

Drexel Burnham guilty of racketeering?

by Joyce Fredman

The Securities and Exchange Commission has charged the Wall Street investment firm Drexel, Burnham, Lambert, Inc., its junk-bond whiz kid Michael Milken, and "Israeli mafia" Miami financier Victor Posner with organizing a massive securities fraud. On Sept. 11, David Ruder, chairman of the SEC, indicated that the firm would likely face further charges, covering their extensive junk-bond business.

The civil suit, filed in U.S. District Court in Manhattan Sept. 7 by the SEC, was followed hours later by letters formally indicating that U.S. Attorney Rudolph W. Giuliani would seek criminal indictments. The letters were sent to Milken and other Drexel traders. Those close to the investigation have indicated that the indictments of the Drexel executives will most likely include racketeering and various conspiracy charges, and will probably delay the massive civil proceeding that has been initiated.

Gary Lynch, enforcement director for the SEC, drafted a 184-page complaint and filed the most sweeping securities fraud case against a major Wall Street firm in the agency's history. The complaint alleges illegal insider trading, price manipulation, falsifying records, rigging takeovers, and cheating clients.

Most of the allegations are based on information from Ivan Boesky, the notorious stock arbitrageur, who paid \$100 million to settle civil charges against himself and is now serving a three-year criminal sentence for insider trading. Boesky had arrived on Wall Street in the late 1970s and built a fortune trading in stocks of takeover targets. By 1982, however, he seemed to be relying on a network of informants to supply him with advance word of these takeover deals. This enabled him to buy into the targeted company before its stock prices soared. This is what is considered illegal.

Arbitrageurs are traders who often buy stocks of takeover targets in expectation of higher prices. An insider trader, on the other hand, is distinguished from an arbitrageur as one who buys or sells stocks on the basis of nonpublic information that could affect stock prices. It has heretofore been a very gray area for the legal experts. The definition refers to trading by those in a position of responsibility—directors, officers,

those with access to corporate information, whether legal or not.

In Boesky's case, he was fingered by one of his informants. Dennis B. Levine, a merger negotiator and managing director of Drexel Burnham, was found to be illegally profiting from insider information. It was then that he told authorities he had been trading information with Boesky.

Under the gun himself, Boesky also chose to cooperate with the authorities. He gave information implicating other major figures on Wall Street and even tape recorded his conversations with them. In November 1986, he paid the SEC \$100 million in penalties, settling the civil charges of insider trading. He also agreed to plead guilty to a single criminal charge, receiving his three-year sentence.

Originally, the investigations focused on individual sharks like Boesky. As the web has unraveled, however, it has become clear that Drexel Burnham was using these individuals for its own purposes in forwarding international dirty money operations run by Banque Lambert of Brussels and Pargesa of Geneva, Switzerland. Punks of this ilk would not be hard to manipulate. One of Boesky's most famous remarks tells the whole story of these high-flying thieves:

"Anyone who thinks that greed is a bad thing, I want to tell you it's not a bad thing. And I think that in our system, everybody should be a little bit greedy. . . . You shouldn't feel guilty."

Dirty money

Brought into the limelight by all this controversy is the issue of junk bonds. Junk bonds are high-yielding securities considered very speculative and risky. The determination of junk bonds' value is based not on the worth of an enterprise, but on a determination of its future worth based on the speculative takeover the bond itself is financing. Among the companies that issue junk bonds are MCI Communications, Inc., Levi Strauss, Hechinger Co., Occidental Petroleum Co., Macy's, and Harley-Davidson.

Federal charges, coming after a two-year investigation of Drexel Burnham, have hit the king of the junk bond, Michael Milken. This is the whiz who in the last several years made his name helping corporate raiders raise the cash to take over some of America's largest companies. He studied at Berkeley and the Wharton School, where he says he learned to appreciate high-yield, high-risk securities.

His personal fortune is estimated at over \$500 million, including the largest individual holding, approximately 5%, in Drexel itself. He works out of an office at Wilshire Boulevard and Rodeo Drive in Beverly Hills, California. The office is shared and used by Meshulam Riklis, well-known pornography king-pin who owns Rapid America Corporation. Another one of this notorious crowd, Victor Posner, was also named in the charges. Part of the so-called "Israeli mafia," the Miami financier has been connected to the late Meyer Lansky, the gangster Golda Meir kicked out of Israel.