone back to the very dawn of modern man and there have been numerous stories about it. One of the earliest was a version of Bullfinch’s Mythology that hits the subject dead center:

“...Knowing that her son (Achilles) was fated to perish before Troy if he went on the expedition, (the goddess Thetis) endeavored to prevent his going. She sent him away to the court of King Lycomedes and

²⁶ Arming America: A Recognized Fraud, Tanya Metaksa, FrontPageMagazine.com, March 5, 2002

induced him to conceal himself in the disguise of a maiden among the daughters of the king. Ulysses, hearing he was there, went disguised as a merchant to the palace and offered for sale female ornaments, among which he had placed some arms. While the King's daughters were engrossed with the other contents of the merchant's pack, Achilles handled the weapons and thereby betrayed himself to the keen eye of Ulysses, who found no great difficulty in persuading him to disregard his mother's prudent counsels and join his countrymen in the war."

Another story that deals with someone that is not who he seems is the Wall Street satire that deals with testing the waters by using someone's money or persona before jumping in yourself.

It is entitled

The Two Rats – and a Wildcat
written by G. E. Hanson in 1887:

An old rat, whose long residence in the city had given him great knowledge of the wiles of civilized life, observed one evening a tempting bit of cheese close by his favorite hole in the wall. Instead of greedily rushing at it, he called a young friend, saying, "*Whiskerando, some kind person has prepared a feast for us. Help yourself.*" The guileless innocent rushed on the cheese, which he devoured voraciously: but, alas! In a few minutes, he rolled over on his back, stone dead. The dainty was poisoned. "*My experience in Wall Street has stood me in well,*" mused the old rat as he turned into his hole: "*it is safer to give other folks pointers, and pocket your commission, than to risk your all on a wildcat investment.*"